

## **Karoon Strategy Day Audio Only**

### **Ann Diamant**

Good morning, everyone. My name is Ann Diamant and I'm Karoon's Senior Vice President of Communications and Investor Relations. I'm delighted to welcome you all to Karoon's Strategy Refresh Investor Briefing.

Just before we start the session, I'd like to run you through some housekeeping. The seminar is expected to run for approximately two hours, and there'll be an opportunity to ask questions at the end of the presentation. All the participants in the teleconference are currently in a listen only mode. When we enter the Q & A session, if you'd like to ask a question by the phones, please press the star key, followed by the number one on your telephone key pad. You can also ask questions by the webcast. To do this, please click on the "ask a question box", which is located as shown on your screen, hopefully. Type in your question and press submit. If we don't get around to answering everyone's questions during the session, we'll get back to you directly. Next slide please.

And now to the agenda. Our Chairman, Bruce Phillips will make some introductory remarks from the board's perspective before handing over to our CEO and Managing Director, Julian Fowles. Julian will run through the strategic context of the refresh, and also summarise our updated strategic direction.

I'm delighted to welcome our new EVP and President of the Brazil Business Unit, Antonio Guimaraes, who will provide a background on Brazil's really exciting oil and gas industry before handing over to Ricardo Abi-Ramia who is SVP Operations. Abi will talk about the Bauna assets and our plans for increasing production.

Our growth opportunities, both organic and inorganic will be discussed by John Steel and Martin Austgulen, respectively. And then Jo Hynes will provide an overview of our approach to sustainability. In particular, we're going to be talking about our new carbon management action plan, which is so important in the current energy transition. And finally, our new CFO Ray Church, welcome Ray, will talk about our funding plans and capital priorities before Julian wraps up and the Q & A session starts.

I'm delighted that speakers today represent all parts of the Karoon Organisation. Antonio, Abi and Martin are dialling in from Rio De Janeiro, where it's just after 7:30pm, so thanks guys to them for all staying up. So you really are getting a real overall view of the Karoon Organisation.

I'd now like to hand over to Karoon's Chairman, Bruce Phillips. Thank you.

### **Bruce Phillips**

Thank you, Ann. Good morning, everyone and welcome to Karoon Energy's Investor Strategy Day. As an introduction to today's proceedings, the board has asked me to provide you with its perspective on the evolution of Karoon's corporate strategy. The board obviously views oversight of strategy formulation and the monitoring of its implementation as one of its core functions. Along with corporate culture, of course, strategy is what binds our global business to ensure we're always working together towards common goals and driving our business performance.

Over the last few years, the board has been focused on making Karoon a more attractive investment proposition after a prolonged period of underperformance. This entailed deploying our considerable cash reserves to acquire the high quality Bauna production asset, by significantly restructuring the board and management team and by progressing the next generation of organic growth projects, like the Bauna Work Over Campaign, the Patola Oil Field Development and the Greater Neon Oil Project. Most of this is now well advanced having been achieved against the headwinds of the COVID pandemic.

Going forward though, the board is focused on the refreshed strategy Julian and the team will outline for you today. From the board's perspective again, there are three overarching strategic imperatives we will be focusing on. Firstly, the safe and reliable production from the Bauna field and the seamless delivery of the Bauna Work Over Campaign and the Patola Oil Field Development Project. Secondly, to move rapidly to what we call future proofing the company by ensuring we have a Blue Chip Sustainability Program in place. Not just for our current projects, but to align our growth aspirations with societal expectations of a low carbon future.

And thirdly, we'll be focused on trying to introduce another value accretive production asset over the near to medium term to diversify our asset base as a risk mitigant whilst also making a company a more attractive investment proposition to a broader investor base. In the broader context, while the board is focused on the delivery of these strategic imperatives, we'll also ensure that discipline capital deployment and risk management are at the forefront of the company's actions.

Ladies and gentlemen, Karoon now has the culture, the governance structure and processes, the board and management team and the asset base to deliver on the strategy Julian and his team will outline for you today. I hope you find today's session informative, and that you leave sharing the board's excitement about the future of Karoon. Thank you again for your attendance today. I now hand over to our CEO and Managing Director, Dr Julian Fowles.

### **Julian Fowles**

Thank you very much, Bruce, and good morning, ladies and gentlemen. I'd like to also say, good evening to our colleagues in Brazil, and thank you to everyone for attending, joining us today on this investor briefing, where, as Bruce has said, we'll outline our refreshed strategy.

My name is Julian Fowles. I'm the Managing Director and CEO of Karoon. I'll give a little bit on my background for those of you I have not had the pleasure to meet previously. So I joined the company in November last year after a 30 year career in upstream with a number of different organisations, including Shell, Cairn Energy and Oil Search. I have experience that ranges from new business through exploration and development to production. I've also had the pleasure of having lived in Brazil, I was stationed there for six years or so in the early part of the 2000s. So Brazil is familiar territory for me.

People have asked me, on a number of occasions, why did I join Karoon? I think it's instructive to reflect on that just a little bit, and you will understand, I think towards the end of this presentation, why Karoon is attractive to join as a company. But firstly, the timing of the Bauna acquisition was really perfect to be honest, with respect to a rebound in oil demand and prices that could be seen coming once the pandemic had receded, and we're seeing that today, of course.

Secondly, the company was in really a unique position in having a high-quality producing oil asset with significant near-term growth potential and no debt. It's not often that you see an organisation like that and a company in the oil and gas space, which has been able to transact in that way.

Thirdly, of course, the opportunity to lead a company that was looking to grow in Brazil, where I was already familiar with the competitive landscape and with the opportunities at a time when Petrobras was divesting significant and high-quality legacy assets really added up to something which was an opportunity that I couldn't pass up. Simply put from my perspective, Karoon is a tremendously exciting company with great assets, potential for growth at what is really one of the most dynamic and interesting times in the history of our industry. So I think that sort of in a nutshell summarises why Karoon was an attractive prospect for me to join and I think it remains that way today and is an exciting company.

So what I'd like to go through with you today will highlight the outcomes of a strategic refresh, as Bruce has touched on. I will start though with looking a little bit at the background to our strategy, touching on where Karoon has come from and our transformation to the business that we are today. So if we could move to the next slide, please.

So this slide presents a snapshot of Karoon and Bruce has touched on some of this already. I'll not go through all the details. Karoon has changed significantly over the last 12 months, we've been building our capabilities and continuing to embed the governance principles that Bruce and the board has been so adamant in progressing. We've been focused on delivering value from our licences in Brazil and Australia, but especially from the position we've developed in Brazil and the production opportunities in the Santos and potentially other core basins. Fundamental to our strategy of course is that Karoon is a pure oil play. We're directly exposed to the Brent oil price.

2020 and 2021 have been extremely busy years for Karoon, and I would say we've achieved an enormous amount in restructuring and repositioning the company. I'd like to highlight our growing reputation for safe and reliable operations, which has been an absolutely key focus for myself and for the team for all of this year. As well as that, of course, we've sanctioned two near term growth projects in the interventions in Patola, and we estimate that'll allow us to double production and almost halve our lifting costs by early in 2023. The summary of Karoon today is a company that's now generating significant cash flows. It's consistent in those cash flows. We have safe and reliable production operations, and we have a team that is really ready to deliver on our growth opportunities. So if I could move to the next slide please.

This slide has two elements. It's got a left-hand side and right-hand side. The left-hand side covers some of the key strategic milestones that we've been focused on delivering since the end of last year and the right-hand side demonstrates some of that strategic delivery through the highlights from our Q1 reports that we released to the market this morning. What I would say is that we've developed this company from of course a platform of cash and from the Bauna producing asset, the transaction that took place last year, which was well delivered by the previous team under Bob Hosking. Karoon has made this smooth transition from explorer to producer, entering really what is a new era as an oil producer with consistent and operational delivery. The strategic position, which that consistent delivery is building for Karoon is really significant. And it's highlighted by what from our perspective, I think, is a very pleasing set of Q1 results and I'll just touch on those briefly now.

Our high degree of plant reliability at 98% has delivered our strongest production quarter to date. Two cargoes delivered revenue of \$71 million, which lifted our cash by over \$40 million in the quarter to \$175 million. With a cargo lifted just after the end of the quarter, that's expected to

deliver a further \$40 million in revenue. Now, Ray Church, our new CFO will talk more about our finances and funding towards the end of the briefing.

With our operations running on target, our two main projects sanctioned, and on track for the delivery in 2022 and early '23, and with the new capabilities and deep industry experience that we brought in at the board and executive level, we really felt it was timely to undertake a refresh of our strategy as we look to consolidate what we have and grow the company with a view to maximising our value for shareholders. So if we could move to the next slide, please.

This slide really touches on the strategic context and some of the dynamics of the oil and gas industry as we see them today. We wanted to make sure that we understood and had a common understanding and position across the company of our business environment and what that outlook would potentially hold for the market in which we're operating. So the slide has two sides, the right-hand side with a couple of charts and I'll touch on those, and the left-hand side that talks a little bit about some of the dynamics that come from those.

We are an oil company. We produce sweet light crude. It's a global commodity. It's important that we understand the supply and demand dynamics and the external factors that impact that product. The charts that I'm showing on the right-hand side are really just illustrative charts. And there are other versions of these that I'm sure that many of you on the call have seen already elsewhere and done research on these yourselves. We've picked these because they highlight for us a couple of very important points. The upper chart displays historical and potential future global oil demand, while the second chart illustrates the upstream investment in oil and gas developments over the past 10 to 15 years. Taken together, these charts illustrate why we may expect to see an extended period of the right conditions for constructive oil prices. A combination of continued high demand expected over at least the next decade and the impact of many years of underinvestment in both new developments and in sustaining Capex, each of which is essential just to stand still in the face of what is otherwise natural declining oil field production. We see that ourselves at Bauna.

If you reduce just one of these supply maintaining factors, then you're looking at potential for significant decline in production, which can be as high as a few percent per annum, according to some commentators. And the world really can ill afford that in the face of rising demand for energy at the moment. In our own operating environment, in Brazil I'd mentioned Petrobras, but we also see a number of the majors divesting more mature assets as they rebalance their portfolios globally. Seeking to rebalance investments into the energy transition, which is itself partly leading to some of the dynamics that we see in these charts.

In summary, we see what for us is really a once in a lifetime opportunity for Karoon to take advantage of this evolving supply and demand situation and capture significant value for our shareholders through an oil focused growth strategy. We really feel the time is right for that to be executed now. So if we could move to the next slide, please.

So this slide looks at three elements of Karoon. First of all, our history, and I'll not touch on our history in any significant way, but it's there to give you that context. The middle part looks at our transformation, which has really moved us from exploration focused to production focused. And then the right-hand side of the chart looks at our future, which is really focused on building scale and relevance.

The next two slides that I'll show will touch on the second parts of this chart. But first of all, a key principle in our evolution has been a fundamental change in the way Karoon creates value. From

what was really an exciting period of exploration, somewhat hit and miss, to the current model where value capture occurs through value accretive production growth, and financial discipline. Something I think that is key to our hearts is ensuring that that financial discipline is applied and is consistent throughout all of our operations.

However, I would say that our production position is relatively small. We produce today around about 13,500 barrels a day with an estimated natural decline rate of between 10% and 15% per annum. And although our rates will be significantly enhanced by our near-term work of Patola projects, natural decline in fields of this scale is never far behind. Although, we should continue to make every effort to mitigate that decline, something which you can see we are having some success with and which Abi will talk about a little later in this briefing.

In order to build Karoon into a long-term sustainable oil business, we'll need to build a reputation for delivering on our promises and to foster the trust of our investors ensuring that we're good stewards of investors' funds. We will need to build and diversify our production portfolio and strengthen our balance sheets. And that will lead us to building scale that will attract longer term investors and will also give us access to the best price debt that will enable that growth as well.

As a responsible producer, we also recognise that our approach to the questions raised by climate change and society's response to those questions, is going to be critical to our risk management and to ensuring that we're able to continue to attract investment. So my next two slides will look at Karoon's present and Karoon's future in a little more detail. So if we could move to the next slide, please.

So this slide really looks at Karoon's focus today. Focused on delivering our operations and the sanctioned projects, which is really building that foundation for growth and providing that licence for us to move into the next phase of Karoon's evolution.

We've talked about the importance of delivering what we have today, and what that really entails now is a move away from greenfield exploration. And our geotechnical focus has naturally shifted now to production, to near field exploration and to the exploitation opportunities that surround these hubs that we have. A great example is the work that we're currently undertaking at Neon/Goia. The Neon/Goia assets, where we recognise potential for significant value and finding the optimal way to develop these discoveries with an acceptable risk and return metric has been a key focus for the technical teams since early on this year. John Steel will talk a little bit more about the exciting progress that we're making with these assets and the different development options that we're considering a little later on in the briefing.

We've built a first class and highly experienced team in Brazil. Antonio will talk a bit more about this, and that's complemented by focused support from our Melbourne head office. We operate in Brazil in what is really a world class petroleum system. It's got significant running room, especially for a company like Karoon where we're interested in more mature assets and the production opportunities that those can bring. We have also in Brazil, an attractive and progressive licencing regime with a bureaucracy that is highly supportive of the industry. That really combines to make an excellent set of factors that go some way to answering the question about why Karoon is such a good place to work at the moment.

In summary, we've got the team and the assets in place to deliver a doubling of high value production from existing in newly sanctioned projects over the next 15 months, and to look at new growth opportunities with a view to delivering a second production hub in the near future. If we can move to the next slide, please.

So that future is really all about building scale and about building relevance and how we will get on with that. We've already sanctioned our growth as I recognised, and we see further opportunities around the Bauna hub that we will also touch on.

There are a set of very strong drivers that point to the attraction of an oil focused growth strategy at this stage. Not just at a macro level, as I've already mentioned, but also within our operating environments. The key elements of those drivers, first of all, obviously for Karoon, we have a single asset. Single asset in a single basket, if you like, is how I like to think of Bauna. We want to really diversify that portfolio beyond that single producing asset and give us a bit of risk cover. We see, of course, compelling growth opportunities, not only within our portfolio, but also in Brazil overall, and the core basins as a key area for our growth in the future. We have a constructive oil price environment led by the supply and demand dynamics, which we see as being very strong, and I think are not alone in our view of believing that this will continue over the next decade plus. We're evaluating organic opportunities at Neon/Goia, and we are also looking to evaluate further value accretive and high-quality M&A opportunities within the Brazil environment itself.

In order to fund our growth in the first instance, as you've seen from our quarterly results, which have been delivered through this year, Karoon has extremely strong cash flows from our operations. We also have further debt capacity beyond the current \$160 million capacity that we've raised this year, and we're developing a ready to go debt plan as we potentially identify attractive opportunities and that discussion is ongoing with our financiers.

Although, it's very early in our history as a production company, we have less than 12 months of production operations history to date, we do have consistent positive cash flows, and we recognise an imperative to return value to shareholders as we grow. Any value accretive opportunities that we evaluate will always be weighed against providing returns to shareholders. And although the board has determined at this time that the optimal use of capital is currently by reinvesting in our growth opportunities, this approach to investing in new potential assets and the returns they may generate will always be evaluated through the lens of focusing on shareholder returns.

I also mentioned that we must develop a responsible approach to the challenges of being an oil producer and developer in a world where we must develop solutions to carbon emissions. Jo Hynes will cover this in more detail in her section. But our goal in the near term is that we shall be carbon neutral in our current operations by the end of financial year '22, as we develop a plan to invest in and actively participate in high quality carbon offset initiatives to abate our emissions in the future. And that's a really important point for us and something I'll touch on again towards the end. We can move to our next slide, please.

So Karoon strategy can really be summarised through the four priorities that are illustrated on the left-hand side of this slide. And these are enabled by four initiatives, which the organisation must also deliver. Base business is key to building our reputation, to building our balance sheet and ensuring our licence to grow. Growth opportunities we see that lie in our sites today are led by the Neon area with its potential hub development, but with potentially attractive and high-quality IOC and Petrobras divestments in Brazil, likely to come to the market over the next couple of years. And that provides a really very rich environment for Karoon to pursue further investments. Enabling these priorities around the edge of this slide, you can see our organisational and technical capabilities, which are vital for us to manage risks and to deliver on those promises. While the right approach to sustainability issues will ensure we can continue to attract funding and long-term investors, further ensuring our ability to deliver on our core priorities. Could we move to the next slide, please.

So lastly, what I want to leave you with in this section are some numbers that reflect what our current Bauna asset and our sanction projects already have the potential to deliver, as well as our targets and aspirations for continued high value growth beyond just the near term. The indicative production profile on this slide on the left-hand side is based on our actuals for 2021 and the forecast we've made for 2022. The 2023 bar is based on the doubling of production that we've previously discussed with the market with a range of outcomes that are appropriate to the uncertainty and when our intervention operations may actually start. As you know, there's some uncertainty around the exact timing of when the rig will be mobilised, and we'll talk about that a little later in the briefing as well. That provides a range of potential production outcomes from the work overs and the new Patola wells. And these ranges have also been discussed with the market previously.

Of course, offsetting the natural decline in our oil fields is a major focus for us. And the right-hand side looks at that in a little more detail in terms of the other opportunities that we also have in front of us. We have been having some success in offsetting that decline. And I would say it's a little early to claim victory, I guess, I would say, but we have significantly mitigated the 10% to 15% anticipated natural decline rates so far, but we still have less than 12 months of production operations under our belts. What we intend to do is to update the market on our progress on how this work is going with our first half results in the new year.

Growth beyond 2023 will depend on the identification of and our entry into sufficiently value, accretive production opportunities. One of these could be the Neon/Goia area discoveries with the work going on in that area at the moment. But we also intend to actively evaluate other oil opportunities and production opportunities as they come to market with the objective, as Bruce has touched on, to deliver a second high value producing asset into the Karoon portfolio when the timing is right.

In summary then, Karoon today is a firmly grounded oil production company with a highly experienced board and senior management operating in what is really an opportunity rich and strongly supportive environment, with all the right ingredients to execute a successful oil led growth strategy in and around our existing assets. This growth we expect to come from one or potentially a combination of organic and inorganic opportunities and Bauna is testament to what Karoon is able to do there.

At a time of strong demand and forecast weakening supply dynamics it is a great time to be a part of Karoon and I hope you will be joining us on our journey as we plan to take the company from where it is today into what promises to be a very exciting future for the company.

With that said, I'd like now to hand you over to Antonio Guimaraes, our new EVP and President of Karoon Brazil, who will take you through the Brazil operating environment and Karoon's plans there. So thank you very much and over to you, Antonio.

### **Antonio Guimaraes**

Thank you very much, Julian. Good morning, everyone. My name is Antonio Guimaraes. It's a great pleasure to meet you all here today in the Zoom meeting, but I look forward to the opportunity of meeting you in person in the near future. To that extent, I would like to invite you to come to Brazil, to see our operations in person. I'm sure Ann will love to organise an investors trip.

As you know, I joined Karoon in early October, after 35 years working for Shell. I'm pleased to have joined Julian and his team at these exciting times, bringing my extensive international

experience in the oil and gas industry, combined with a deep understanding of Brazil's culture and regulatory environment. As well as bringing to Karoon the close relationship I have with key stakeholders in country.

Besides Brazil, I have lived and worked in the United Kingdom and in the Netherlands and helped business development roles for projects based in Nigeria and in Angola. In my most recent role as the E&P Executive Director as a secondee to IBP, which is the Brazilian Petroleum Institute, similar to the American Petroleum Institute, I was responsible for leading the industry association and was the face of the oil gas industry in Brazil. And during that period, we've managed to deliver significant improvements in the regulatory environment that allowed the country to have very successful multi-billion dollar bid rounds in 2017 and '18.

Before IBP, I was Shell's Brazil Upstream Country Coordination Director. My role in Karoon, as our chairman said, as a safe and reliable operator is to drive the delivery of production out of our existing assets and on schedule and on budget to more than double the production, while seeking to deliver Karoon's growth strategy that will be discussed later today.

In the next few slides I'm going to present to you why it's interesting to invest in the oil and gas industry in Brazil, and why Karoon is well positioned in-country to deliver our growth strategy. So please, next slide.

Well, Brazil is a major global player by whatever measure we chose to evaluate. Although, still a developing country, which in my opinion, that's the reason why I believe we have so many opportunities, Brazil is a major economy. The eighth largest and has been attracting significant foreign direct investment. Nowadays, the six largest host country in the world. Brazil is a bit larger than Australia, as you can see in the map and is the fifth largest in land area. It has more than 200 million people having the sixth largest population. Just as a matter of comparison, on the red dot in the map is the metropolitan area of our biggest and most developed city of Sao Paulo, where we have a population equivalent to Australia, just in that area. Brazil has a very diversified economy that has been growing over the years with industry and our culture playing a major role. But oil and gas is also significant representing around 10% of the GDP nowadays. Next slide, please.

For the oil and gas industry, Brazil is also a significant player. Brazil is currently among the top 10 largest oil producing countries, and according to the plans submitted by the oil and gas companies to the regulator, it's set to become the fifth largest producer by 2030. With this in mind, we should reflect a bit on what the business environment there has made to understand why. First, the oil gas industry in Brazil is well established and mature with a stable regulator and has a long tradition of respecting countries since the opening of the market 23 years ago.

Second, Brazil has a significant prospectivity with only 5% of the sedimentary basins being contracted, as you can see on the map, and has significant yet to find potential, even on the near field to our operations. And third on a like for like comparison with countries that have similar prospectivity potential and a stability for investors to come. Brazil has a very favourable tax and regulatory regime for post-salt licences. Therefore, these factors have allowed Brazil to have a very large petroleum sector, attracting numerous foreign companies, majors, medium and small size to be present investing and operating in country. Next slide please.

So as I described in the previous slide, Brazil is considered to have an attractive oil industry. A snapshot of that outcome can be seen on these maps on the attractiveness that has played so far. In the left, in 1998, just after the opening of the market, which was called ground zero bid

round, Petrobras dominated the Campos and Santos basins, producing roughly one million barrel per day. The map on the right shows the transformation that happened over 20 years after successful bid rounds in 2017 and '18 also, where we can observe, now, Brazil has a vibrant market with several international, as well as national players seeking for a piece of the action there, while oil production has reached three and a half million barrels per day.

There are several post-salt mature fields, as Julian has mentioned, that will be opportunities that Petrobras holds in their divestment portfolio, as well as from other major companies. That will create, in my point of view, a unique opportunity for companies like Karoon in a very short window of opportunity to access world class assets as part of our value, accretive growth strategy that Martin Austgulen will present to you, later on. Next slide, please.

Looking from a different perspective, what I like about the graph on the left, with our forecast showing production growth up to 2025, where in Brazil you will add another 1 million barrels per day, between 2019 to 2025, is that Karoon is already showing in the graph, as a red, small bar, as one of the significant players in country, compounding the growth. On the right, we can see that the oil and gas business in Brazil has been playing a significant role attracting investments. Looking back at the last decade, Brazil was able to attract investments of up to \$20 billion. Up to the end of this decade, it is forecasted that we will attract over \$20 billion of investment to support growth to achieve 5 million barrels per day of production. This is possible as Brazil is one of the few countries that has a deep and mature goods and services industry with all major international suppliers, with a presence in country, as well as with a variety of capable local suppliers. As an additional information, in this decade, with up to 15 FPSOs forecasted to be installed in country, it is going to be a major market. Next slide, please.

Having seen that the Brazilian landscape is attractive, the next question to me, to answer, is why Karoon is capable and well-positioned to capture opportunities and generate these value-accretive growth opportunities in our strategy. Karoon has a long history in Brazil since 2007 when we first acquired exploration blocks in the ninth bid round. During this period, Karoon has drilled six wells in the Santos Basin, discovered oil, was able to appraise and evaluate those discoveries, and has declared commerciality of the Neon discovery in 2018. And now we are doing further studies to define our development strategy, that will be described later on by John Steel. In 2019, Karoon was able to negotiate and sign with Petrobras, an SPA to acquire Bauna, taking the operatorship into the late 2020s. During this period, Karoon did its homework, and was able to take FID soon after, in Q2 this year, of the Bauna intervention, and on the development of the Patola project.

And how Karoon has gone through this journey? Because since the beginning, we have put together a strong operational organisation that are at Karoon, as one of a selective group of companies to be classified as an operator A, capable of operating offshore deposits in Brazil, by ANP, the local oil and gas regulator. And now, during the 17th bid round, although we didn't bid, ANP has confirmed again, our classification, declaring Karoon qualified to bid. I'm proud to have joined the company to lead a strong and highly experienced and qualified team during these exciting times. As you can see in the distribution graph, we have the majority of our employees having postgraduate degree or higher, although we are a young oil producer, Karoon is a very mature oil company, having more than 1,700 years of oil and gas experience among our staff, with our average experience of 22 years. We have also chosen a very experienced FPSO operator, Altera-Ocyan, that has been operating for the last three and a half years without an LTI. Already considered a significant player in country, we chose to look forward to new opportunities in country.

So in summary, I have shown to you that Brazil is not only a significant economic player in the world, but also a significant player in the oil and gas business. I said that due to the stability and attractive terms, and also for its well-established supply chain that has allowed a significant influx of investment to explore and produce oil, that is forecast to achieve 5 million barrels per day, by 2030. There will be also world-class assets available in the market, from the divestment portfolio from Petrobras, and other majors, for us to look after growth. And finally, that Karoon is a well-established operator company in country, and has the capacity and the capabilities to pursue those value-accretive growth opportunities.

With that, thanks for the opportunity for presenting Brazil in Karoon. Now I want to introduce my colleague, Ricardo Abi-Ramia, who is going to take you through our operational journey in Brazil. Thank you very much.

### **Ricardo Abi-Ramia**

Okay. Good morning for everybody. Thank you, Antonio. My name is Ricardo Abi-Ramia, and I am a petroleum engineer, and I have been working for the last 35 years in the offshore industry in Brazil, in intervention operations, production operations, and production development. I contribute to that more than 1,000 years of experience that Antonio mentioned. In the next slides, I will give you an overview of our operations in the country, and how we work to keep them safe and reliable, and the plans we have, to enhance our production in the Bauna asset. Next slide, please.

Okay, yes, as Julian mentioned previously, the Bauna field is a high-quality asset, with excellent subsurface characteristics. Our current production is around 13,500 barrels per day, of a 34 API light, sweet oil, there are no contaminants, at all. Inside the Bauna ring fence, we have the Patola discovery, with 38 API oil, light, sweet, without contaminants. Very high-quality oils. We have to see our existing FPSO as a production hub, an opportunity to develop any potential nearby discoveries, such as the Patola oil discovery. And we have room in the facility to bring the new oil into production in our process plants. Next slide, please.

As Antonio mentioned, we are very proud to have Karoon with a strong HSSE culture. And we work to keep safe and reliable operations anytime, from daily meetings where we control all the activities that we are performing during the day, in the FPSO. It's important to emphasise that everybody's aware that the world faces a tough situation with this COVID pandemic. And during this COVID pandemic, using a strict safety protocol, together with Altera, that is the operator of the FPSO, Karoon succeeded to keep our operations running without any interruption, what happens in a lot of other facilities in Brazil. We have more than 10 socio/environmental projects underway, promoting strong interaction and ties with the local community. It's important to emphasise, and this is why we put this picture here, and Antonio mentioned this previously, that our FPSO, Cidade de Itajai, achieved 1,300 days without loss of time incident. This is a remarkable achievement. Next slide, please.

Okay. Another point that I want to bring to your attention is that we are daily working to maximise our production through high operational uptime. It's very important to have the process plant running as much as possible, all the time that is possible, safely, and with this high reliability. To achieve it, we've focused on process safety, facility integrity, and preventative maintenance. That is a key issue to get this high efficiency that I will mention, and that you can see on the graph on the bottom right of the slide. Since we became operators, we performed a lot of diagnostic audits, in order to give us a deeper knowledge of the facility, and these allow us to prioritise our maintenance work. Our goal is to achieve a process plant uptime between 92 and 97%. It's a very high goal. And so far, during this first year that we will complete in the beginning of next

month, as operator, we are reaching 96.4% uptime, and we are very proud of this number. It's a quite high efficiency in this kind of facility. Next slide, please.

Of course, Antonio mentioned this, there's a natural decline of the field, but we work to sustain the production, through a lot of management that we implement on the field. And just sustaining our production and minimise this natural decline, we are working our operations in our reservoir teams together, assessing production enhancement opportunities. One of them, we mentioned, is the Patola upside development. It's our coincident discovery that we will bring it as an upside to the FPSO. Actions that I mentioned to keep a high process plant uptime, we must keep our process plant running 96, 97% of the time, as we have succeeded to do. And our intervention program, that will increase existing well flow rate, it's another action that will grant that we'll keep this natural decline as low as possible. Besides this, we are continuously working to minimise the existing well decline, through improved oil recovery measures. One of them is the management that we apply to our electrical submersible pumps, and we are continuously searching for new oil opportunities, such as the tie-back of the Neon discovery that we have in the same basin that Julian mentioned previously, and that John will talk about it, a little ahead in this presentation. Next slide, please.

Of course, another big concern is to keep our costs as low as possible. The Patola intervention campaign delivery and the production enhancements that I mentioned, add scale and drive down unit operational costs. So our goal is to maintain a low cost structure for it. When we look to our production costs, we can see that we will use the existing infrastructure to handle the interventions and the Patola development and have taken advantage of the synergies that we have in there. As we have 90%, approximately 90% of our costs fixed, when we increase production, of course, we will reduce our operating costs per barrel, and this will be materially reduced by the year of 2022. We keep our cost drivers such as the charter cost and the O&M contract cost, and view under close management. As I mentioned previously, the Neon tie-back is a project that can take advantage of the logistics synergies, optimising, of course, our production support costs. Next slide, please.

Now let's talk a little about the Bauna intervention and the Patola development. The Bauna well intervention is targeting a production increase between 5,000 to 10,000 barrels per day. And it's planned to commence mid-next year, and the estimated cost is from \$110 and 130 million. The other project, the Patola development, is targeting its first oil for early '23. And we expect a peak production rate, higher than 10,000 barrels per day, with an estimated cost of US\$175 million to US\$195 million. At present, we already selected more than 95% of the contractors, and we have more than 60% of the contracts already signed. So far, both projects are on schedule, and with no cost increase identified. Next slide, please.

Of course, to follow-up everything that I explained previously, we put together for both projects, interventions at the Patola development, a strong governance process. These processes were tailor-made for each one of the projects, having different management levels with daily, weekly, and monthly meetings to follow-up the projects in a very strict basis. We already put together a risk management for both projects, and the main risks were identified by our technical team. We prepared mitigation plans, of course, and the actions of these plans, are followed every week, through the governance system. It's very important for us to have these mitigation actions followed, in order to minimise the risks of the projects.

So with this slide, I conclude my presentation, and I will call up John Steel to go ahead with it. Thank you very much for everyone.

## John Steel

Thanks, Abi. So my name is John Steel and I'm the team lead for asset development, new ventures and exploration, and I'm based in Melbourne. I'm also a geologist by training. So I'm going to give a bit of background as to why Karoon have positioned ourselves in the southern Santos Basin in Brazil, and why we're increasingly excited about the potential for the Neon discovery to become the foundation of our hub development in that area.

So within the oil industry, Brazilian offshore basins are really renowned for being highly prospective, and both the Santos and Campos Basins are actually characterised as super basins. So the criteria for being classed as a super basin, is that more than 5 billion barrels of oil have been recovered and that there is a potential to recover at least another five. So on that basis, you can see that this really is a fantastic address to be in.

If you look to the image on the right of the slides, you will see the geological characteristics which make these basements so prospective. And firstly, at depth, there are multiple widespread and highly oil-prone source rocks. There're also excellent reservoir units present throughout the section, and multiple different types of trapping formation. And this abundance of traps is often related to the presence of a layer of salt, and that's illustrated in the pink, on the cross section. And what we see in the setting is that the salt movement can then often deform the surrounding sediments such that they capture hydrocarbons migrating from the source rocks at depth. And this is exactly the situation in the area where Karoon holds the core elements of our portfolio, and in later slides I'll show the role that the salt plays in forming the trap for the Neon oil field.

So, further to the generally excellent geological characteristics of Brazilian basins, our heartland portfolio area in particular, benefits from moderate water depths and reservoirs at shallow burial depths. And when you combine these characteristics with the predominance of light oils which we find in the area, you really have a recipe for excellent project economics. It's the same combination of factors which also creates a situation where the application of seismic reservoir characterization techniques becomes a particularly powerful tool in de-risking exploration targets, and also in the optimisation of field exploitation plans. And this is something which Karoon has applied extensively at both Bauna and Neon, and over the next few slides, I'll talk a little bit more about Neon, and also the other organic growth opportunities which are currently under evaluation.

So, Neon is located approximately 60 kilometres Northeast of Bauna. The field was discovered by the Echidna-1 exploration well, and much like Bauna, the water depths in this area are relatively shallow, at just 300 metres. One of the obvious features on the image here, is the presence of the large grey salt body, and that sets up the trap and for the structure that traps the oil migrating from depth. The oil at Neon is a high quality, light crude, and it flowed very strongly at rates of nearly 5,000 barrels per day, on production testing, in the discovery well. And whilst the reservoir zones of Neon are slightly older than those at Bauna, they actually occur at very similar depths of burial. And they also benefit from a strong seismic response to the presence of oil. And that's the characteristic which was leveraged here, in the construction of the 3D geo model, which is shown on the right-hand side of the slide. And as we previously mentioned, we have been utilising updated field modelling, which incorporates a recently optimised seismic dataset to re-evaluate the commercial potential of the Neon field, and through the application of optimised exploitation strategies, and as detailed tools like the one I show here on the slide, which are really fundamental to this type of work.

So of course, in addition to the geological characteristics, there are a number of commercial factors which are key drivers in determining the value potential of any oil development. And in the

case of Neon, and the completion of the Bauna acquisition last year, has been a real catalyst for reinvigoration of our vision for the Neon field. And the waterfall plot here, shows indicatively that the discovery made in 2015 and being assessed as having 55 million barrels of 2C resources, was actually quite challenged as a standalone development. However, now, as owner of Bauna, we're able to factor in the benefits of having an existing and well-established operational capacity, and that operational capacity could be extended and utilised to support activities at Neon. And even at this very early pre-production stage, we see these synergies manifested in the opportunity to utilise the Maersk developer rig, at an attractive day rate, and with minimal incremental mobilisation costs, to undertake drilling activities at Neon, following the completion of the Bauna intervention at Patola and Patola drilling and time campaigns.

And further to, and beyond this immediate benefit, we'd also expect operational synergies between Neon, Bauna, and will be realised throughout the lifetime of the assets. And that would be something that would be very beneficial in reducing the ongoing operational costs.

The next value potential bar represents the enhanced corporate capacity of Karoon. And we're now positioned as a well-funded production company, and we demonstrably have the capability to deliver a project of the nature of the Neon project we are currently looking at. Within the area shaded pink and labelled as Under Evaluation, we show the positive impact due to improved development optionality. And this is essentially representing Karoon's ownership position at Bauna, which we believe is potentially providing an alternative pathway to monetising Neon and via an extended tie-back. Now, technologically, it would be challenging, but it's certainly an option and which will be closely considered and really fully evaluated, if Neon is progressed into the concept select phase. Within the same section, you can see the potential impact of the current body of subsurface and engineering studies. And these are providing some real encouragement that improved recovery rates can be achieved by the application of an optimised exploitation strategy.

Then the next bar, which is actually the biggest value driver for Neon, and [unclear 00:59:33] in the future, is the validation of resource expectations, which could be achieved by a drilling campaign. And if a drilling campaign is successful in this respect, we will see reduced uncertainty reflected in an increase in a 1C number, and an increased 1C number brings much greater confidence in the commerciality of the project. This would, in turn, also provide much improved potential to exploit incremental near-field production opportunities, as Neon would then become the foundation of a hub-style development, and that potential is illustrated by the final bar.

Okay. So to the first point of an optimised development plan, we're currently involved in a series of studies investigating the potential to increase our expectations of oil recovery. The key elements of this work, include static and dynamic field modelling. And this enables us to understand the ideal drainage strategy. This is both in terms of development well count, and the positioning of the wells, and the producer-injector pairing. But this is also in respect to the surface facilities, which should be configured for optimal return on investment. And at this stage, we're considering scenarios which achieve initial rates in the range, 30 to 50,000 barrels per day. In addition to the re-evaluation of Neon, the Neon West feature, which can be seen on the map, positioned on the opposite side of the salt diapir, is emerging as a potential low risk prospective resource. And it sits just a couple of kilometres away from Neon, and therefore is well within the development footprint, and would represent an easy tie-in, and a lucrative incremental production opportunity.

The Goia field, which is around 10 to 15 kilometres from Neon, and that was discovered by Kangaroo-1, and appraised by Kangaroo-2 appraisal wells. Whilst the appraisal results in that

location identified the field was in fact a number of smaller individual oil pools that were really good flow rates achieved from the primary reservoirs, and the studies that we're currently still progressing, suggest that there's potential to exploit these volumes via a tie-back to Neon, if a development at Neon is actually progressed. Development optionality is illustrated by the schematics on the right of the slide, and a conventional offshore development template, considering an FPSO with subsidy tie-backs exactly of the nature which is successfully deployed at Bauna. It's the most likely option for Neon. But if confirmed to be feasible, a tie-back of Neon to the Bauna facilities, would potentially bring the dual benefits of reduced upfront costs at Neon, but also enabling the extension of the Bauna economic field life, which would bring incremental production to that asset, too.

Okay. So, potentially, the most significant value driver for Neon, is actually the opportunity to de-risk the subsurface elements of the project. The Maersk rig contract option represents an opportunity to acquire a number of key subsurface data items and these would allow us to much better constrain the resource potential of the asset. The key objectives for a drilling campaign that I itemised in the bullet points, and if you look to the schematic which shows the fundamental elements of the field, you'll see that the key uncertainties are really clustered into two locations. A series of objectives being related to the confirmation of reservoir continuity and field extent, they could be addressed by positioning of a control well penetration in the down dip circle, which is shown on the right, and this would be located towards the Northern or Southern limit of the field, and that would really have the key goal of extending the proven oil area, and that would bring an increase to the 1C resource. Uncertainties related to the stratigraphy of crestal areas and full characteristics, could be addressed by a penetration shown on the left of the diagram. And this would also test the upsides in deeper reservoir zones. And if these deeper reservoir zones were found to be oil-bearing and productive at Goia, and we believe that they have potential to add resources to a Neon project, too.

So, moving to the next slide, we have already discussed the opportunity presented by the Maersk rig, and the outcomes we'd hope for, from a drilling campaign. But here we're also introducing Karoon's project gating process. A robust project gating process provides a governance and assurance framework around project progression and this ensures that good business decisions are made at every stage throughout the asset life cycle. As of today, Neon resides in the identify and assess stage, which is just prior to gate two. And by way of comparison, Bauna, being in production, sits in the operate phase, while Patola is in the execute phase, having passed FID, early this year, and will move past Gate 4, at the completion of next year's drilling campaign. And as I said in previous slides, we're currently in the process of better defining the value potential of Neon, and thereby, the opportunity to utilise the Maersk developer rig to test our expectations. If a drilling campaign is undertaken and brings positive results, this will enable Neon to progress into the concept select phase, and therefore sets Neon on a pathway which could see very significant additional production to Karoon, within a five-to-six-year time-frame.

So, beyond the discovered resources in Karoon's portfolio, we've also been focusing on how best to leverage our position and experience to bring additional value through targeted exploration activities. A key priority to this end, is to thoroughly evaluate the exploitation opportunities within and adjacent to the Bauna production ring fence. The map on the left of the slide, shows that in fact, much of the area around Bauna, is currently available through the Brazilian regulatory system and so we're investigating this very closely. We're also looking very closely into the prospective potential within the ring fences of Neon and Goia, and on the image on the right of the slide, you can see the Neon West prospect, which is essentially a mirror image of Neon on the opposite side of the salt diapir. And these studies are generally very low-cost in nature, in that they involve applications of new technologies to existing datasets, meaning that they have no major operational

requirements. So, everything we do is prioritising near to mid-term production, and accordingly, the portfolio has been adjusted to come into line with these objectives. And this is reflected in the exit from Peru, and also the exit from the Great Australian Bight permit, and further to that, is also represented in our commitment to minimise future expenditure in our Western Australian permit, 482-P.

And just to wrap up the section, before I hand over to Martin, I would say that we have consolidated a really exciting portfolio within the heartland area, from which we've developed an excellent base of knowledge and technical expertise. Last year's acquisition of Bauna has brought real value to assets we already held, and the development of Neon, could have the potential to be a really exciting organic growth option for Karoon. Over the coming months, we're going to be working hard to conclude the revised evaluation, in order that a decision can be made, regarding utilising the Maersk rig to take the next step in realising that potential. So that concludes the section, and I now hand over to my Rio-based colleague, Martin Austgulen.

### **Martin Austgulen**

Thanks, John. Good morning, everyone. My name is Martin Austgulen. I'm the new business and the reservoir manager for Karoon Brazil, based in Rio de Janeiro. One of the key pillars of our growth strategy that Julian introduced earlier, is inorganic growth through asset acquisitions. I'll briefly take you through some of our considerations for the regards to our Brazilian M&A strategy, and explain why we believe Brazil still offers a very exciting opportunity set for Karoon, at the moment.

Personally, since joining Karoon, I mainly have been focused on our M&A efforts, and performing technical due diligence on several potential acquisitions here in Brazil. During the last couple of years, myself and the team here in Rio, supported by our colleagues in Melbourne, have gone through the full process of due diligence, bidding, negotiating, and transferring operatorship of the Bauna field. Within just a few months of closing the transaction, we took FID on a work program to revitalise the assets, double the production, and attempt to extract maximum value from the field.

This experience is definitely extremely valuable, and, I believe, a testament to the quality of the core technical and commercial teams here in the Rio and Melbourne offices. The Bauna acquisition looks to be an excellent example of how we can deliver value through M&A, and we believe Brazil still offers opportunities to replicate this strategy in other assets. Next slide, please.

As Antonio already showed, Brazil is set to achieve a tremendous production growth over the next decade, mainly driven by Petrobras and the IOC's heavy investments in the world-class deep-water pre-salt region. The production in this resource team, has grown to over 2.5 million barrels of oil equivalent per day, in a little over a decade in Petrobras' case. This growth has to some extent come at the cost of underinvestment in their legacy, conventional assets, such as their onshore, shallow water and conventional deep-water portfolio, which have all seen significant decline in their production outputs in the same frame. Post-salt offshore production, mainly in the Campos basin has fallen by around a million barrels per day in the last 10 years. Many of these fields are world class assets with significant remaining potential and resource upside, but have now become non-core in Petrobras and the IOC's portfolios as they have pivoted their focus to the pre-salt. And in the case of the majors are also rationalising their portfolios globally, especially in the established basin of Campos and Santos, which John just mentioned as some of the most prolific oil and gas basins in the world, M&A activity has been high as you can see on the map on

the lower right-hand side. We believe there are still remaining high quality opportunities that fit our strategic criteria that are likely to come to market in the near term.

Next slide please. Since Petrobras started their divestment program in 2015, more than \$40 billion of asset transactions have taken place in Brazil. Petrobras now has a well-established sales program with a transparent framework and a high deal certainty. They have a stated goal of divesting an additional \$25 to \$35 billion of assets across upstream, midstream and downstream over the next years. We also believe several international companies are considering exiting their legacy position in conventional production assets in the near term in Brazil, according to research firm Wellingence, the total production that could be potentially marketed in the near to midterm could reach 500 to 600,000 barrels per day, across Petrobras and IOCs portfolios with both operated and non-operated stakes available. In addition to the flow in barrels, many of these assets have significant redevelopment potential that smaller and nimbler operators such as Karoon could take advantage of. Next slide, please.

Having now digested the Bauna transaction Karoon is continuing actively screening potential acquisition opportunities that are currently on the market or likely to be marketed over the next 24 months. As Julian mentioned, we have a stated strategy of primarily looking for oil at growth. So our focus will be on oil producing assets. Another key criteria for us is for the asset to be either currently producing or have a short development timeline to first oil. Moreover, any opportunity we consider will need to be value accretive to our existing business and meet our strict return thresholds to deliver short and long term value to our company. We believe we're competing against a relatively small field of competitors where we've mainly seen Brazilian independence and private equity be especially active the last few years.

In this space, Karoon should be very well placed. Through the Bauna transaction Karoon has established significant experience in navigating the Petrobras divestment process. We will also achieve a successful transfer operatorship even in a challenging context of the COVID pandemic and our teams are currently working hard to ensure that we've maximised the value of this acquisition. In total, Karoon now has over a decade of experience in the country. We have an established operations team. Our subsurface teams are familiar with the geology and we have intimate knowledge of the regulatory framework. Karoon should be ideally placed to capitalise on any upcoming M&A opportunity that meets our investment criteria.

So in summary, we believe Brazil offers a unique opportunity set at the moment with an active M&A Landscape and still a pipeline of high quality assets potentially coming to market in the short term. It's a jurisdiction where Karoon now has a significant history and the right team on the ground. This makes us confident that we have a very high probability to execute on our strategy and continue to deliver high value growth through M&A. Thank you. Next up, I'll hand over to my colleague, Jo Hynes. Who will take you through the sustainability strategy. Thanks again.

## **Jo Hynes**

Thanks Martin. My name is Jo Hynes and I am the HSSE and Sustainability Manager at Karoon Energy. I have an engineering background with more than 20 years' experience in strategy and risk management. And I've been fortunate to have been working with Karoon for a number of years in sustainability, so was actively involved in Karoon's evolution from explorer to producer. It's great to have this opportunity to share some of the highlights of sustainability at Karoon and importantly, our plans for the future. As we've heard this morning, Karoon is a new oil producer with plans to grow. And this is significant for sustainability, particularly because there are some real and important challenges for us, but it also opens the door to some great opportunities.

One thing though, that has remained steadfast in our transition from explorer to producer and others have touched on this, this morning is our commitment to health and safety and safety is our first priority. It is also the first of our five pillars of sustainability at Karoon. The others are climate, our people and human rights, community and environment. And we are really proud of the work that we have already managed to complete in each of these pillars since taking ownership of Bauna. But there are two pillars I would particularly like to draw your attention to that Karoon will be focusing on more following our strategic refresh.

I'm happy to say that one of these is community and we have plans in place to build on our existing strong capability already in Brazil, in sustainability, to focus more on community social and environmental investment. In particular, we will be looking for projects that can offer both social and environmental benefits to local communities, especially where those reduce the impacts of climate change, which brings me to the sustainability pillar that I would like to focus on here today, which is climate. The impacts of climate change on how we as a fossil fuel company play our role in tackling the global challenges of climate change was a core focus of sustainability during the strategic refresh. So I'm really pleased to share with you our new greenhouse gas emissions targets today, and our plan for achieving those targets.

We are announcing today that Karoon is committing to making our existing operations carbon neutral on Scope 1 and 2 emissions now. This is our first and significant step on our pathway to an overall net zero 2035 target for Scope 1 and 2 emissions. There are four major elements to achieving this target and they take into account our existing and potential future operations and our ongoing commitment to continue transparent climate change reporting using the TCFD framework. The first element is to make our existing operations carbon neutral. This is over the life of the asset so includes the Bauna operations and the interventions and the Patola development that we've heard John and Abi talk about. This is not a percentage reduction target, but an actual carbon neutral target.

The second element pertains to new assets or developments that Karoon is planning to grow as an oil producer, as we've heard, and we will see new assets enter our portfolio and developments such as Neon and Goia that John has spoken about. We have set the target of making these new assets carbon neutral within five years of purchase. To help ensure we achieve this, we've already begun to establish the third element, which is to incorporate an internal carbon price in our investment decision making in the M&A process that Martin has just spoken of. And finally, by the end of this financial year, we will have completed our Scope 3 materiality analysis and will be including Scope 3 emissions in our future reporting, which again, will help us maintain our commitment to climate reporting using the TCFD framework.

So as you can see from these four elements, Karoon is committed to playing an active role in the energy transition. And while we will be carbon neutral this year, it is the beginning of our net zero 2035 pathway as we grow. So after 2030, the timeline for new assets to be carbon neutral will reduce to make sure we can achieve net zero 2035. And from 2035, any new projects must be carbon neutral from the time of purchase.

I'd now like to explain our new carbon management action, which we have developed to ensure we do actually achieve our carbon neutral now and net zero 2035 targets. Our first priority toward achieving our targets is to avoid or reduce our emissions. And despite having had operatorship of Bauna for less than a year, we have already taken steps to actually reduce and avoid emissions in Bauna operations. Two projects are being implemented. One is to improve flare efficiency. And the other is to reduce emissions by reducing the amount of diesel use through installation of an anchoring buoy, which enables supply vessels to more safely and not burn diesel whilst

stationary. It's really important that we don't stop there though. And we have already begun to engage with industry partners to investigate what other technological solutions might be available to us to reduce or avoid emissions in our existing or indeed, future operations.

We do still have residual Scope 1 emissions, and these will be abated using carbon offsets and Karoon has plans to invest in projects, generating high quality offsets. And hopefully in future develop these projects. We are actively pursuing investments now, and we've already entered into a non-binding MOU with Shell to investigate projects together that will enable us to achieve this. However, until we have these projects in place, we will purchase high quality carbon credits from other offset projects. And I want to stress that these offsets must be high quality. And to ensure this, we have set a minimum specification for offsets that will be eligible for purchase by Karoon. So these must have additionality, they must be VCS or gold standard certified. They must include demonstrable social benefits, so be CCB certified. They should have a vintage of not more than five years and they should be appropriately located.

So ideally, we want some portion of the offsets that we purchase at least to be located in Brazil. So that those co-social benefits are actually in Brazil. As a minimum all of the offsets that we purchased must be located in Latin America, so that at least they are in the region of our operations. And we've already sought binding offers for these offsets from carbon credit providers. We've actually split the total package into two tranches. The first tranche is for offsets for 60% of the residual Scope 1 emissions from Bauna Patola with offers sought for the whole time period from 2021 to 2029. And the second is for the remaining 40%, but just for 2021. And we've done this to provide price certainty on a large portion of the total carbon credits while still retaining some flexibility to adjust the profile of future credit purchases, which will enable us to respond to project development availability, because there are more projects coming online in Brazil, and we'll be able to access those as they become available to us.

It also means that we can respond to market or regulatory changes that might arise between now and 2029. And the final part of our action plan to achieve our net zero targets is as mentioned earlier, the inclusion of an internal carbon price in investment decision making. Again, it has been great to have had this opportunity to speak to you about sustainability at Karoon. And as it was when we were an explorer, safety continues to be our first priority as an oil producer, and is the first of our five pillars of sustainability. As a new oil producer, we are excited by the opportunities in front of us in sustainability, particularly the opportunity to expand our current social and environmental agenda in Brazil to include greater emphasis on social and environmental investment in local communities. And of course, I've been really pleased, to be able to share with you today, our new greenhouse gas emissions targets and the actions we have and will be taking to achieve those targets through our carbon management action plan.

I want to stress that our action plan is focused on actually avoiding or reducing emissions as a first priority. And at the same time, we are actively seeking to invest in high quality carbon offset projects so that we are generating offsets for residual emissions. As we aim to be carbon neutral this financial year on existing operations and continue on our net zero 2035 pathway. I would now like to introduce Ray Church, our new CFO, who will take you through the funding and capital management aspects of our strategy.

## **Ray Church**

Thank you, Jo and good morning, everyone. It's great to electronically meet many of you today and I'm looking forward to meeting you in person in the coming weeks and months. As I think some of you know, I joined Karoon in September from a combined background of two decades in

six countries with Chevron and TNK-BP internationally and eight years with major engineering service contractors in Australia and Asia. I've joined Julian and his team to apply that background but of course, to join in helping drive this amazing strategy that we have before us and that we're discussing today.

Now moving into the slides with the earlier backdrop of operational capability and growth opportunities that you've heard about. I'd like to talk about the strong cash flows generated by the business and our capacity for financing starting from historical results on the slide in the seven months from December 2020 to June 2021, the existing Bauna operations produced \$171 million of revenue and an average realised crude price of \$59 and opex of \$25 per barrel, which provides obviously significant operating cashflow opportunity. In the September quarter, Bauna had generated an average revenue per cargo of \$35 million at an average price of \$68 per barrel, up \$9 on the first seven months of operation. And that produced \$61 million of operating cash for the quarter or \$54 million before the effects of the AASB 16 lease accounting. \$12 million dollars was then applied to long lead capex, corporate costs, exploration and tax outflows for the quarter.

This increased Karoon's cash position from \$133 million in June to \$175 million at September 30th, as Julian mentioned earlier. And in addition, and to provide some protection of operating cashflows from low oil prices, we plan to enter into a hedge that supports our new credit facilities for a portion of our produced sales. This hedge will take the form of a collar and we'll release further details when this is in place in the next few weeks. The combination of strong cash generation and this hedge instrument will provide a baseline cash supply for the planned developments discussed earlier.

Moving on to the credit facility slide. In order to ensure liquidity during the Bauna workovers and the Patola development programs, we finalised the committed reserve based lending facility with our new finance partners, Macquarie, Deutsche, ING and Shell. This is the first major debt facility for Karoon energy and an important part of evolution of the company's funding mix. Pricing is competitive and capacity is set at \$160 million with a built-in flexibility of a potential additional \$50 million. With \$175 million cash on hand at the end of September, and this \$160-210 million debt facility this gives Karoon adequate liquidity and headroom for the planned Bauna and Patola expansion programs without the need for further equity.

Now onto the next slide, if I can. Looking at the application of cash and in order to manage and prioritise how we allocate our cash, we've established a waterfall for priorities of usage. The first priority use of course is safe, reliable and sustainable business operations, which includes meeting our emissions reduction investment commitments, then a close second priority of debt service and management of our balance sheet. This will be followed by funding a well-defined and high value workover and development programs of Bauna and Patola and cash available after these priorities will then be allocated on economic merit, to pre-development of the Neon discovery or investigation of other opportunities and dividends or return of capital to shareholders. Our internal processes are being adjusted to apply this priority waterfall as you'd imagine, and is of course aimed at maintaining liquidity and balance sheet health while supporting growth as we build to higher future levels of operating cash flows.

Looking at the next slide, I just have to take a moment to explain where I intend to focus and expand our competencies. Recognising that Karoon has progressed from exploration into stable production with organic growth, of course. I have five key focus areas for the year ahead, which are in no particular order, bolstering project review and procurement disciplines for the committed major investments. Initially that means Bauna workovers and Patola development, then implementing and embedding a major project selection, definition, execution process, which John

referred to earlier, supporting our focus on operating cost optimisation as well as cash conversion and balance sheet metrics, simplifying our existing business applications in Brazil and Australia, so they work better for us from a governance and operational perspective and maintaining and building our banking partner relationships.

And finally on the last slide I'd like to reiterate our FY22 guidance remains unchanged. Although I'd like to point out that unit production cost is tracking to the lower end of guidance. As we have planned maintenance in March next year, which will bring our current average production cost up towards this level. An update for any material guidance change will be given at the half year. And just recapping before I close on the main points I'd like to leave you with the Bauna operations are stable at producing strong cash flows as you've seen. We have our first debt facility committed giving us adequate liquidity through Bauna and Patola development programs. And my focus will be upon simple, but strengthening governance around capex costs and building our banking partner relationships. Thank you. I'll now pass back to Julian.

### **Julian Fowles**

Yeah. Thank you very much, Ray for that. And thank you to all of our presenters. I have just one final slide to go through, which is really summarising what we'd like you to leave with. And that is that we have built and we continue to build Karoon into an organisation and into a company, into a business, which is well positioned to deliver not only on our current promises, but to deliver significant growth in value for our shareholders. We've gone through this transformation from essentially an exploration company to a production company, which is delivering on its promises today and where we have a clear near-term growth path and a number of options for continued growth beyond that. We're one of our only a few companies on the Australian stock exchange with a pure oil exposure, and we have a hundred percent interest in our owned and operated assets, which gives us control of our destiny to a large extent. We're building that reputation.

We have extremely knowledgeable and experienced operations and development teams, and we're ensuring the long-term viability of our asset at Bauna through a thorough maintenance program combined with our financial discipline as touched on by Abi and previous speakers. We are looking also to ensure that we integrate sustainability and a responsible approach to the current challenges that we face in society's move to, as we go to carbon neutrality and net zero, building those decision frameworks into how we take our strategy forward. I've said we have a clear growth path, and not only in the near term, but also with organic potentially further inorganic opportunities. We have a history of being able to deliver those as demonstrated by Bauna itself. And of course, our cash position as Ray has just touched on, is extremely strong with a very robust balance sheet today.

And we're seeing strong cash flows, which are coming at relatively low operating costs, and that is set to grow strongly with the doubling of our production and a halving of those unit operating costs or a near halving of them over the next 12 to 15 months. We've demonstrated over the last period, our ability to access debt financing and we're very close now to making the first draw down and on that debt facility. And of course, all of this is in the backdrop of what we believe is a very strong supply and demand dynamic in the market, creating for us a very constructive and favourable oil price outlook. Although without a doubt, we'll see ups and downs in that outlook, we think that will maintain a very strong profile over the coming years. And of course, all of that sits in the context of having an experienced board and management team that is now really able and set to deliver for our shareholders, that growth and value that we've touched on.

I'd like lastly, to thank really all of our presenters today for sticking on time. It's not always easy in these sorts of presentations, especially where we're doing everything by Zoom. I'm very appreciative that there's been no dogs barking in the background or any other such disturbances. So thanks to all of our presenters today. I'd also like to thank you our shareholders, of course, for continued support and for the positive feedback and encouragement we've received over the last 12 months as we've gone through our transformation. And I do look forward to sharing with you, all of our stakeholders, our progress on delivering strategic priorities and those initiatives that we've outlined today as Karoon continues on its exciting growth path over the coming quarters. So with that, I'll now like to hand back to BRR for any questions that we may have.

### **Operator**

Thank you. If you wish to ask a question via the phone, you'll need to press the star key followed by the number one on your telephone keypad. Your first question comes from Gordon Ramsay of RBC Capital Markets. Please go ahead.

### **Gordon Ramsay, RBC Capital Markets**

First of all, I'd just like to thank the management team for the presentation today. It was informative and it's just great to see all these new people in the company and the enthusiasm behind the operations and the opportunities in front of the company. Martin, on the Brazil kind of M&A side, I'd just like to get a better handle in terms of this strategy and how it might be implemented going forward. Clearly there's opportunities coming up in Brazil and Karoon has a competitive advantage from actually doing a deal with Petrobras in the past and having an established team. Is there a preference to look for Petrobras assets or you looking at both Petrobras and international companies that invest in legacy assets?

### **Julian Fowles**

Yeah, Martin, I think that if you want to tackle that question just on what we're doing in Brazil, certainly there's a number of assets that we see coming forward, but maybe you can get on that for Gordon.

### **Martin Austgulen**

Sure. Thanks Gordon. I don't think we have a specific preference for the previous owner being Petrobras or another company. Each asset will be evaluated on a case-by-case basis and we'll make sure that most important is that it fits our strategy and can deliver attractive returns for Karoon.

### **Gordon Ramsay**

Okay. Just to add to that, is there early bid potential on Karoon's side, or are you actually waiting for these assets to come to a market where you're going to be forced into a more competitive bidding situation?

### **Martin Austgulen**

For some of these assets that will surely be the case, especially in the case of Petrobras assets, we will be more or less on Petrobras timetable, but the signalling we have from them is that there is still a pipeline likely to come over the next months and over the next years.

**Julian Fowles**

I think it's important to say, Gordon, I can help with that one. I think it is important to say that Karoon has developed and continues to develop a very strong value proposition in terms of our ability to execute transactions. And of course, we will also not always be looking at transactions that we may take just as Karoon ourselves, but we are also a very attractive partner for other companies in Brazil. And certainly, some of the things that we are looking at we have been looking at will involve partnerships for Karoon as well.

**Gordon Ramsay**

Thanks, Julian, just lastly on M&A, staying in the Santos Basin and near existing infrastructure and exposure, is that the goal?

**Julian Fowles**

There's probably quite a wide variety of assets. We've seen, for example, Petrobras divesting assets that are along quite a long section of the margin of Brazil offshore, that they've also been divesting onshore as well, of course, and we're not currently really focused on the onshore. Our Heartland is really sitting in that Santos, but also Campos basins in Brazil. And it's in those areas that we'll see, I think most of the attractive divestment activity from the major companies that's where there's a real abundance of assets. It's where we feel that there is opportunity for certainly some of the more mature assets to have oil that has been left behind or oil that hasn't yet been fully appraised in some of these assets. And that's certainly what we think Karoon can bring most value to, from the perspective of our technical understanding of the subsurface and our knowledge of the operating environment in these margins as well, the core basins of Santos and Campos basins as well.

**Gordon Ramsay**

Thanks Julian. Just one other quick one just for John Steel, if that's okay?

**Julian Fowles**

For sure.

**Gordon Ramsay**

John, Neon West you've kind of implied that that's a low-risk prospective resource. Was there encouragement from Emu-1 for that, or, and again, have you seen similar features where there's been well developed reservoir and oil on the opposite side of the salt feature where you are?

**John Steel**

Hi Gordon, thanks for the question. Yes. So Emu-1 one drilled through the Palestine reservoirs, which would be the primary targets at Neon West. So that well illustrated that the reservoirs are present, but what we see is the prospectivity for Neon West is that actually there's some seismic support for the presence of hydrocarbons up dip of the Emu-1 well, and they sit tucked in underneath the salt dam very much in the same way as the oil discoveries at Neon and Goia do. And so that answers that one and sorry, what was the other part of the question?

**Gordon Ramsay**

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I'll just add to it? I mean, has there been any discussion about drilling Neon West instead of a Neon appraisal well, or even both, I'm just trying to get a feel for when you might be able to evaluate Neon West in the near future. Would that be subject to the result of Neon appraisal?

**John Steel**

Neon West would be subject to the result of Neon appraisal. So, Neon West is, order of magnitude it's not this, we don't see it as being the same sort of scale as Neon. So it's something which would be an incremental resource into a Neon development.

**Gordon Ramsay**

Okay. Thanks very much, John. Appreciate it.

**Operator**

Thank you. Your next question comes from Mark Samter of MST Marquee, please go ahead.

**Mark Samter, MST Marquee**

Yeah. Morning guys. First question, I guess mainly to you Julian, just following up on the M&A, and I guess the fact that all these questions seem to be focused on M&A at the moment means doubtless when you talk about M&A, every ECM banker in Australia will be calling you up, getting excited and looking at how much they can help you raise some money. I mean, we look at how strong the balance sheet is now and the opportunities that you see, and the fact, like you say you can partner with people, should we think these kind of deals are going to be much more organically funded rather than making bankers rich?

**Julian Fowles**

Thanks for the question, Mark. Look I think there's a number of areas to look at. Obviously, the timing of any M&A is important with respect to how we would fund it. Currently, we've got very strong cashflows.

We also have a debt facility that is clearly committed to the developments that we're going to be doing. But within a very short timeframe, we'll see extremely strong cash flows coming from the result of those near-term work programs. So it does though, depend on the scale and the type of any potential acquisitions that Karoon could get involved in. Not all acquisitions are the same involving, for example, cash up front. Some of them can be more incremental. Some of them can meet certain hurdles and certain timeframes, and some of them can almost be at least partially self-funding, if you're buying into a producing asset, for example. So I think there's a number of different ways to fund M&A. We also see that we've got a larger capacity to raise debts than we've currently raised.

And so even in the short term, we think that that provides additional potential for other routes, other than just going through the equity route, if you like. And although that's one thing that would certainly be on the cards, I think we'll certainly look to try and self-fund what we can, and also use debt sensibly, where we can. And that's part of, of course the reason here for looking at such expansion, is to ensure that we can enable debts, and debt funding costs to come down through time. We've got a good funding facility at the moment, but we think we can see future potential for additional debt that would fund other growth and would come at even more optimal rates.

**Mark Samter**

Got you. Just a follow up questions if I can. I know there's not enormous amount of detail out about at the moment, but the commentary in Brazil about fully privatising Petrobras. So, does that change, (a), how you view the government might be viewing the industry, or (b), opportunities where Petrobras is a fully privatised business, does it divest more assets, and any early line of sight to how you think it could influence things?

**Julian Fowles**

Yeah. I'll touch on that question. First, myself and then throw the subsequent part to Antonio. But I think privatisation of Petrobras has been something that comes and goes into public eye, certainly since ever since I've been involved in Brazil since the early 2000s, I've heard various commentary. I think it doesn't, for me, at least, I don't think that it suggests any lack of interest from the government in the industry. In fact, probably the opposite. Looking to provide and bring in more competitiveness into that environment, I think is a key driver for the government. But as I said, it's sort of come and gone over the years, and I know it's something that's been mooted, but by senior figures in the government at the moment. I'll throw the question to Antonio though, to provide a bit more colour around that and Antonio, maybe you can address it.

**Antonio Guimaraes**

Thanks Julian. I think that, that's a very interesting question because Brazil has lots of those government goals. We are just in the middle of, for the last three or four years, on the privatisation of Eletrobras, our main electricity company, and so far, so many issues have arisen. So when you look into these things, certainly the driver that has been so far, for the debate of privatising Petrobras is only one, the price of gasoline. So with all the effects that that has because of oil price, the devaluation of our currency, the exit of that pressure from the government was to say, "Okay, we are going to privatise Petrobras to solve that problem". If you take most of the analysts that I've been talking to, nobody believes that that's something that's going to happen in the near future, because privatising Petrobras is a major undertaking.

You would need to take into account how that would affect the competitiveness in the market. So to start with, you need to think about splitting Petrobras into so many pieces that it would take forever. So in the foreseeable future, what we believe is going to happen, and no major oil company are betting that they're going to be waiting for the privatisation of Petrobras. So what we can expect, is we are going to have lots of these noises. Certainly, it may take a bit of a political debate in the Congress, but Petrobras will continue their work. They'll continue to divest because at the end of the day, they depend on their divestment program to fund their ongoing operations and that's the only fact that we can say for sure.

**Mark Samter**

Thank you. I'll stop short of Gordon's 27 questions. I'll sneak in a really quick third one if I can. Just on the cost of being net zero this year, I'm presuming the fact that nothing's changed in the gardens; either it was already in there, or it's a pretty immaterial, but on a go forward basis, anything you can tell us about the cost of those offsets?

**Julian Fowles**

Yeah, thanks Mark. It's a good question. We're actually still in the process of finalising what these things will cost us, but they're insignificant, is how I would phrase it. They're not material from the point of view of our income on an annual basis. It's certainly something I think that would barely be seen as a line item, to be honest. We're working pretty hard though, to ensure that that type of cost profile continues. It's one of the reasons that we're keen to try and lock in prices at the moment for a large part of the current operations, carbon emissions. Try and lock that in for quite an extended period through this decade is to ensure that we get the best pricing we can. But the prices are measured in the cents and tens of cents per barrel, effectively. So it's not something which is particularly material to our position.

**Mark Samter**

Perfect. Thanks Julian

**Operator**

Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Adrian Prendergast of Morgans Financial, please go ahead.

**Adrian Prendergast, Morgans Financial**

Yes. Thanks Julian and the team for the helpful briefing this morning. Yeah, I promise just one quick one on M&A, and then I'll come back with another one on ESG. But just interested in how many actual data rooms you're active in, or have been active in so far in towards achieving M&A growth? And in terms of this part of the strategy, what sort of timelines do you think are achievable? Is it something that could be multiyear or do you think it will come on quite quickly?

**Julian Fowles**

Yeah, thanks Adrian. And yeah, I can't really give any specifics in terms of the data rooms that we have been in, or that we are in. We, have a very focused strategy, I think as Martin has outlined in terms of doing an initial screening of potential opportunities, and then going in and digging into more detail where we believe that those have the potential to meet the various hurdles that we have, the various elements that we require to see. We have been in, I guess more than one and, less than five or six, over the last 12 months. But as I said, a very, very focused strategy on what we think, what we believe will really add the most value to our portfolio. Focused on oil, focused on assets that we believe have some significant upside potential, and also assets that we believe it makes sense for Karoon to play a part in.

And, so that focus on the Santos and Campos Basins has been key to that, of course. But yeah, there have been a number of potential opportunities that we've looked at in some detail and we continue to do that today as well. We have a very capable team in Brazil and a very knowledgeable team in Brazil, with a lot of experience in even some of the assets that we've been looking at. Some of our teams have actually worked on those assets in previous lives, if you like. So we do bring some experience to bear in that regard, and can reasonably, efficiently make our decisions to make our minds up about whether something is attractive or not.

**Adrian Prendergast**

Great. Thanks, Julian. And your ESG policy and plans as well is quite impressive. It seems really detailed and well thought out, but just one particular question, just on slide 46, one thing I struggled to understand was the mention of being carbon neutral now, but then also having a net zero 2035 target as well for Scope 1 and 2, for both of those, can you just differentiate what that means?

**Julian Fowles**

Adrian, I will pass that to Jo, who is very much a specialist in this area so that I don't get caught in any deep holes. So Jo, if I can throw that question to you, please.

**Jo Hynes**

Certainly. Thank you, Adrian. Yes, it's an area that has lots of nuance to it if you like. So we do have the two targets as such. So carbon neutral now, as we say, and then Net Zero 2035. So during the presentation, you'll note that I did sort of touch on the fact that as we get closer to 2035, that second element of being carbon neutral on new assets within five years shortens, so that by 2035, any asset that we purchase will need to be carbon neutral from the time of purchase.

The other aspect is too, that we want to make sure that by 2035, if we do still have the need to be purchasing offsets, which hopefully we won't, it's not our expectation, we expect that we would be generating offsets from our own projects by then. But it means that we must specify that those offsets would be removal offsets. So, at the moment we are prepared to include within our portfolio REDD+ projects. And these are primarily the sort of projects that are available in Brazil, but over time there'll be more and more projects and the quality of the offsets will actually improve to the point that they are true removal offsets. And then we'll be able to focus on those by 2035, to make sure that we are properly net zero, not just carbon neutral.

**Julian Fowles**

If I can add to that, Jo, it's a rapidly moving space, Adrian, as I'm sure you'll have gathered. And of course, there's a major conference next week, which I think will further progress some of these elements. The definitions of some of these areas, carbon neutral and net zero, is not widely understood. And even the definitions I think are probably still going through some evolution. So yeah, we're certainly, very keen to continue progressing our sustainability credentials, and taking our responsible approach to our emissions as I think is quite right for a company growing as we are today.

**Adrian Prendergast**

Well, you're off to a great start and I probably don't need to ask any questions about Bauna, it's doing so well. So yeah, congrats on the quarterly as well and, and I'll hand it over.

**Julian Fowles**

Thanks, Adrian.

**Operator**

Thank you. Your next question comes from James Redfern of Bank of America. Please go ahead.

**James Redfern, Bank of America**

Thank you. Good morning, everybody. Or good evening. Maybe a question for John, please. Just in relation to the Neon Oil project, just wondering how you think about the minimum resource, or reserve size required for a standalone FPSO development to ensure the viability of the Neon project? And then I guess another question is, are you comfortable with the sort of technical risk or challenges of a 50 kilometre pipeline, if there was a tie back to the Bauna FPSO? Thank you.

**Julian Fowles**

James. Thanks for that question. I will let John answer most of it. I think in terms of the minimum resource size, it really is dependent upon the type of development itself, of course, and a standalone development involves quite a bit of capex, and does require quite a substantial amount of robustness to reserves figures and resource figures prior to make those sorts of decisions. But John, why don't I throw that question to you, I'm sure you can fill James in with the details.

**John Steel**

Well, I can, to a certain extent, but I also can't to a certain extent. Just because as we discussed, a lot of the studies we're doing, it's a multifaceted study across some subsurface engineering, the financial component also, and all of those kinds of factors come into determining what is a minimum economic pool size. So it's really not something we can put a number on at this stage, but it's something which is a focus and will be an output from the studies that will feed into our decision making.

**Julian Fowles**

I think a really important point to make on top of that though, is that the reason that we're really keen to progress this further is that we do see enormous potential with the Neon area to be a brand new producing hub for, for Karoon. And hopefully we get to the point where we can make a decision on drilling a control well, and that will mitigate the downside risk of course, of trying to make a decision on a final investment for Neon. So, there's a real focus on ensuring that we are risk covered, and that we have the optimal type of development to take forward.

**James Redfern**

Okay, thank you and any capex guidance for the control well that will be drilled at Neon.

**Julian Fowles**

I think we've talked about numbers, which are a little notional at this stage, but yeah, we've said to the market numbers, which are around \$50 million plus, possibly a bit more than that. It really depends on the configuration of the well, and of the exact objectives of what we want to try and achieve. The well hasn't yet gone through or the potential well hasn't yet gone through a detailed engineering phase. So it still has quite a way to go to get the costs finalised. And with the sort of uncertainties that John demonstrated today, where we have a desire to get closer to the salt, to look at some of the deeper objectives, but also a desire to move outboard in the field, to understand the reservoir continuity and distribution further out from the main Echidna-1 penetration. You know, two objectives that can always add to the cost of course. And the detailed work really has to be done on that and we're not yet moving into that phase, but we hope to do that over the next few months.

**James Redfern**

Okay, Julian, thank you. Maybe just one last quick one on M&A if that's okay. So I guess where Karoon is focused on producing, or near producing all assets in the Santos or Campos Basin, and just sort of maybe any indication on potential size that you're looking at; are they sort of similar to Bauna, or larger?

**Julian Fowles**

Yeah, it's a great question, and one that we're constantly evaluating potential opportunities, and size of course, is a major part of that sort of evaluation. We've obviously bought Bauna, and Bauna is a good size for us. That sort of, I'll call it 13-15,000 barrels a day. Something that we've managed, I think very, very successfully, with a number of elements that need to be brought into any future acquisition decision. One of those of course is going to be around operatorship, and if we are in there with a potential other partner, do we want to operate, or is that something that we're comfortable for a partner to operate? We can probably look at slightly larger prospects, if you like, or larger acquisition opportunities as a non-operator, as long as we've got the capacity to fund those. Where we're operator, of course, it will also require ensuring that we've got the right capacity and capability in-house to be able to manage that what would be those new operations for us.

So there's a number of elements that have to come to bear on that. But probably we wouldn't be looking at things that would be significantly smaller than Bauna from a net production point of view to Karoon at the moment. We think that what we've developed so far and the abilities capabilities that we've grown, would sort of point us towards larger, incrementally larger opportunities. And I think that's probably what can also add most value longer term, and provide that longer term sustainability to the oil business as we've talked about previously.

**James Redfern**

No, that's great. Thanks, Julian. Appreciate it.

**Julian Fowles**

No problem.

**Operator**

Thank you. Your next question comes from Daniel Butcher of CLSA please go ahead.

**Daniel Butcher, CLSA**

Hi, Julian and team. You just answered one of my questions about the operatorship, but I had a couple of others, please. Just curious on your oil hedging, it's phrased, as you will enter, 30- 40% in year one, so I'm just curious, will there be straight up swaps, or put options, or some combination of both? And when you think you'll be timing that entry into hedging?

**Julian Fowles**

Yeah. Thanks Daniel. I'll ask Ray to address that question, please.

**Ray Church**

Yeah, sure. There's obviously things are still in negotiation, but it will be a combination of both swaps, and puts, and obviously, as the oil price moves, we're negotiating what is the floor, and what the ceiling is, and when they apply. We simply are waiting a couple of weeks. We just have to finalise the documentation of our reserve-based lending facility and then we'll put this in place immediately after that. I'm just a bit hesitant to give specifics right now because of the volatile nature of oil price, which affect what those limits are and the cost of them. So it'll only be a matter of a couple of weeks and we'll have something in place, but is a combination of the two.

**Daniel Butcher**

Okay. I guess the point is you'll be retaining some oil price upside on that 30- 40%.

**Ray Church**

Yes, we will. That's our intention. And we're obviously trying to, I'd rather not say a whole lot more. I'll give too much away. We are trying to capture as much of the upside that's already visible, and we're looking at ways to leave some of that on the table as well. And of course, we're only doing it on a portion of our production, as you said.

**Julian Fowles**

I think if you look over the next couple of years with the plans as they currently are, something like more than 70% of production will remain unhedged over that period in terms of barrels. So I think that we still retain an enormous exposure to the oil price, and obviously a little bit of mitigation of that from the point of view of the bank's risk in lending as the money. But that level of exposure still will continue through the next few years.

**Daniel Butcher**

Okay, thanks. And just one other one, and apologies, if it's already known, but just on the FPSO- I guess it's common, especially recently to see them negotiate with a much lower rate after a certain amount of reserve is recovered. I'm sort of curious if you can give us some guidance about how that might work, especially the tie in from Neon down the track. Do you have extension options for as long as you need it, and do they have a sort of dropdown rate? Just curious how that works given it's a large proportion of your opex.

**Julian Fowles**

There are dropdown provisions in the contract and some of those kick in next year. The potential tieback of Neon is something which is really, is still at a very early stage of discussion internally. And we really need to look more closely at those plans, and the technical feasibility before we can really enter into longer negotiations with the FPSO owner as an operator. But look, it does I think, provide a very interesting perspective on the maintenance work that we're doing at the moment on the FPSO in terms of establishing and ensuring its long-term viability. That is a key, key focus for us to make sure that we retain that viability through the long term, through to this decade and beyond if possible. It's an FPSO that's been out there since about 2014, and it's already sort of gone through its first flush of life, in now midlife, I guess, in some ways. And we just want to make sure we extend that and ensure its fitness viability for the long term.

**Daniel Butcher**

Okay, thanks. And I might just have ask one quick one on M&A. Would you M&A outside Brazil, or is it purely Campos, Santos Basin in Brazil at the moment?

**Julian Fowles**

Our primary focus is in the Campos and Santos. We don't have an intention to move into a new jurisdiction. We think that there's very good and rich opportunities for us in our current operating environment. And you know, that's really what we're focused on, is looking at that.

**Daniel Butcher**

Alright, thanks very much.

**Operator**

Thank you. There are no more questions from teleconference. I will now hand back to Ann for questions from webcast.

**Ann Diamant**

Hi, everyone. That there are a couple of questions on the webcast. The first one is, what's the expected downtime for Bauna once the intervention work kicks off, and are all the four producing wells to be turned off at the same time?

**Julian Fowles**

Yeah, that's a good question. Very operational. And I think probably Abi can best respond to that one in terms of how things will work during the intervention program. So Abi, over to you, I think.

**Ricardo Abi-Ramia**

Yes, well, thank you for the question. It's reflected on the production curve that we forecast for next year. But if I understood the question, of course, there are two things that the time of the facility we will be there. We don't have to stop production during the interventions. What is going to happen, is that during the intervention in a specific well, the production of that well will be out, but the others will be producing and it's reflected there. And it's depending on the well that we'll be intervening. One well can take around 30 days that you will consider that that well will be out of production. But keep in mind that the others will be... And of course, after we finish the intervention, we will have that enhancement on the production that I presented during the presentation. Did I answer your question?

**Ann Diamant**

Yes, I think that answers it. Thanks, Abi. There's actually another question about the Bauna field. How does the company monitor Bauna and Piracaba for any unswept zones? Is there a plan to acquire new 3D or 4D seismic to fine tune the subsurface profile, to identify potentially additional oil in place?

**Julian Fowles**

Yeah. Thanks Anne. I think probably Martin can start with answering that question in terms of how we monitor the field, and what our plans are there. So Martin, why don't you tackle that one.

**Martin Austgulen**

Sure. So thanks for the question. Firstly, we have a rigorous production monitoring system in place monitoring the wells behaviour on a day-to-day basis, on rates, pressures, and everything else that we can observe from the fluids coming out of the field. In terms of identifying any future upside opportunities over the last 12 months, reprocess the seismic with the latest, technology from PGS. Those results are currently being incorporated into a new reservoir modelling, where we hope to have an updated view of the geological model, and the simulation models sometime early next year. So far, what we can see from the reprocessed seismic, is that we've significantly increased the resolution that we can see in the reservoirs. And we hope that this will help us get even more accurate reservoir models that will be predictive. And based on that, we will evaluate whether there's space for any additional IOR opportunities, whether that's new wells or other reservoir management actions.

**Ann Diamant**

Thanks, Martin. The next question is, what are your plans for WA-482-P in Australia?

**Julian Fowles**

Yeah. Thanks Ann, I'll talk a bit about that. 482-P is an offshore block operated by Santos in which Karoon has a 50% share. We're going through a technical evaluation stage in that block at the moment. And we've identified a number of areas of prospectivity, potentially oil, as well as gas prospectivity in that area. We'll continue with that work with the operator until we can get to a decision point on whether we would like to progress the block itself through a potential farm down, or whether we're simply going to enter into the next phase of activity in that block. So it's still going through a very detailed technical evaluation phase at the moment, with the operator and ourselves.

**Ann Diamant**

That's great, Julian. Thanks. The next question is, is there still an Origin payment on the table from Poseidon? Bit of an historical one.

**Julian Fowles**

That's a good question. I think actually Origin has written down their Poseidon purchase. I might be wrong with that, but I think they've written it down. Yes. Under certain circumstances should Poseidon reach FID, there are certain payments that Origin would be obliged to make Karoon. And I think there's also a production timetable around further payments that potentially could come on a Poseidon development as well. So I think there are a number of milestone payments that have the potential to come from a Poseidon development, as I said.

**Ann Diamant**

Great. Thanks, Julian. The next question is, will you start paying dividends or is all the money going to be invested elsewhere? I think a fairly interesting one.

**Julian Fowles**

Yeah. I tried to cover this really in one or two of the slides where I talked about our capital priorities, and the board is determined at the moment that our key areas for investment are really in Bauna, in ensuring that we execute the interventions, and also in ensuring that we deliver the Patola development on time and on budget. That's what's really going to take our cashflow at the moment. Of course, looking beyond that we will at all times, make sure that we weigh up the benefits of further production opportunities that we may enter, whether those be organic or inorganic opportunities, we'll weigh those up relative to the potential return of funds to shareholders at some stage. And at the moment, that work of course, is something that we see in the future, but certainly it's front of mind, and it's something which is raised during our board meetings regularly, is our plans for that. But at the moment, in the short term, our immediate plans are to reinvest our operating cash flow into the near-term growth opportunities that we have.

**Ann Diamant**

Great. Thanks Julian. And the final question from the webcast, are you planning to switch to reporting on a calendar year basis at any time? That might be one for Ray.

**Julian Fowles**

Yeah, I think I'll swing that one to Ray. Maybe there's perhaps some aspirations there, as well as perhaps the earliest stage of some plans. So yeah, maybe Ray...

**Ray Church**

Happy to help. So I've started some dialogue. There is obviously advantages in moving to a December year end that lines up with Brazilian tax obligations for potential partners if we have some in the future, and it just lightens the load of two year ends, and lines things up. So it also helps of course, with peer comparison. So it's a discussion that I've opened internally, and with at least one of the board members. So that's the discussion we have to have with the board, but if we did it, I would plan to do it at the end of next calendar year with that change. Subject of course, to all the input from our board.

**Ann Diamant**

Thanks Ray.

**Julian Fowles**

It's not something that we've discussed in any detail with the board, at the moment, but it is an idea which is something that we're trying to flesh out a little bit and understand what its advantages would be, but it has to go through quite some significant internal dialogue first, before we can fully understand the implications and the timeframe for that as well.

**Ann Diamant**

Thanks everyone. There are no further questions from the webcast.

**Julian Fowles**

Well, thank you very much. I think then it probably just remains for me to say thank you to everyone, to all of our presenters, as I've said, previously, keeping on time is no mean feat, even in this day of technology enabled Zoom cast and all the rest of it. But congratulations, everyone for that. I do hope that investors have got a lot out of the presentation today. If there are any questions that remain, please don't hesitate to come back to Ann, and we'll make sure that we get responses to you. And I'd also like to thank our webcast organisers, BRR for setting things up for us today and enabling the webcast and the teleconference. So, thank you very much to everyone, and I look forward to updating you more in the future.