TRANSCRIPTION

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Operator: Thank you for standing by, and welcome to the Karoon Energy Limited 2024 Half Year Results. All participants are in listen-only mode. There will be a presentation followed by a question-and-answer session.

If you wish to ask a question via the phone, you will need to press the star key followed by the number one on your telephone keypad. If you wish to ask a question via webcast, please enter it into the Ask a Question box and click submit.

I would now like to hand the conference over to Mr. Julian Fowles, CEO and Managing Director. Please go ahead.

Julian Fowles: Thank you, Kayleigh. Good morning everyone and thank you for joining our 2024 half year results webcast. My name is Julian Fowles, and I'm the CEO at Karoon. And I have with me this morning Ray Church, our CFO; and Ann Diamant, our Head of IR.

Earlier this morning, we released our 2024 half year report and presentation to the market, which we're now going to talk through. Noting the disclaimers on Slide Two, I'll move through to Slide Four, which provides an overview of the first half of 2024. Karoon's main focus during this period was on ensuring the safety and reliability and production from our base assets to support sustainable shareholder returns.

We also progressed our organic growth opportunities in both Brazil and in the USA. The three-week shutdown of the Bauna FPSO was completed as scheduled and production is currently around 25,000 to 26,000 barrels of oil per day, in line with our expectations. Meanwhile, Who Dat production reached more than 42,000 barrels of oil equivalent per day gross at the end of June.

Looking at our organic growth opportunities, the Neon Foundation Project has entered Concept Select and work is underway ahead of a potential FEED entry decision in early 2025. In the USA, the Who Dat East well was successfully drilled, while the Who Dat South and Who Dat West wells are both approved and expected to spud in the coming months.

While Ray will go through the financials in more detail, I would like to highlight that the first half 2024 financial results demonstrate the improved resilience of Karoon's operations following the acquisition of Who Dat, with profits generated by Who Dat partly offsetting lower profitability from Bauna.

As anticipated in our strategic review of 2021, having diversified sources of income has also allowed Karoon's Board to determine to pay Karoon's first ever dividend of AUD0.04496 per share. The dividend will be fully franked, releasing the AUD15.5 million of franking credits on Karoon's balance sheet at the 30th of June. The dividend will represent a payout ratio of a little over 21% of underlying earnings, in line with our new capital returns policy.

This half year payment is equivalent to an annualised yield of approximately 5% at yesterday's share price. It should be noted that the dividend is in addition to the US$25 million on market buyback, which commenced on the 12th of August. The company is in robust financial shape, with low gearing and strong liquidity.

Slide Five summarises our safety and environmental performance. Safe and reliable operations are Karoon's highest priorities, but unfortunately we had a lost time injury and a medical treatment case in the first half of 2024. This is the first LTI at Bauna in over 18 months.

The team, together with our contractors, is implementing further measures to improve the focus on safety as we believe all injuries are preventable. Turning to our environmental performance, no spills were recorded in the first half of 2024.

I'll come back to our operational performance and growth opportunities a little later in the presentation, but now I'll hand over to Ray to talk in more detail about our financial results.

Ray Church: Thanks, Julian. Good morning, everyone. I'll start with a reminder that this is a half year result on a new calendar year basis of reporting, so comparisons are made against the transition year 2023, which covers July to December '23. And just a reminder, we report in US dollars, so all the figures except the franking account balance references are in that currency.

Slide Seven reflects Karoon's transformation over the last few years. Our investment in the Bauna intervention programme and Patola Project, together with the acquisition of interest in Who Dat, has led to an increase in production from 2.3 million barrels of oil in the six months to June 2021 to just over 5 million barrels of oil equivalent in the first half of 2024.

This was accomplished and accompanied by a fivefold increase in underlying EBITDAX from $58 million in the six months to June '21 to $266.8 million in the first half of 2024, as our assets have a largely fixed cost base. I'd note that Who Dat's first six months contribution almost fully replaced the production sales and EBITDAX deficits in the Bauna Project.

At the same time, this growth has been achieved while maintaining a prudent balance sheet, with net debt and net gearing at US$68 million and 6% prospectively at the end of 30 June 2024, while also funding increased capex at Who Dat.

Moving on to Slide Eight, I'll go through our first half 2024 underlying results in a little bit more detail. As we saw a similar average oil price in both periods, volume sold drove most of the revenue movement, which was slightly lower in the first half of 2024 compared to TY 2023, the lower Bauna sales largely replaced by the Who Dat sale volumes.

Transportation costs increased $4.3 million due to a full period of pipeline tariffs related to transporting Who Dat hydrocarbons onshore. This was partly offset by $1.9 million of lower tariff transfer costs in Bauna as the prior period experienced more weather disruption.

Operating costs shown here on an accounting basis, which includes production-linked amortisation of capitalised leases at Bauna, were operating costs reduced by $12.4 million, offset by $13.2 million of production costs at Who Dat. And I'll mention this again on the next slide. Royalties in the half were lower in line with revenues from Bauna.

DD&A is higher between periods. This was driven by the addition of Who Dat, which has a higher unit DD&A than Bauna, reflecting depreciation of the acquisition and development costs on a 2P unit of production basis. Finance costs were also higher in the first half of 2024, reflecting the cost of debt used to acquire Who Dat.

The increase in inventory expense reflects a reduction in inventory levels as no cargo is in transit at 30 June 2024. The effective tax rate in the first half of 2024 of 29% now reflects a blend of Brazilian 34% and US 21% income tax rates. Reconciliation between underlying and statutory impact and EBITDA is provided on Slide 25 for reference.

Moving to Slide Nine, this shows cash opex per BOE after normalising for AASB16 effects. This is a better representation of the production cost and aligns with industry practise. Unit opex in the first half of 2024 increased 22% against TY23, largely due to lower production at Bauna and partly offset by lower unit opex at Who Dat.

I'd point out that the unit production cost of $13.51 per BOE includes Who Dat opex of $8.74 per BOE, based on Karoon's net revenue interest production. This is after netting off government and third-party royalties, so on a net working interest basis consistent with how Bauna has reported, Who Dat unit costs in first half 2024 were US$7.18 per BOE.

You can see on Slide 10 that Karoon operations generated $202 million of cash and that covered our increased capex spend, mostly Who Dat development and exploration wealth, and the contingent payment of $86 million made to Petrobras, leaving $45 million of free cash flow for the period.

Slide 11 provides some colour to our capex spend in the last 12 months and revised guidance for calendar year '24. We expect calendar year '24 capex to be between $150 million to $177 million, down from $170 million to $207 million, with $20 million to $30 million that was expected to be spent on SPS-88 well intervention in the second half now deferred to 2025.

As the Who Dat West exploration wells have now all been approved by the joint venture, capex related to this well has been moved from contingent to firm and all other capex guidance is unchanged.

Moving to debt and the balance sheet, slide 12 summarises our two available debt funding facilities. As I mentioned earlier, we have a prudent level of gearing on the balance sheet. However, we do expect the balance sheet to work. And in May, we accessed the US 144A bond market by issuing an inaugural $350 million bond.

This supplements our RBL debt facility and expands Karoon's sources of debt and does so with less onerous terms in the largest pool of capital for mid-cap energy companies. The proceeds of the bond were used to repay the RBL, and the bond was priced at 10.5% or 11.7% all-in cost including fees and that compares to 13.7% for the RBL when you consider hedging costs.

Slide 13 reflects our revised capital allocation framework, reflecting the Board approved approach to shareholder returns and clarity of the balance sheet strength measures. Our highest priority remains on ensuring safe, reliable and sustainable business operations. We also aim to maintain a strong and flexible balance sheet while making 20% to 40% of underlying impact available for returns to shareholders subject to market conditions and Board approval, either as a cash dividend, a share buyback or a combination of both.

We believe this framework strikes the right balance between rewarding shareholders while retaining sufficient capital to reinvest in the business.

Thank you everyone. I'll now hand you back to Julian for an update on the assets.

Julian Fowles: Thank you, Ray. I'm turning now to Slide 15, the operating performance of the Bauna project. First half 2024 production was lower than TY23 due to the three-week shutdown and FPSO reliability issues in addition to the continued outage of the SPS88 well. While we completed more than 99% of the works intended for the planned shutdown in May and June, the FPSO operator is currently undertaking a heightened level of maintenance activity to improve the reliability of their vessel and address some of the backlog of maintenance activities that built up during and post COVID.

We're also working with the FPSO operators to investigate the viability and benefit of bringing forward the Bauna Life Extension project currently planned to take place in 2026 into 2025. This project is designed to extend the FPSO life from the current 2028 out until 2032. We expect to be in a position to finalise the scope of what is required and make a decision on timing in the next few months.

The work over of the SPS-88 well has been deferred into the first half of 2025 since due to the Obama Regulatory Agency Industrial Action we did not receive our environmental permit, and the rig owner moved the rig we were targeting to other operations. We have identified alternative vessels and are engaging with their owners with a view to undertaking the required work in the first half of 2025, subject to securing the intervention vessel, subject to regulatory approvals and negotiating suitable contracts.

Now to Who Dat on Slide 16. First half 2024 production rates were lower than expected, largely due to delays in bringing new wells on stream and the capacity of the system to manage higher pressure flows. High rate gas wells were also curtailed in the first quarter of 2024 due to low Henry Hub gas prices.

Who Dat production rates improved in the second quarter after implementing various opportunities to increase production and the Who Dat SPS was producing at over 42,000 barrels of oil equivalent per day gross at the end of June, albeit rates are now lowered due to planned gas compression maintenance. Our CY24 Who Dat production guidance of 3 million to 3.5 million barrels of oil equivalent on a net revenue interest basis is unchanged and incorporates scheduled maintenance in 2H24 as well as natural field decline. The joint venture continues to look for additional opportunities to maintain and increase production.

Some of the types of production opportunities being studied are highlighted on Slide 17 for potential implementation in 2025 and beyond. Now turning to Neon on Slide 18. In March the Neon Foundation project entered the concept select phase.

The Neon team is currently reassessing all aspects of the potential development with a clear direction to establish if and how low-case technical and economic outcomes could be mitigated. Existing 3D seismic has been reprocessed and is now being interpreted by the team. Potential development plans that minimise capex, de-risk uncertainties and reduce time to oil are being considered.

The next major milestone will be in early 2025 Decision Gate 2 involving potential entry to front-end engineering and design work. Slide 19 provides an update on the 2024 Who Dat exploration and appraisal campaign. In the second quarter of 2024 Who Dat East was drilled and successfully intersected

45 metres of net pay interpreted to contain liquids rich gas condensate as anticipated in four of the five Miocene reservoir intervals targeted.

The well was subsequently suspended as a potential future producer. As you can see in the Who Dat East schematic there is potential for a continuous hydrocarbon phase in a number of high-quality sands correlated to the nearby MC-509 Exxon number one exploration well.

The data gathered is being analysed and will be incorporated into our 2024 year-end reserves and resources report to be released in early 2025. Updated Who Dat East volumetrics will help the joint venture determine the commerciality of a potential development most likely through a tieback to the existing facilities at Who Dat or Dome Patrol. Meanwhile Who Dat South is expected to spud in September and is expected to be drilled to a depth of approximately 7,425 metres and will test two targets in the Miocene section with the shallower targets similar to the reservoir in the G1 well.

The Who Dat West exploration well has now been approved by the joint venture and is expected to spud in late 2024. Who Dat West will target two main zones also within the Miocene section. The well is expected to be drilled as a deviated well to a little over 7,500 metres.

Moving now to Slide 20. Our emissions intensity increased in the first half of '24 reflecting lower production at Bauna spread over a largely fixed operational base as well as the Who Dat East drilling campaign. We remain committed to our target of being carbon neutral for our Scope 1 and 2 emissions and have acquired sufficient high quality carbon units to offset our TY23 emissions and expect to do the same for the first half of 2024.

We have also expanded our social programmes and the photos on the right that you can see here show two of Karoon's sponsorship programmes for underprivileged children in Rio de Janeiro. Slide 21 outlines our guidance for CY24. The only changes relate to capex as covered by Ray.

As highlighted in our ASX release, Bauna production is expected to be towards the bottom end of the range. Slide 22 summarises our first half performance. Karoon remains committed to safe and reliable operations as our first priority. Near-term catalysts include the two exploration wells in Who Dat South and in Who Dat West.

As noted earlier in the year, having achieved the objectives of our 2021 strategy with the delivery of the Bauna interventions, the development of the Patola field, neon control well drilling, the acquisition of a second high quality producing asset, the securing of additional funding sources and the announcement of a capital returns policy and now our inaugural dividend, it is timely for us to undertake a review of the ongoing strategy. We expect to complete the review this calendar year and to be in a position to discuss outcomes early in 2025. Karoon remains in a strong financial position with a robust balance sheet and low gearing.

Despite production reliability issues during the first half, we have positioned the company to benefit from current oil prices delivering strong cash flows and with access to a variety of funding sources. Our assets lie in two of the most prolific and prospective hydrocarbon basins in the world and present a number of organic growth opportunities, although we do caution that supply chains have become stretched, and the current capex environment remains inflationary.

Assuming no major operational or oil price shocks, our production base and continued financial discipline should provide Karoon with the capacity to provide attractive returns to shareholders through dividends and or share buybacks as well as funds to reinvest into growing our business, driving value accretive capital growth for shareholders.

I would like to thank all of our staff and contractors for their hard work and dedication to Karoon through this first half and to thank our shareholders for their continued support of the company. Ray and I will be very happy to take any questions now, first from the telephone lines and then if there are any from the online facility and I'll now hand back to Kayleigh, the moderator.

Operator: Thank you. Your first question comes from James Byrne with Citi.

James Byrne: Good morning. So, just thinking about that capital allocation, there's a sentence in the release that says there are several, this is for Who Dat, several additional value accretive medium-term infield opportunities to potentially mitigate natural field decline. I was hoping you might be able to expand on what exactly that means.

I guess, you know, the thing that we struggle with in markets is how we should think about that production outlook and the amount of capex that's needed to underpin such an uncertain production outlook. And also, when you look at allocating capital as a joint venture into that field, what do you think the learnings are from having drilled those G-wells and the issues you've had with co-mingling? Like, if you had your time again, would you still have drilled those wells? Are they still generating the kind of returns that you expect? And therefore, as we think about these, quote-unquote value accretive infield opportunities, is that really the best use of capital?

Julian Fowles: Thanks James. Good morning and thanks for the questions. Look, I think around the types of opportunities that we have at Who Dat, at the higher capex end of the scale, we have things like new infill drilling opportunities, and we still have additional capacity in terms of slots on the facility and ability to bring new wells online.

At the lower end of the capex scale, we have things like sliding sleeves, which we can move with intervention vessels. And in between those two extremes, we have sidetrack opportunities in existing wells that have maybe watered out or have maybe declined significantly in production. So, there is a range of opportunities there.

All of those, of course, are assessed on their economic viability and potential risks, and that is sort of put into the mix in terms of the best or most optimal use of capital. Generally, those infield opportunities have very high IRRs. They have very rapid payback times.

We see that with the G wells, even though we had to curtail some of the production from those G wells earlier in the year due to the types of pressures that we were seeing, seeing the production from those wells now, they're very highly profitable infield opportunities that we brought on stream. So, we are looking at a variety of those. We're workshopping with the joint venture, actually doing that over the next few months, to put in place what that opportunity set will look like from a prioritisation point of view for both 2025 and 2026 allocation of capital and production profiles there.

In terms of how you should think about that, obviously, we haven't yet come to the market with a 2025 profile. Any opportunities that we see in Who Dat will likely not be able to be brought on in the first half of 2025. They'd more likely be second half of 2025 or later, and obviously those would be incorporated into those profiles.

At the moment, I don't have clear visibility of how we'll prioritise those though, so I'm not able to give you any steer on that at this stage.

James Byrne: Thanks. So, I guess in the past, though, we've talked about Who Dat being a sawtooth profile, and now the language is mitigating natural field decline. So, does that now supersede this view of sawtooth profile, where you're sort of getting back up to those higher rates as you do this activity?

Julian Fowles: I think, without a doubt, we'll continue to see sawtooth profiles. It's a largely oil-producing field. Oil fields in Miocene reservoirs in Gulf of Mexico typically have decline profiles that are somewhere between 10% and 20% per annum.

So, I expect that we will see continued sawtooth type of performance. And our challenge, I guess, is to make sure that we bring the right opportunities on stream at the right time to minimise the downsides of that sawtooth. That's really what we mean by maintaining production profiles.

So, yes at a certain point in 2023, production at a gross level in Who Dat drops to between 20,000 and 25,000 BOEs a day. I want to make sure it doesn't drop down to those levels that it saw previously, but that under our participation here, we can maintain things well above 30 and hopefully maintain things closer to where we are today at that 40-plus level.

James Byrne: Yes, okay. Then lastly, with the CY24 production guidance tracking towards the bottom end of the range, look, I mean, ourselves and consensus look like it's already there, so perhaps not a surprise. But I guess if I think about the sort of year that we've had, and I hope you don't mind me describing it in this way, but it feels a little bit accident-prone. I'm just wondering whether we're skating on thin ice here with respect to the production guidance, that there is extra unplanned downtime that it could actually lead to you falling below. Do you think that's a fair statement or you're quite confident how the next four months is going to shape up relative to that guidance?

Julian Fowles: Look, I think in the absence of significant unforeseen events, we're comfortable with the guidance as it is, of course. There is always a risk that offshore operations, both in Gulf Mexico and in Brazil, that unforeseen events can take place. We believe we have a very good programme in place to ensure that we keep things moving on the FPSO at Bauna.

If we have any indication that we're likely to drop below guidance, we will come straight to the to update the market with that, of course. At this stage, though, I think we're comfortable to sit within the guidance range, but as we say, down at the lower end of that. Who Dat, of course, sits in that range between 3 to 3.5, and it's tracking towards that range.

James Byrne: Thanks, Julian. Appreciate that.

Operator: Your next question comes from April Lowis with Barrenjoey.

April Lowis: Hi Julian. Can you please give a bit more colour on the SPS-88 timeline? I just wanted to confirm that the environmental permits are still outstanding. How are conversations going regarding the intervention vessels? Does it look likely that you'll be able to access one when needed next year?

Julian Fowles: Yeah, look, it's a great question. We were, I guess, a little bit put off by the Obama industrial action this year, which delayed that environmental permitting, not just for us, it delayed permitting for everyone. The informal estimates, I've seen are, that was costing the Brazilian states between $10 million and $25 million a day just in revenue to the state, let alone what would be coming into companies.

So yeah, they've resolved that strike action at Obama now, but not early enough for us to have maintained the vessel that we had planned for that activity. So we've gone back to the markets, and we do have a couple of options there, one of which is in very well-progressing negotiations for a particular workover unit that would be available in the first half. There are one or two others that are also available in the first half.

So we're reasonably confident that we can secure a vessel. My confidence around Obama regulatory approvals, typically Karoon has not encountered issues with Obama on the regular side of things. The industrial election obviously threw us, as it did the rest of the industry.

It seems as though Obama is comfortable with the resolution they came to with the government, and we don't anticipate that they would restart that industrial action. We are hearing, though, that the overall regulatory agency, the ANP, has been considering industrial action because I think they didn't get the same deal as Obama. That is not at this stage impacting the part of the agency that provides us with our permits, and they already indicated that they would approve the permits for the intervention activities.

So that's the broad regulatory permit. The Obama permitting will need to go through another approval process with whichever vessel we land on. So that usually is a three-month process from start to finish for an activity like this. I anticipate that we would be well-positioned to do that within the time frame that we're talking to the market in terms of first half 2025.

April Lowis: Great, thank you. While we're on Bauna, can you talk through some of the enhanced maintenance programmes that you're expecting to improve reliability? So just thinking about what you're actually targeting and what you're expecting with that maintenance programme.

Julian Fowles: Yes. Look, there's three or four key areas for that. One is to do with gas compressors. So we currently have one gas compressor that's up full-time, but we've got a couple of gas compressors that are requiring some work. One of those we anticipate will come back online in two weeks, and the third one a bit later in the year. It's good for us to have the backup with those gas compressors.

With only one operating, we probably have a few hundred barrels a day that we're not accessing because we can't quite get the volume of gas lift that we would like. So although that's not material, it's still important for us, and we'd like to see that back. So that hopefully we will see coming back on stream in the next couple of weeks.

A second area is that we have around the production header, we have some corrosion within the pipework, and that is subject of some ongoing investigation to look at the causes of the corrosion and to look to fix that. So although we've got repairs in place, and that's all producing securely and safely, of course, it's an area that I want to make sure is looked at, because if it's not looked at carefully now, it can come back and bite us during 2025.

So we've got ongoing work there. And a third area of enhanced maintenance is around it’s related to the dehydration units, which is important for the gas lift. One of the issues we encountered at the time of SPS-88 going offline was that we were having problems with the dehydration unit on the FPSO, which was leading to us having a higher moisture content than is acceptable in the gas that we re-inject into wells for gas lift.

And that led to the formation of gas hydrates down hole. That's not a good outcome. So focussing on that gas dehydration unit, making sure it's operating in as pristine a condition as possible is a key focus for us to ensure that the gas lift remains operating at the optimal level. So those are three key areas that we're really focused on.

April Lowis: Thanks Julian.

Operator: Your next question comes from Adam Martin with E&P.

Adam Martin: Yes. Morning, Julian, Ray. Just first question this Bauna Life Extension Project, there's sort of a discussion in the pack about bringing that forward into 2025. What sort of - does that have a production impact and what sort of capex, just broad levels, what we're thinking there?

Julian Fowles: So we don't yet have the scope and timeline for that defined. We're investigating what that scope might be and the potential benefits of doing that in '25 relative to '26. Obviously, our objective there will be to minimise any impact on production that we might see and obviously to ensure that costs are most efficiently allocated to that.

I think in order to improve reliability, it is something that I would like to do. And rather than keeping it on the '26 timeframe, bringing it forward to '25 conceptually to me makes sense. In terms of capex, we don't yet have numbers for that.

That'll depend on exactly the scope of work that is envisaged. And yeah, the impact on production will also depend on the scope of work. We'll be as clear as we can about that later this year once we have the scope outlined. And that will obviously be a key part of our guidance for 2025, both in terms of production and in terms of the capex involved.

Adam Martin: Okay. And just in terms of the Gulf of Mexico business, can you give us sort of a sense on maybe sort of a low case and a high case of maintenance capex here? I mean, you talked about a 30,000 to 40,000 barrel a day range there, depending on what sort of activities you do, but can you give us a sort of range, what you're thinking would be annual capex?

And then also just sort of annual exploration as well. Obviously you're spending a lot this year, but what should we expect going forward more in like a three-year range, because it obviously feeds back into free cash flow to do other things, whether that's buybacks, pay-per-year dividends, etcetera?

Ray Church: Adam's is right. We look at Who Dat with I guess a sustaining maintenance type capex of around 5 million per annum, maybe a bit less. But there is the expectation to maintain the 2P production profile that every couple of years we have a couple of development wells to drill. So we expect, if you want it to model longer term, you just average that at around 20 million per annum.

Adam Martin: So 2025 a year roughly for the maintenance drilling. Is that fair? And then what's the maintenance exploration as well? Is that one well a year or more or less?

Julian Fowles: Yes. Look, at the moment we've got Who Dat East, South and West, obviously. We don't currently have additional exploration targets defined. I think the work that we're going to do in the joint venture will be focused on, obviously, primarily looking to try and commercialise Who Dat East.

So there may be scope for a further well drilled there. That's not likely to be a 2025 well, but it could be a 2026 well if that proves to be the optimal development case. Who Dat South and West, of course, any appraisal and development there will depend on success or otherwise and will be defined at that time.

All of those three, well the discovery and the two prospects, those are all within tieback distance, of course, to the Who Dat facility. And that's one of the attractions of entering Who Dat and entering the Gulf of Mexico and the Miocene in particular, is that the cycle times from discovery to tieback are generally two to three years. So a couple of years shorter than they are in other locations. So that's obviously something we're going to be pursuing.

But yes, it'll really depend on what those appraisal and development plans look like in the case of success. We don't at this stage have additional exploration prospects defined around Who Dat.

Adam Martin: Okay, that's a good colour. And just a final question, just regarding, look the dividend structure looks good, just regarding the buyback, I mean, is there a certain leverage range you're targeting or because you could argue the share price at the moment is pretty cheap, is there a certain leverage ratio you're targeting? When can we see you sort of coming in with more buybacks over time? How do we think about that?

Ray Church: Adam, I'll try and answer that again. Again, obviously this is in the hands of the board, and so we follow their lead, but I'll talk to the leverage and gearing where we aim to keep the balance sheet, I guess, peaking at about one and a half times EBITDA, and maybe in a lower oil price scenario, it might go to two. But the board will make the calls on how they allocate between dividend buyback and when they do buybacks. So I don't know if we can really put much words into their mouth on that.

Adam Martin: Okay, that's fine. That's fine. All right. Thank you. That's great.

Operator: If you wish to ask a question via the phones, please press star then one and wait for your name to be announced. If you wish to ask a question via the webcast, please type your question into the Ask a Question box. Your next question comes from Gordon Ramsay with RBC Capital Markets.

Gordon Ramsay: Good morning, everyone. I just wanted to follow up on Who Dat. I know for Bauna, you mentioned current production is around 25,000, 26,000 barrels a day with Who Dat, you said it was greater than 42,000 barrels of oil equivalent per day at the end of the first half 2024. What is it producing right now?

Julian Fowles: Gordon, at the moment, it's doing just over 40. We're going through a period of maintenance on the gas compression systems. We've got two big gas compressors on the FPS. We've just finished work on one of those and we'll start work on the second one of those in the next few weeks.

That generally takes out about 10,000 boe a day when we're doing that work. That's why I highlighted that the production that we're anticipating will be a little up and down for Who Dat as that planned maintenance work on the gas compression system goes ahead and we also have a planned full shutdown, which is around about a seven or eight-day shutdown of the FPS as well a little later this year. I think the timing of that is still to be nailed down.

Adam Martin: Thanks, Julian. I guess a question for Ray just on capex guidance. Other capex is now $20 million to $30 million lower. You've got in the footnotes there that it includes signature bonuses paid. Is there any other reason for that, or can you explain why it's dropped in the guidance for investment expenditure for 2024?

Ray Church: No, that's pretty much the only change in the guidance. We've taken SPS-88 out of this year, moved it into next year, and the balance relates to some spend on Neon and then just some of the maintenance capex that we have.

Gordon Ramsay: Thank you.

Operator: Our next question comes from Sarah Kerr with Morgan Stanley. Sarah Kerr, your line is open. I think we're just having some problems with Sarah's line. We'll now move on to Henry Meyer with Goldman Sachs.

Henry Meyer: I would have stepped through how the board approached the size of the dividend this half? Whether this was impacted by cash flow outlook, SPS-88 timing? If you had more confidence in February, would you be looking towards a payout more at the top end of the range or another buyback?

Julian Fowles: It's a good question, Henry. It's hard to predict where we'll be. Obviously, for the full year, it'll depend on many moving parts, not all of which we have control over, including oil price, supply and demand, etcetera. In terms of where we got to for this one, of course, it's focused around our outstanding imputation credits that we have. Ray can probably talk a bit more.

Ray Church: I'll fill in some blanks. We modelled long-range, so we're trying to make sure this policy can be sustainable. We obviously modelled out to the end of the decade. That, of course, was then correlated with or triangulated with what our peers are doing.

The 5% yield is what the board was focused on. That roughly equated actually the size of the franking balance by pure luck. Then the board made the decision to reward shareholders for being patient and recognising the value that we all saw in the share price. The board made the choice to apply some of the cash of a similar size to the buyback, but I think it was simply a matter of modelling for the longer term.

Henry Meyer: Great. Okay. Thanks, both. To expand a bit on the life extension, can you touch on what the motivation was to bring that forward one year? Are there any synergies that you realised were overlapping with other plan maintenance? Does that relate to the Neon studies at all?

Julian Fowles: It's not so much to do with Neon. Really, it's looking at the reliability issues that we're facing at the moment. I'd like to make sure that we get back to better reliability, more predictable reliability as soon as we can.

I'd rather take the pain of the life extension work as soon as we can, in order to improve reliability down the track, rather than defer that and potentially continue to suffer from boner reliability or FPSO reliability issues until that work is done. The study at the moment hasn't obviously landed on anything, anything specific in terms of timing, priorities and scope. That's still ongoing.

But really, it's to ensure that we can step back up into the top tier of reliability where we want to be.

Henry Meyer: Great, thanks Julian. If I can drive maybe a little bit further as well, we already touched on a little bit, but do you have a current estimate of the current scope that might be required? Is there a percentage of current equipment that might need to be assessed?

Julian Fowles: Typically with FPSOs of this age, we know the things to look at, which includes tanks, tertiary, steel, obviously the major pieces of equipment, like the compressors, etcetera. And obviously just the pipework, having a very good review of the pipework. You've got to remember there's over 100 kilometres of pipework sitting on the FPSO, so there's an awful lot of steel to look at.

In terms of how that will be prioritised, it'll really depend on, as I said, on the scope and the priorities for that. So we don't, at this stage, have a feel for what those will be.

Henry Meyer: Okay, no worries. Thanks Julian, appreciate the call.

Operator: Your next question comes from Michael Thomolaris with Jordan.

Michael Thomolaris: Thank you. Good morning. Just on the SPS 88 well intervention delay and the impact in terms of needing to secure an alternative rig contract, just based on what you're seeing in your negotiations, is your prior work over cost estimate still valid or will you need to rework the numbers?

Julian Fowles: We don't yet have an answer to that, sorry Michael. We're in negotiations, as I said, with up to three different owners. One of those is probably more advanced than the others.

We haven't got to the point yet where we've finalised what the rates are likely to be. That is likely to be the highest cost element. There are other services that we require as well, some down hole services, not just the rig.

So yes, it'll be a combination of those. $20 million to $30 million is what we estimated before. I think at this stage I'd be comfortable to stay with that range, but just with the caveat that we don't yet have rates finalised. As soon as we do, obviously, we'll be in a position to inform the market.

Michael Thomolaris: Thanks, Julian. And could you please provide some clarification just around the ongoing FPSO performance sort of liability issues at Bauna, which were identified, and if there are any risks to the previously flagged uptime range of 90% to 95%?

Julian Fowles: Yes, so we target 90% to 95%. That's where we'd like to be. We haven't been in that range in the first half of the year. The reliability issues that we've suffered, I touched on a little earlier around gas compression specifically, and also around some corrosion that we're seeing in the pipework, especially around the production header.

We take a cautious view of that, and obviously curtail production where we believe that that needs to be done. So yes, we want to get back up to that range, hopefully the higher end of that range of production reliability. But over the first six months of this year, we've been sitting well below that, I think in the low 80s for much of the year so far. So that's not where we want to be.

Michael Thomolaris: Thank you, and just one more if I can. If you could please just provide an update on the production outlook in the Gulf of Mexico, just in terms of the liquids and gas production percentage splits in the second half of '24, and beyond if possible?

Julian Fowles: So yes, so we guide for 2024. We're not in a position to guide for '25 at this stage. Overall, 3 million to 3.5 million BOEs, net revenue interest, Karoon Share. And of that, it's a slightly better oil to gas ratio than we saw 6 months ago. It's around about low 70% oil. So perhaps that 70% to 75% oil is the range that we're in.

Michael Thomolaris: Great, thanks Julian.

Operator: Your next question comes from Sarah Kerr with Morgan Stanley.

Sarah Kerr: Hello, can you hear me?

Julian Fowles: Yes, we can Sarah, nice to have you on the line.

Sarah Kerr: Amazing, I think someone left me on mute. So just quickly, on the Food Act, so initially we had guidance that the drilling cost would be around 100 to 120 ml, and now you have guidance at 120 to 145. And I was just wondering if you could give us a bit of colour on what the additional costs were for this campaign?

Julian Fowles: Yes, just ask Ray, to have a look at that.

Ray Church: I think the answer is that we've now included Who Dat West well in that guidance, because nothing else has really changed since the last guidance update. We've improved that well.

Sarah Kerr: Okay. And just on Who Dat West, I was wondering if the Crestal-Exxon well was flow tested, and if you had the opportunity to flow test Who Dat East, and if you could just tell us what the true vertical depth net pay was that you intersected for that well?

Julian Fowles: I knew you'd ask me that question. So we had 45 metres of net pay on measured depth. The well was at about a 30-degree angle, so if my trigonometry is right, you'd multiply that by about 0.6 or 0.7. And maybe a little more, I can't quite recall. You can probably work that out better than me, Sarah. So maybe 30 metres of true vertical thickness.

The overall, I think the important thing is the overall net pay that we intersected was almost exactly the risk net pay that we anticipated. So the well had about a 60% chance of success, and five intervals we were targeting, with a total net pay potential of about 160 feet, I think. So on a risk basis, we intersected about, we should have intersected about 90 to 100 feet, which is pretty much what we got, maybe a little more than that we ended up with. So yes, I think the result from a net pay perspective was on or slightly better than our expectations.

Sarah Kerr: So was there any flow testing from either Exxon or this well, or did you intersect and condensate water contact?

Julian Fowles: So we haven't intersected the contact. We've got an interpreted contact, I guess, from pressure measurements. We haven't flow tested this well, and I don't believe the Exxon well was tested either. I believe that there's good reasons for that, which is the myosin reservoirs in this area are very well understood. And as I've said previously to the market, the main sand bodies that we intersected were high porosity and high permeability.

And with a relatively high-pressure gas condensate in that reservoir, we would anticipate seeing, I think, pretty high flow rates from that based on the nearest offsets that we see around us. So in terms of well testing, that's not typically what we would do in the case of these near field myosin type turbidites.

Sarah Kerr: Okay, great. Thanks so much. Congratulations on the results.

Julian Fowles: Thanks, Sarah.

Operator: Your next question comes from Mark Wiseman with Macquarie.

Mark Wiseman: Good day, Julian. Ray, hope you're well. Thanks for the update here. I just wanted to ask, now that you have the capital management framework established and a solid dividend, you're paying out those franking credits and the framework going forward is now pretty well understood. Could you just give an update on the M&A markets? What sort of opportunities are you seeing out there? And are you thinking 2025 would be the year where you really turn your attention back to inorganic growth?

Julian Fowles: Look, I think there's a couple of things with that. First of all, we've got to make sure we get the production reliability that we want to see at Bauna. That's really a big focus for us is to make sure that we've got that and got that as secure as we can for the long term and hence the life extension project.

I think the same is also true at Who Dat, although there's no reliability issues there, but just ensuring that we've got a firm programme of infill opportunities to minimise that sawtooth effect of production. Those are areas of key focus for us. If I look beyond that, obviously in Who Dat, there's the exploration, hopefully successes, or we've had at least one success and hopefully that leads to a tieback.

And then obviously in Brazil, we've got the potential Neon project that continues to move forward. In terms of M&A, I think there are opportunities we see in the Gulf of Mexico. We see fewer of those in Brazil. And we're certainly taking our time to look at and look for the best things we can in the Gulf of Mexico and the sorts of things that would make sense for Karoon in the medium term, no shortterm plans there at all. 2025, look, I think it's pretty hard to predict what would be the optimal timing of that. We've got to be a little opportunistic.

Certainly nothing in 2024. And coming into 2025, I expect we will see a range of opportunities in the Gulf that we'll want to assess and to look at in more detail. But I think with the production base that we've got, we do have some time to look at things very carefully and ensure that we've got the right returns policy for our shareholders, ensure that we've got the right stability in our production profile before we step significantly into the inorganic growth market.

Mark Wiseman: Thanks, Julian. That's great, Keller.

Operator: That concludes our telephone questions. I will hand over to Ann for questions asked via the webcast.

Ann Diamant: Thank you, Kayleigh. Yes, there are a couple of questions on the webcast. The first is from Ed Shann. Will there be any possible tax benefits to shareholders from tax paid in the USA?

Ray Church: Yes, thanks, Ed. I can probably deal with that. The way we bring profits back to Australia is through dividends and repayment of interest. So, there will be taxable earnings to the Karoon Energy parent in the future. But we don't expect material franking balances and taxes to be paid for a while. But obviously, as those debts are repaid and as the businesses over there grow, we would expect to see taxable profits start to incur tax liabilities in Australia and therefore potentially offer franking again in the future. But I don't think it's any time soon.

Ann Diamant: Thanks, Ray. I think the second question, which is from Hazmy Hazin, is also one for you. Why the change from EBITDA to EBITDAX and what is the exploration expense for this year?

Ray Church: Okay, thank you. The reason for the change is simply that we have quite a lot of exploration drilling happening now. We have the three wells in Who Dat, and we don't have any major exploration costs that are being excluded. But we're making that change simply so that if in the future one of the wells is not successful and is expensive, that we won't be making a prior period change to our investor presentations.

We have in the guidance the exploration costs that are shown in investment expenditure that are in Who Dat. If I exclude the development wells, then it's in the 100 million to 120 million of costs for exploration in this year.

Ann Diamant: Thanks, Ray. There's a second question from Hazmy Hazin, which I think we've already responded to, but how will bringing Bauna Life Extension earlier from 2026 to 2025 impact the current production?

Julian Fowles: Yes, we don't have a firm picture of that yet. That work is ongoing to define the scope and what the costs will be. So as soon as we have that, we'll obviously incorporate that into our previews for the market.

Ann Diamant: Thanks, Julian. The next question is from Alex Fitzgerald. Please, can you explain the decision to pay out a dividend relative to buying back your stock at $1.75, which is circa 2.3x EV to EBITDA. Moreover, you've spent a meaningful amount of capex on exploration. Do you consider this a better use of funds than buying back stock at current prices or a larger dividend payout?

Julian Fowles: In terms of the dividends, paying a dividend to shareholders rather than a buyback is driven by obviously the franking credit and returning that to shareholders is important. Otherwise, that will over time disappear. So that was a clear driver there.

In terms of the value of exploration, the finding cost per barrel and the value of those barrels significantly outweighs, is significantly larger than the benefit of buying back our own stock. The value that that can add in the long term for Karoon in the case of these types of exploration prospects where they have relatively low risk. So all of the exploration prospects that we are drilling through that East, South and West have chances of success between about 40% and 65%.

And that certainly leads us to want to do those and to spend money on those. So yes I think the value of those, hopefully with success of course we'll see. So, oil and gas still has a risk associated with it, of course.

Ann Diamant: Thanks Julian. And the final question on the web is from Louis Bannon. Can you please share your range of expectations for cash flow returns on capital spent on capex and how does this expected return compare to the current yield available from paying cash as dividends to shareholders?

Ray Church: I think I'll try and pick that one up. As Julian mentioned, we expect the returns on exploration to be higher than, I guess, developed capex investments. So operating fields, as we've said before, we generally invest in those in the mid-teens after tax return, whereas exploration should produce materially higher returns than that.

And so that's why we're putting capex into those areas. That should produce more returns for our shareholders than the buyback. The buyback, though, as I said earlier, was driven by, I guess, largely by Board decisions and the Board analysis on what the Board sees as value in the company and an opportunity right now.

And then reverse, I guess, modelling what long-term cash might be required in the business and what was reasonable, the funds available. So, obviously, an opportunity and perhaps limited by the cash available in modelling that was done with the Board.

Ann Diamant: Thanks, Ray. That's all from the web. I might hand back to Julian just for a few wrap-up comments.

Julian Fowles: Yes, look, thanks, everyone, for your attention this morning. And if you're interested in Karoon, thanks to our shareholders, of course, for your continued support of the company. And a big thank you to our staff and our contractor partners for the contributions and hard work during the first half of this year.

We've got a lot ahead of us to do, and I look forward to updating the market when we get to the full year results. Thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]