

ASX RELEASE

22 February 2023 | ASX: KAR

Record first half FY2023, with underlying NPAT up 275% to US\$82.4 million

| SIX MONTHS TO DECEMBER | 2022 | 2021 | % change |
|---|--------------|--------|----------|
| Production volume (MMbbl) | 3.37 | 2.50 | +35 |
| Sales volume (MMbbl) | 3.41 | 2.57 | +33 |
| Weighted average net realised price (US\$/bbl) | 87.86 | 72.43 | +21 |
| Sales revenue (US\$ million) | 299.4 | 186.5 | +61 |
| Unit production costs (US\$/bbl) | 17.30 | 23.50 | -26 |
| Underlying EBITDA ¹ (US\$ million) | 175.9 | 89.5 | +97 |
| Unit depreciation and amortisation (US\$/bbl) ² | 14.09 | 11.80 | +19 |
| Underlying net profit after tax ¹ (US\$ million) | 82.4 | 22.0 | +275 |
| Statutory net profit/(loss) after tax (US\$ million) | 77.6 | (97.7) | N/A |
| Operating cash flow (US\$ million) | 167.1 | 83.9 | +99 |
| Lost time injury rate (incidents/200,000 hours) | 0.19 | 0.47 | -60 |
| Total recordable incident rate (incidents/200,000 hours) | 0.77 | 0.47 | +64 |

- **Underlying net profit after tax (NPAT) increased 275% to US\$82.4 million¹, driven by a 33% increase in sales volumes following the successful Baúna intervention campaign, together with 21% higher realised oil prices.**
- **Statutory NPAT was US\$77.6 million, compared to a loss of US\$97.7 million in the previous corresponding period, which was impacted by a US\$121.3 million non-cash adjustment to the Petrobras contingent consideration.**
- **Unit production costs declined 26% to US\$17.30/bbl, reflecting higher production over a largely fixed cost base. Unit depreciation and amortisation was US\$14.09/bbl for the period, while other costs were consistent with the half year guidance provided in the December 2022 quarterly report.**
- **Cash and cash equivalents at 31 December 2022 were US\$163.2 million and the Company had US\$180 million of undrawn debt. Capital expenditure of US\$138.6 million on the Baúna interventions and Patola development during the half year was funded by cash flow from operations and existing cash.**
- **Guidance for key metrics in FY2023 remains unchanged from that presented in the December 2022 quarterly report.**

¹ EBITDA (earnings before interest, tax, depreciation, depletion, and amortisation), underlying EBITDA and underlying net profit after tax (NPAT) are non-IFRS measures that are unaudited but are derived from financial statements, which have been subject to review by the Company's auditor. These measures are presented to provide further insight into Karoon's performance. See notes on page 5 of the Half-Year Financial Report to derive EBITDA, underlying EBITDA and underlying NPAT.

² Excludes depreciation on the FPSO right of use asset and non-oil and gas related depreciation.

Commenting on the results for the six months to end December 2022, Chief Executive Officer and Managing Director, Dr Julian Fowles, said:

“Karooon’s underlying half-year NPAT of US\$82.4 million³ was a pleasing result. The strong financial performance reflected a 33% increase in oil sales, higher realised oil prices and a largely fixed operating cost base.

While our Lost Time Injury (LTI) Rate improved, with just one LTI despite the additional operations of the intervention and development campaigns, the Total Recordable Incident Rate (TRIR) increased compared to the first half of FY2022. We are continuing to work with our employees and contractors to emphasise our safety-first culture in all operations.

The Baúna intervention campaign was very successful, lifting production rates from approximately 12,600 bopd prior to the program to a peak of more than 25,000 bopd before resuming natural decline. Current production rates are expected to increase to more than 30,000 bopd when the Patola development comes onstream next month. The PAT-1 well is planned to be commissioned and brought on-line first, with PAT-2 expected onstream approximately two to three weeks later. While we may see an initial period of peak Patola production above 10,000 bopd, at present we expect production from the field to stabilise at approximately this level prior to commencing natural decline.

The outcome of the recently completed BM-S-40 Reserves and Resources update was positive, with 2P Baúna reserves increasing 23% between 30 June 2022 and 31 December, despite production of 3.4 MMbbl over the period, to 55.0 MMbbl, extending the life of our asset base. Since taking over operatorship of Baúna in November 2020 and up to 31 December 2022, Karoon has achieved a 2P reserves replacement of 259%. Reserves and resources will be reviewed again in the financial year-end evaluation and will include consideration of the Patola reservoir performance⁴.

We are continuing to assess further growth opportunities, both organic and inorganic. As recently announced, the Neon-1 control well in the Neon discovery north-east of Baúna, has reached total depth and the acquisition of a full logging suite has been completed. The data available to date has confirmed that the primary target reservoirs are present and oil-bearing in Neon-1. The rig will now move to drill Neon-2, which will be located on the crest of the structure. The information from these control wells will assist in de-risking the Neon resource base and delineating pathways of potential future production wells.

We are also evaluating a range of potential acquisition opportunities. Our current strategy is focused on oil assets in Brazil and North America, where Karoon’s technical and commercials teams have significant experience and knowledge. We remain committed to being highly disciplined and rigorous in our assessment of potential opportunities, with the key investment criteria for any purchase being its ability to add value to shareholders.

Despite the contingent consideration payment of US\$84.5 million paid to Petrobras at the end of January 2023, our net cash remains above US\$115 million following the inflow of funds in January 2023 from the two December 2022 cargoes. Including US\$180 million of undrawn debt, our liquidity position will benefit further in the coming year from the completion of the current high capital expenditure phase, modest ongoing sustaining capital requirements and, assuming oil prices stay around current levels, material cash flow from operations.

As highlighted at our AGM in November 2022, returns to shareholders will be considered by the Karoon Board in the second half of CY2023, following the completion of the current capex projects and dependent on the satisfaction of lending covenants and capital priorities at the time.”

³ See footnote 1 on page 1.

⁴ See ASX Release, dated 13 January 2023, “23% increase in BM-S-40 (Baúna) 2P Reserves” for associated reserves disclosure and assumptions. 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.

FINANCIAL AND OPERATIONAL PERFORMANCE

Sales revenues for the half year increased 61% to US\$299.4 million, reflecting a 35% increase in production volumes combined with higher realised oil prices.

Production benefited from the Baúna well interventions, with initial contributions higher than expectations, adding more than 11,000 bopd to production compared to the target of 5,000 – 10,000 bopd. Facilities uptime (excluding scheduled shutdowns) was 97.5%, a good result given the high level of activity taking place during the period. Production from Baúna is currently approximately 21,500 bopd and the wells have now resumed natural decline, which is expected to be initially approximately 15% pa.

During the period, the realised average oil price was US\$87.86/bbl, 21% higher than that received during 1H FY22, even though two cargoes were sold at the lower oil prices prevailing in December 2022.

Unit production costs of US\$17.30/bbl were 26% down on the prior half year, primarily due to higher production over a largely fixed cost base. Unit depreciation and amortisation was US\$14.09/bbl for the period, which is expected to reduce in the second half due to the recently announced increase in Baúna field reserves. Other operating costs⁵ were US\$9.7 million, business development, share based payments and other costs were US\$5.4 million, while finance fees and interest were US\$3.7 million. The Company continues to focus on financial discipline and cost control in all areas of its business.

The effective tax rate on underlying earnings was 34%, in line with the Brazilian corporate tax rate of 34% as all prior tax losses were fully utilised by the end of FY2022.

Operating cash flow for the first half was US\$167.1 million, nearly double the cash flow in the prior half year. No further drawdowns were made from Karoon's debt facility, with capital expenditure on the Baúna intervention campaign, Patola development and ongoing field maintenance funded from cash flow and existing cash. The cash balance at the end of December 2022 was US\$163.2 million.

During September 2022, Karoon requested and was granted a temporary waiver from lenders on the minimum hedge volumes required under the debt facility and no new hedges were entered into.

PATOLA DEVELOPMENT AND NEON CONTROL WELL ACTIVITIES

Two Patola development wells, PAT-1 and PAT-2, were drilled and completed in the first half, on schedule and within budget, and the remaining activities required to bring the field onstream are underway. The Technip FMC pipelaying vessel, Deep Star, was loaded with Karoon's equipment and mobilised to site in early February 2023 and is in the process of installing the pipelines and umbilicals which will connect Patola to the FPSO. Minor modifications required on the FPSO are taking place in parallel. The field development remains on track to commence production by the end of the first quarter of CY2023.

With drilling and completion of the Patola wells occurring in the period, a decommissioning obligation was created. Consequently, an increase in the restoration provision was recognised (*see note 7 of the Half-Year Financial Report for details*).

Following the completion of the Patola wells and the receipt of the final regulatory approvals, the first Neon control well was spudded on 23 January 2023. The well reached a final total depth (TD) of 2,382 metres Measured Depth on 10 February and the acquisition of a comprehensive wireline logging suite began. The data received to date has confirmed the presence of oil in the primary reservoir targets and achieved all Karoon's objectives. Based on the encouraging results of Neon-1, the Company has decided to drill the second control well, Neon-2 (*see ASX Release "Neon Drilling Update", dated 16 February, for full details*).

⁵ Other operating costs include staff costs, IT, corporate costs and non-oil and gas related depreciation, but excludes government royalties and levies, social investments in lieu of tax and foreign exchange gains/losses.

RESERVES AND RESOURCES

An updated assessment of reserves and resources as at 31 December 2022 for Karoon's 100% owned Santos Basin concession, BM-S-40, in Brazil, was announced in January 2023. 2P Baúna reserves increased 23%, from 44.8 MMbbl at the end of June 2022 to 55.0 MMbbl at the end of December 2022². The majority (11.9 MMbbl) of the 2P upgrade resulted from the production performance at Baúna, both before and after the intervention program, with 1.7 MMbbl of the upgrade coming from Patola, based on the better than anticipated reservoir quality encountered by the PAT-1 and PAT-2 wells. (See ASX Release, dated 13 January 2023, "23% increase in BM-S-40 (Baúna) 2P Reserves" for associated reserves disclosure and assumptions).

Following FPSO life-extension studies, the reserves in the end-December 2022 report assume that production extends through to 2032. Work is due to commence shortly on the feasibility of extending the FPSO life beyond this date.

BAÚNA ROYALTY RATE, SPECIAL PARTICIPATION AND R&D LEVIES

As agreed with the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP), a reduction in the royalty rate for incremental production from the Baúna field commenced in November 2022.

In addition, as production exceeded 300,000 cubic metres (approximately 21,000 boepd) for the first time in the December 2022 quarter, Special Participation (SP) and Research and Development (R&D) levies became applicable during the quarter.

These changes in Government take reflect the well-established fiscal regime that exists in Brazil for the oil and gas sector. The R&D levy aims to foster technological research and development for the oil and gas industry, while the reduction of royalty rates is designed to encourage the ongoing development of mature oil and gas fields.

SUSTAINABILITY

During the first half of FY2023, emission reduction efforts on operational efficiencies continued, particularly through targeted scheduling of vessel movements and the use of the mooring buoy that was installed in FY2022. Due to the efficiencies achieved in FY2022 and the changes in the Baúna intervention campaign schedule, FY2022 Scope 1 and 2 emissions will be fully offset by the VERs purchased under the agreement with Shell, without the need for any additional spot purchases, enabling Karoon to achieve its target of being carbon neutral for Scope 1 and 2 Baúna emissions in FY2022. Investigations into additional ways to avoid and reduce emissions within the Company's operations and investment opportunities in carbon offset projects in Brazil, which provide both climate related and social benefits, are ongoing.

Karoon sponsored 16 social projects in the half year, all of which take advantage of government incentives to sponsor institutions that provide support for children and the elderly, primarily through cultural and sporting initiatives. The Company is proud to be involved in these projects, that materially improve the quality of life for people in Brazil.

In August 2022, Karoon released its first standalone Sustainability Report, while in December 2022, Karoon submitted its second Modern Slavery Statement, prepared following engagement with the Company's major suppliers.

OUTLOOK FOR FY2023

Production in the second half of FY2023 is expected to benefit from higher Baúna production following the interventions and the first contributions from Patola. The annual maintenance shutdown, which usually takes place in the first quarter of each calendar year, has been deferred to the third quarter of CY2023, after the Patola field has been commissioned. This will provide an early opportunity for the Company to address any potential issues associated with Patola coming on-stream. Higher production rates will lead to increased utilisation of spare capacity on the FPSO, so going forward, Karoon anticipates operating closer to the industry average FPSO uptime of 92 – 97%.

Unit operating costs are expected to fall further in the second half of FY2023 as production benefits from a full period of the Baúna interventions and the commencement of production from the Patola field.

Second half FY2023 finance fees and interest are anticipated to be higher than in the first half, due to increases in the provision for restoration following the inclusion of Patola obligations and discount unwinding affected by an increase in the benchmark discount rate (all non-cash).

Production guidance for FY2023 remains unchanged from that presented in the December 2022 quarterly report.

Full Year FY2023 Guidance¹

| | FY2022 Actual | FY2023 Guidance at 22/2/23 |
|--|------------------|----------------------------------|
| PRODUCTION (MMBBL) | 4.64 | 7.5 - 9.0 |
| COSTS | | |
| Unit Production Costs (US\$/bbl) ² | 25.4 | 13 - 17 |
| Other Operating Costs (US\$ million) ³ | 16.0 | 19 - 23 |
| Business Development, share-based payments & Neon studies (US\$ million) | 12.4 | 12 - 14 |
| Finance costs and interest (US\$ million) ⁴ | 5.8 | 9 – 10.5 |
| Unit DD&A (US\$/bbl) ⁵ | 12.0 | 12 - 14 |
| Revaluation of Petrobras contingent consideration ⁶ | 227.1 | unch |
| INVESTMENT EXPENDITURE (US\$ MILLION) | | |
| Intervention and Patola Projects | 92.0 | 200 - 220 |
| Neon evaluation | - | 65 – 75 |
| Deferred Baúna acquisition firm consideration ⁷ | 44.0 | - |
| Petrobras contingent consideration ⁸ | - | 84.5 |
| Other Plant and Equipment | 5.0 | 4 - 8 |

1. Guidance is subject to various risks (including those “Key Risks” set out in Karoon’s 2022 Annual Report).

2. Unit Production Costs: based on daily operating costs associated with Baúna Production, excluding government royalties.

3. Other Operating costs: includes staff costs, IT, corporate costs and non-oil and gas related depreciation, excludes government royalties, social investments in lieu of tax and foreign exchange gains/losses.

4. Finance costs and interest include fees and debt interest.

5. Excludes depreciation on FPSO right-of-use asset and non-oil and gas related depreciation.

6. Karoon does not anticipate any further upward movement in the fair value of the contingent consideration payable to Petrobras for Baúna in compliance with AASB 9, Financial Instruments, as the total contingent consideration recognised is at the maximum potential liability.

7. Relates to deferred firm consideration paid to Petrobras in May 2022, which is separate from the contingent consideration payable to Petrobras referred to above.

8. Relates to contingent consideration paid to Petrobras in January 2023.

All guidance is subject to the statement on page 7 regarding “Forward-looking statements.

This announcement has been authorised for release by the Board of Karoon Energy Ltd.

CONFERENCE CALL

Karoon's Chief Executive Officer and Managing Director, Dr Julian Fowles, and Chief Financial Officer, Mr Ray Church, will hold a conference call for analysts and investors to discuss the FY2023 Half Year Results on Wednesday, 22 February 2023 at 2.30pm (Melbourne time). The conference call will be streamed live and can be accessed via the following link:

<https://kapara.rdbk.com.au/landers/69b2e8.html>

A recording of the call will be available on Karoon's website.

FOR FURTHER INFORMATION ON THIS RELEASE, PLEASE CONTACT

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FORWARD LOOKING STATEMENTS

Petroleum exploration and production operations rely on the interpretation of complex and uncertain data and information which cannot be relied upon to lead to a successful outcome in any particular case. Petroleum exploration and production operations are inherently uncertain and involve significant risk of failure. All information regarding reserve and contingent resource estimates and other information in relation to Karoon's assets is given in light of this caution.

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, well drilling programs and drilling plans, estimates of reserves and contingent resources and information on future production 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 (including, without limitation, in respect of imprecise reserve and resource estimates, changes in project schedules, operating and reservoir performance, the effects of weather and climate change, the results of exploration and development drilling, demand for oil, commercial negotiations and other technical and economic factors) 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.

ABOUT KAROON ENERGY LTD

Karoon Energy Ltd. is an international oil and gas exploration and production company with assets in Brazil and Australia and is an ASX listed company.

Karoon's vision is to be a leading, independent international energy company that adapts to a dynamic world in an entrepreneurial and innovative way. Karoon's purpose is to provide energy safely, reliably and responsibly, creating lasting benefits for all its stakeholders.