



DECEMBER 2022 QUARTERLY ACTIVITIES REPORT

24 January 2023 | ASX: KAR

HIGHLIGHTS

- Oil production in the 2022 December quarter from the Baúna Field in the Santos Basin, Brazil was 2.08 million barrels (MMbbl), produced at an average rate of 22,638 barrels of oil per day (bopd). This was 62% higher than in the September quarter and took total production for the first half of FY2023 to 3.37 MMbbl. Production benefited from the successful Baúna intervention campaign.
 - Oil sales for the quarter were 1.95 MMbbl, up from 1.46 MMbbl in the September quarter, with four cargoes lifted during the period, compared to three in the prior quarter. The average net realised oil price of US\$81.74/bbl was 15% lower than in the prior quarter, in line with the decline in global oil prices.
 - Oil sales revenue from the cargoes lifted was US\$159.2 million, while cash receipts from oil sales were US\$121.4 million, with proceeds from the two December cargoes received in early CY2023. Total oil sales revenue for the first half of FY2023 was US\$299.4 million.
 - During the quarter, two Patola development wells, PAT-1 and PAT-2, were drilled and completed, as planned. Both wells encountered the Patola reservoir at a top depth close to prognosis, with better reservoir than expected (see ASX release dated 21 November 2022). The Patola field is targeted to come onstream towards the end of the first quarter of CY2023.
 - Following the receipt of regulatory approvals on 18 January 2023, the Noble Developer drilling rig was mobilised to Block S-M-1037 to drill up to two control wells on the Neon oil discovery. Neon-1 commenced drilling on 23 January.
 - Karoon has recently completed a Reserves and Resources Update for the Baúna concession, which has been certified by independent reserves expert, AGR Energy Services. 2P reserves at the end of December 2022 were 55.0 MMbbl, up 23% from 44.8 MMbbl at 30 June 2022, while 4.2 MMbbl of 2C contingent resources have been removed (see ASX release dated 23 January 2023 for full details).
 - Three recordable incidents, comprising one Lost Time Incident (LTI), and two Medical Treatment Injuries, were recorded during the quarter. There were no significant environmental incidents.
 - Cash and cash equivalents at 31 December 2022 were US\$163.2 million and total liquidity (including US\$180.0 million of undrawn and available debt) was US\$343.2 million. Capital expenditures on the Baúna intervention campaign and Patola development were funded from cash and cash flow, with no drawdowns made from Karoon's debt facility during the quarter.
 - While production guidance is unchanged, forecasts for Unit Production Costs, Other Operating Costs, Unit Depreciation, Depletion and Amortisation (DD&A) and capital costs for the Baúna intervention and Patola Project have been reduced (refer to page 8 for details).
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Karooon Chief Executive Officer and Managing Director, Dr Julian Fowles, said:

“Oil production of just over two million barrels in the December 2022 quarter was a record for Karoon and reflected the very successful Baúna intervention campaign. Production immediately following the interventions in three wells peaked at more than 25,000 bopd, compared to approximately 12,600 bopd prior to the program, with the production rate currently at approximately 21,800 bopd. We are pleased with the results to date, the culmination of much work by our technical, operational and commercial teams in Brazil and Australia as well as our service providers.

Four cargoes were lifted during the quarter, including two in December, the first time that Karoon has had multiple liftings in one month. Oil prices declined over the period, resulting in an average realised oil price for the FY2023 half year of US\$87.86/bbl, compared to more than US\$100/bbl in the prior half. Nonetheless, oil sales revenue for the first half of FY2023 was just under US\$300 million, the highest half-year operational revenue achieved in Karoon’s history.

The Patola development made good progress during the quarter. Both Patola development wells have now been drilled and completed, with installation of the remaining sub-sea infrastructure expected to commence shortly. Patola is targeted to be brought onstream by the end of the first quarter of CY2023 and is expected to add more than 10,000 bopd to production prior to natural decline.

Following receipt of the relevant regulatory approvals last week, Neon-1, the first of up to two control wells on the Neon oil discovery, has commenced drilling. The Neon wells are aimed at reducing uncertainty on our Neon resource estimates and establishing a pathway towards the potential development of Neon. The fourth and final intervention in the Baúna program, BAN-1, will be undertaken at a later date.

As announced yesterday, we have recently completed a BM-S-40 Reserves and Resources update. Incorporating over two years of production history since Karoon took over operatorship of Baúna, the excellent results from the Baúna intervention campaign, and the better than expected reservoir at Patola, 2P reserves have increased 23%, from 44.8 MMbbl at the end of June 2022 to 55.0 MMbbl at the end of December 2022. Based on these revisions, the conversion of the Patola Project contingent resources into reserves and total production of 11.2 MMbbl between taking over operatorship of Baúna in November 2020 and 31 December 2022, Karoon has achieved a 2P reserves replacement of 259%. This is a very pleasing result and highlights the quality of the Baúna asset.

Following a review of expected costs in FY2023, Unit Production Costs, Other Operating Costs and Unit DD&A have been reduced. In addition, Baúna intervention and Patola Project costs for FY2023 are expected to be lower than previously forecast, at US\$200-220 million. Finance costs associated with Karoon’s abandonment obligations have increased due to an increase in the US federal bond rate, though it should be noted that this is a non-cash adjustment.

We continued to actively screen potential acquisition opportunities during the quarter, using a rigorous and disciplined screening process, with a focus on oil assets located in Brazil and the Americas. Our key requirements, that any acquisition must be value accretive and enhance returns to shareholders, remain unchanged.

Last but by no means least, although our environmental performance has been good during the quarter, the occurrence of an LTI and two Medical Treatment Incidents during the quarter highlights that our safety performance can be improved and is an ongoing focus for senior management, our operations teams and our contractors.”

Karooon’s FY2023 half year results are planned to be reported to the ASX on Wednesday 22 February 2023.

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PRODUCTION SUMMARY

BAÚNA FIELD (BM-S-40, SANTOS BASIN, BRAZIL – 100% EQUITY INTEREST, OPERATOR)

KEY DATA	Dec Quarter 2022	Sept Quarter 2022	% change	1H2023 ¹
Production rate ('000 bopd)	22.64	14.00	+62	18.33
Production volume (MMbbl)	2.08	1.29	+62	3.37
Sales volume (MMbbl)	1.95	1.46	+34	3.41
Weighted average net realised price (US\$/bbl)	81.74	96.02	-15	87.86
Oil sales revenue (US\$ million)	159.2	140.2	+14	299.4
Oil sales cash proceeds (US\$ million)	121.4	155.3	-22	276.7
Capital expenditure (US\$ million)	80.0	61.3	+31	141.3
Closing cash and cash equivalents (US\$ million)	163.2	181.8	-10	163.2
Closing debt (US\$ million)	30.0	30.0	-	30.0
Closing net cash and cash equivalents (US\$ million) ²	133.2	151.8	-12	133.2
Undrawn debt (US\$ million)	180.0	180.0	-	180.0
Lost time injury rate (incidents/200,000 hours)	0.38	0	na	0.19
Total recordable incident rate (Incidents/200,000 hours)	1.14	0.40	+185	0.77

1. First half of fiscal year to 30 June 2023

2. Net of drawn debt.

Total Baúna oil production during the December 2022 quarter was 2.08 MMbbl, produced at an average rate of 22,638 bopd. The 62% production increase relative to the September quarter reflected the successful installation of new ESPs in wells PRA-2 and SPS-92, and gas lift in well SPS-56. The strong result was achieved despite lower uptime at the FPSO, of 96% compared to 99% in the prior quarter, mainly due to one-off events in the FPSO compressor system.

Four cargoes were lifted during the period, totalling 1.95 MMbbl, compared to three cargoes in the September quarter, with the cargoes sold to refineries in North and South America. The average realised oil price, net of selling expenses, was US\$81.74/bbl, 15% lower than in the prior period. Oil revenue generated from the cargoes shipped was US\$159.2 million, while oil receipts for the quarter were US\$121.4 million. This included the proceeds from three cargoes, with funds from the two December cargoes received in January 2023.

An LTI was reported in October 2022 when a contractor incurred a finger injury requiring surgery while on the FPSO. In addition, two Medical Treatment Injuries were reported in the quarter, one a minor back strain and the other a tripping incident that resulted in a cut requiring three stitches. All these incidents have been investigated and Karoon is working with staff and contractors to continuously improve the safety culture in all activities as well as identify lessons learned from incidents. There were no significant environmental incidents during the period.

Production data relating to Baúna can be found in monthly newsletters produced (in Portuguese) by the ANP and on the ANP's dynamic panel of oil and gas production, both of which can be accessed via the ANP's website at <http://www.anp.gov.br>. Note the recording of data on the site was temporarily suspended in August 2022 but has since resumed.

BAÚNA INTERVENTION AND PATOLA DEVELOPMENT

Following the receipt of final environmental approvals in September 2022, during the December quarter, the two Patola development wells, PAT-1 and PAT-2, were drilled. Completion activities on both wells were finalised shortly after the end of the quarter, with subsea Christmas trees now installed on each wellhead.

The installation of the remaining sub-sea infrastructure, including a pipeline and umbilicals from Patola to the Cidade de Itajaí FPSO, is expected to commence in early February, on arrival of the pipeline laying vessel. Once complete, the wells will be tied into existing riser slots on the FPSO. Modifications to the FPSO pipework required to tie the wells into the main production stream are underway. First production from Patola is targeted to commence by the end of the first quarter of CY2023.

The final Baúna intervention on BAN-1, which comprises re-opening a lower zone in the well that had previously been in production, has been deferred. This will be undertaken either with the Noble Developer drilling rig or potentially a different intervention vessel.

CORPORATE AND COMMERCIAL SUMMARY

CASH FLOWS AND LIQUIDITY

During the December 2022 quarter, Karoon received cash proceeds of US\$121.4 million from the September, October and November 2022 cargoes. Proceeds from the two December 2022 cargoes were received in January 2023.

During the quarter, major cash expenditures included the following:

- US\$43.4 million related to Baúna production costs, including US\$14.9 million in royalty payments and US\$13.9 million spent on FPSO lease charter payments.
- US\$77.2 million spent on property, plant and equipment, comprising US\$75.6 million on the Baúna interventions and Patola development, and US\$1.6 million on tools and other CAPEX.
- US\$8.6 million of Brazilian income tax instalments (which included US\$1.7 million of social investments made in lieu of tax, in line with Brazilian legislation).

At 31 December 2022, Karoon's total liquidity was US\$343.2 million, comprising US\$163.2 million in cash and cash equivalents and US\$180 million in undrawn available debt.

US\$21.2 million was placed into an escrow account for the Petrobras contingent consideration payment during the quarter, taking total funds in escrow to US\$84.9 million. A payment of approximately US\$85 million will be paid to Petrobras at the end of January 2023.

DEBT FACILITY

Due to the strong cash flow generated from operations, no additional debt was drawn from Karoon's US\$210 million debt facility during the quarter. Total outstanding debt as at 31 December 2022 was US\$30 million, with US\$180 million of the facility undrawn and available, unchanged from the end of September.

HEDGING

During the quarter, 690,000 bought Asian put options and 670,320 sold Asian call options expired. Karoon paid US\$4.1 million on the expiring sold call options during the quarter. In addition, US\$0.4 million was paid in October relating to September settlements.

Approximately 33% of the quarter's production was hedged and 67% unhedged.

No additional oil hedges were entered into during the quarter. Hedge volumes will be revisited during the March 2023 quarter as part of the semi-annual redetermination process, as required under the debt facility.

REDUCTION IN ROYALTY RATE, STATE PARTICIPATION AND R&D LEVIES COMMENCE

The application of a reduced royalty rate for incremental production resulting from the Baúna intervention program commenced in October 2022¹. However, due to the increase in oil production rates, Special Participation and Research & Development levies were applicable to December 2022 quarter revenues, in line with the Brazilian oil and gas taxation regime².

RESERVES AND RESOURCES REVIEW

Work to incorporate reprocessed seismic, reservoir modelling and dynamic simulation work on Baúna with recent production history and information from the Baúna intervention campaign and Patola drilling was completed during the quarter.

As a result, Proved (1P), Proved and Probable (2P) and Proved, Probable and Possible (3P) Reserves as at 31 December 2022 have increased by 6.3 MMbbl (+17%), 10.2 MMbbl (+23%) and 4.0 MMbbl (+7%) respectively when compared to 30 June 2022.

Contingent 1C, 2C and 3C Resources have been reduced by 1.9 MMbbl, 4.2 MMbbl and 8.3 MMbbl, respectively, reflecting the removal of Contingent Resources at the SPS-57 Baúna well, due to a lack of certainty about the commerciality of these resources. No other changes to Contingent Resources have been made. Please see the ASX release on 23 January 2023 for full details.

SUSTAINABILITY

Due to efficiency savings in operations and a slightly later than anticipated commencement date of the Baúna intervention activities, Karoon's actual Scope 1 and 2 greenhouse gas (GHG) emissions for FY2022 were significantly lower than originally forecast. The final figure was within the amount of verified emission reduction units (VERs) committed for purchase under Karoon's VER Agreement with Shell Western Supply and Trading, such that Karoon's Scope 1 and 2 GHG emissions from FY2022 will be fully offset by the purchase under this agreement. Consequently, no spot purchases of carbon credits were made during the quarter.

Karoon's commitment to community investment is one of the five pillars of our sustainability strategy and draws on each of our core Company values of safety, respect, integrity, commitment and collaboration. In December 2022, the Company committed to 16 new projects, all of which take advantage of government incentives to sponsor institutions that provide support for children and the elderly. Karoon's sponsorships were paid in December 2022 and activities will commence in the first quarter of CY2023. They cover a range of projects, including access to sporting programs for vulnerable children, young adults and people living with a disability and training for their carers, the provision of equipment in local hospitals treating cancer patients, providing education and training for young adults entering the music industry, and educational opportunities for children and young people through music and theatre education.

¹ Under the agreement signed in the September 2022 quarter with the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP), reduced royalty rates will apply to incremental production from the Baúna, Piracaba and Patola fields resulting from the investments in the Baúna interventions and Patola development. The historical 10% royalty rate continues to apply to ANP's base production profile, which assumes an oil production rate pre-investment of approximately 11,100 bopd and a FY2023 production decline of approximately 12% pa. For any incremental production resulting from the Baúna intervention program and Patola development up to 50% higher than the base production profile, the royalty rate is 7.5%. This reduces to 5% for any incremental production more than 50% above the base production profile. These royalty rates are applied to notional produced revenue (production x published ANP reference price) and not accounting revenue.

² Once production from Baúna, Piracaba and Patola is above 300,000 m³/quarter (approximately 21,000 boepd), a Special Participation (SP) levy and a Research & Development levy (R&D) will be incurred. The SP will be levied at a rate of 10% on the net of notional produced revenue (production x published ANP reference price) less allowable deductions generated from production above approximately 21,000 boepd. The R&D levy will be levied at 1% of gross notional produced revenue (not only the increment) for the quarters where SP is due. As with current royalties, both the SP and R&D levies are tax deductible.

EXPLORATION, APPRAISAL AND POTENTIAL DEVELOPMENT UPDATE, BRAZIL

SANTOS BASIN, BLOCKS S-M-1037, S-M-1101 (100% EQUITY INTEREST, OPERATOR)

During the quarter, planning for the Neon control drilling program was brought to near final status. Engagement with service providers relating to all operational aspects of the program was undertaken during the quarter, to ensure the primary objectives of the campaign (to confirm the reservoir quality, continuity and extent, and to delineate field oil:water contacts) are met in a safe and efficient manner. The definition of the post-well studies program, including identification of potential third party specialist resources, was also progressed.

Shortly after the end of the quarter, required regulatory approvals for the planned Neon drilling program were received and the Noble Developer drilling rig mobilised to site. The drilling program will comprise up to two wells, 9-Neo-1-SPS (informally Neon-1) and, contingent on Neon-1 meeting minimum success criteria, 9-Neo-2D-SPS (informally Neon-2). Neon-1 was spudded on 23 January. Both wells are aimed at bringing a greater degree of calibration and confidence in the resource estimates and establishing the production well paths required for a potential Neon development.

SANTOS BASIN, BLOCK S-M-1537 (100% EQUITY INTEREST, OPERATOR)

Desktop geological and geophysical studies on the Clorita prospect in S-M-1537 continued during the quarter.

SCHEDULE OF INTERESTS IN PETROLEUM TENEMENTS

Held by Karoon Energy Ltd Group at 31 December 2022

Exploration Permit/ Block	Basin	Operator	% equity interest held
Concession BM-S-40	Santos, Brazil	Karoon	100
Block S-M-1037	Santos, Brazil	Karoon	100
Block S-M-1101	Santos, Brazil	Karoon	100
Block S-M-1537	Santos, Brazil	Karoon	100

GUIDANCE FOR 1H AND FY2023

While full year production guidance for FY2023 remains unchanged, forecast full year Unit Production Costs have been reduced, reflecting operational efficiencies, procurement gains and timing of costs associated with higher production levels. First half Unit Production Costs are expected to be towards the upper end of the revised full year range, with unit costs forecast to fall in the second half, due to rising production (a full half of the Baúna interventions and commencement of Patola production).

Full year Other Operating Costs are also expected to be lower than previously anticipated, primarily due to lower corporate costs, with Other Operating Costs in the first half forecast to be between US\$10 – 11 million. First half Business Development, share-based payments and Neon studies are expected to be US\$5 – 6 million, with full year forecasts unchanged. Finance costs, including facility fees and interest, of US\$3 – 4 million are anticipated in the first half, with the full year guidance impacted by increases in the provision for restoration following the inclusion of Patola obligations and discount unwinding affected by an increase in the benchmark discount rate (all non-cash).

Expected Unit DD&A charges for the full year have declined, reflecting the recently announced increase in reserves, partly offset by a higher amortising cost base. In addition, the Baúna intervention and Patola Projects costs for FY2023 have been revised down, to US\$200-220 million.

The costs outlined above exclude government royalties, foreign exchange gains/losses, donations in lieu of tax and the impact of hedging.

Karoon's financial results for the half year to 31 December 2022 will be released to the market on Wednesday 22 February 2023.

Full Year FY2023 Guidance	FY2022 Actual	FY2023 Guidance at 27/10/22	FY2023 Guidance at 24/1/23
PRODUCTION (MMBBL)	4.64	7.5 - 9.0	7.5 - 9.0
COSTS			
Unit Production Costs (US\$/bbl) ²	25.36	15 - 20	13 - 17
Other Operating Costs (US\$ million) ³	16.0	23 - 25	19 - 23
Business Development, share-based payments & Neon studies (US\$ million)	12.4	12-14	12 - 14
Finance costs and interest (US\$ million) ⁴	5.8	7 - 8	9 - 10.5
Unit DD&A (US\$/bbl) ⁵	12.0	13 - 15	12 - 14
Revaluation of Petrobras contingent consideration ⁶	227.1	-	-
INVESTMENT EXPENDITURE (US\$ MILLION)			
Intervention and Patola Projects	92.0	205 - 240	200 - 220
Neon evaluation	-	65 - 75	65 - 75
Deferred Baúna acquisition firm consideration ⁷	25.36	-	-
Petrobras contingent consideration ⁸	16.0	85 - 86	85
Other Plant and Equipment	5.0	9 - 11	4- 8

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

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

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

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

5. Excludes depreciation on FPSO right-of-use asset capitalised under AASB 16 'Leases', which is included as part of Unit Production Costs.

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

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

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

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

Forward-looking statements

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

Oil and gas reserves and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates that were valid when originally calculated may alter significantly due to new information or when new techniques become available. Additionally, by their nature, reserves and resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further data becomes available through, for instance, production, the estimates are likely to change. This may result in alterations to production plans, which may in turn, impact the Company's operations. Reserves and resource estimates are by nature forward looking statements and are the subject of the same risks as other forward-looking statements.

This announcement may contain certain "forward-looking statements" with respect to the financial condition, results of operations and business of Karoon and certain plans and objectives of the management of Karoon. Forward-looking statements can generally be identified by words such as 'may', 'could', 'believes', 'plan', 'will', 'likely', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties, which may include, but are not limited to, the outcome and effects of the subject matter of this announcement. Indications of, and guidance on, future earnings and financial position and performance, well drilling programs and drilling plans, estimates of reserves and contingent resources and information on future production are also forward-looking statements.

You are cautioned not to place undue reliance on forward-looking statements as actual outcomes may differ materially from forward-looking statements. Any forward-looking statements, opinions and estimates provided in this announcement necessarily involve uncertainties, assumptions, contingencies and other factors, and unknown risks may arise (including, without limitation, in respect of imprecise reserve and resource estimates, changes in project schedules, operating and reservoir performance, the effects of weather and climate change, the results of exploration and development drilling, demand for oil, commercial negotiations and other technical and economic factors) many of which are outside the control of Karoon. Such statements may cause the actual results or performance of Karoon to be materially different from any future results or performance expressed or implied by such forward-looking statements. Forward-looking statements including, without limitation, guidance on future plans, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Such forward-looking statements speak only as of the date of this announcement. Karoon disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

ABOUT KAROON ENERGY LTD

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

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