20 September 2021

Company Announcements Office
ASX Limited

Dear Sir / Madam

Annual Report 2021

In accordance with the ASX Listing Rules, Karoon Energy Ltd releases its 2021 Annual Report to the market.

This announcement has been authorised by the Board of Directors.

Yours faithfully

Nick Kennedy
Company Secretary

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A New Era

Annual Report 2021

Karoon Energy

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FPSO, Cidade de Itajaí

In November 2020, Karoon completed the acquisition of a 100% operating interest in the BM-S-40 concession in the Santos Basin of Brazil, which contains the Baúna oil field. This has transformed Karoon from an explorer to an operating oil producer, with exposure to the exciting Brazilian oil sector.

Karoon has restructured its Board and management teams in Brazil and Australia, to ensure that the Company has the relevant skills and experience to deliver safe, reliable and sustainable operations, and drive Karoon's growth ambitions.

Karoon's highest priority is the health, safety and wellbeing of its staff and contractors, and the communities where we operate. Despite COVID-19's impact on Brazil, the Company's strict COVID protocols have kept our people safe.

A Strategic Refresh, to guide the Company's corporate strategy and key objectives for the next five years and beyond, is nearing completion. The strategy refresh work considered operational and financial issues, such as achieving operational excellence, assessing organic and inorganic growth opportunities, and optimising capital management, as well as oil industry and host country market dynamics.

In addition, a major focus of the Refresh has been on Karoon's environmental, social and governance practises. In particular, Karoon recognises societal and investor expectations for oil and gas companies to play a key role in the pathway to net zero carbon emissions. The Company is developing a comprehensive sustainability strategy as part of the Refresh.

FY2021 Operating and Financial Highlights

Total oil production

3.14 MMbbl

from 7 November 2020 to 30 June 2021

Average realised oil price

US$59/bbl

Oil Sales Revenue

US$170.8 million

Operating Cash Flow

US$29.8 million

Net profit after tax

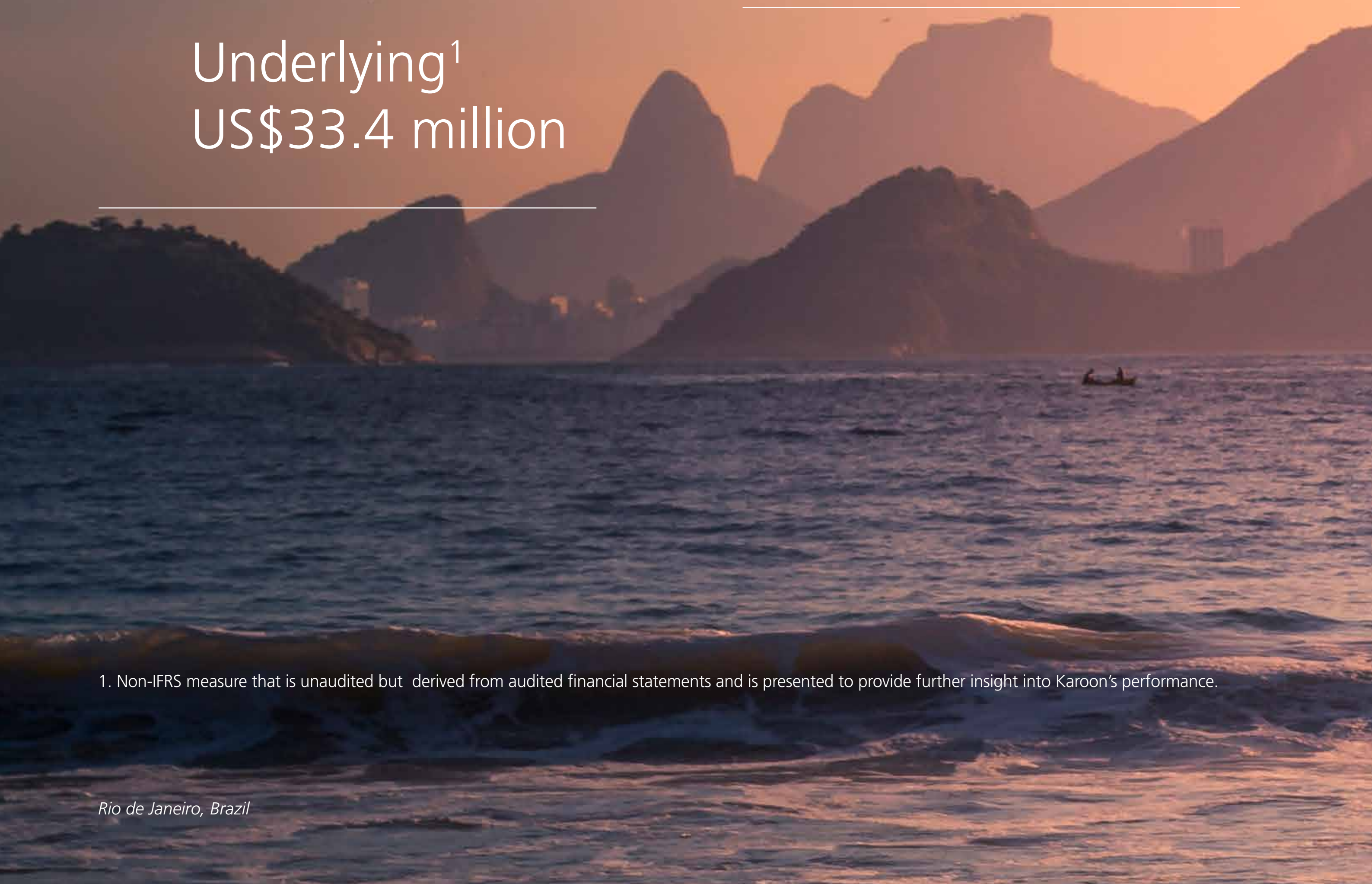
Reported
US$4.4 million

Underlying[1]
US$33.4 million

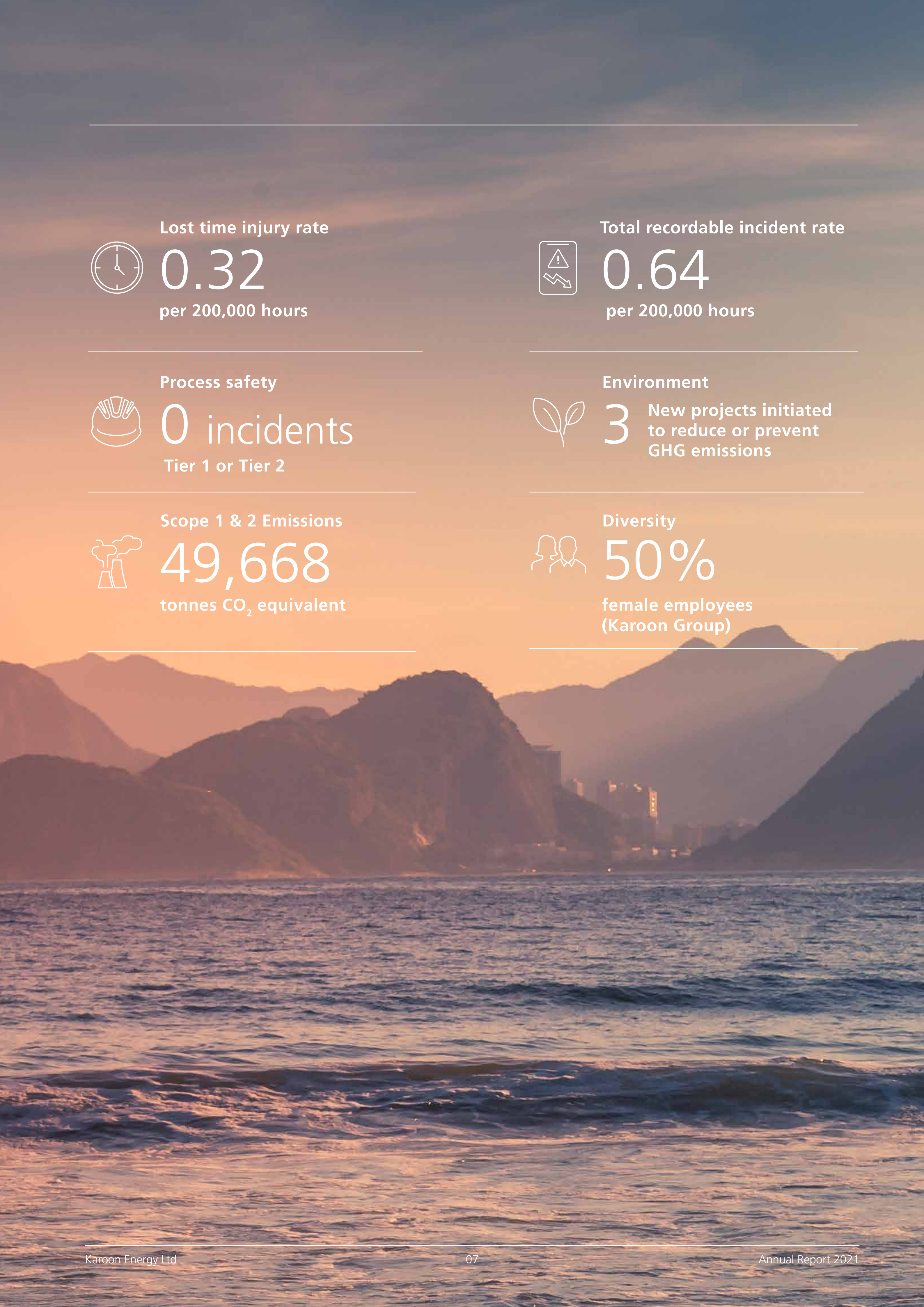
Cash at 30 June 2021

US$133.2 million

1. Non-IFRS measure that is unaudited but derived from audited financial statements and is presented to provide further insight into Karoon's performance.



Rio de Janeiro, Brazil



Lost time injury rate

0.32

per 200,000 hours

Total recordable incident rate

0.64

per 200,000 hours

Process safety

0 incidents

Tier 1 or Tier 2

Environment

3 New projects initiated to reduce or prevent GHG emissions

Scope 1 & 2 Emissions

49,668

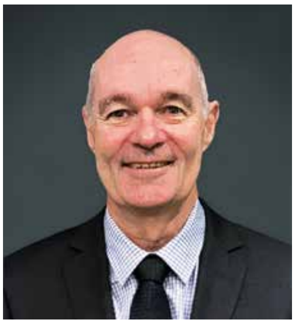
tonnes CO_2 equivalent

Diversity

50%

female employees (Karoon Group)

Chairman & CEO's Report



Bruce Phillips
Chairman

Julian Fowles
Chief Executive Officer
and Managing Director

Our team has been successful in mitigating the impacts of COVID-19 by adopting flexible work arrangements and actively managing risks.

The 2021 financial year was one of the most significant years in Karoon's 17-year history. Following the acquisition of the Baúna oil field in Brazil in November 2020, the Company has now entered a new era as a material oil producer and operator.

As well as a high-quality production asset, the purchase has provided Karoon with value-accretive brownfield production growth opportunities, with the Baúna intervention program and Patola field development both sanctioned during the year.

It was also a year of substantial change in the Board and management team, including the retirement of our Founder and Managing Director, Robert (Bob) Hosking and the appointment of new Chief Executive Officer and Managing Director, Dr Julian Fowles. Together with an organisational restructure and several highly experienced senior management appointments, we are confident we have the necessary skills and capabilities to support our production, development and growth aspirations.

Karoon's transformation has been delivered against a backdrop of the unprecedented global COVID-19 pandemic, which continues to cause significant hardship for many of our staff and contractors, as well as disruption to normal operational practices. By adopting a high degree of flexibility in work arrangements and active management of the associated risk to personnel and operations, our team has been successful in mitigating the potential impacts of COVID-19. While Karoon managed a number of COVID-19 cases in the Baúna operations and among our administrative staff in Brazil during the reporting period, our employees and contractors were kept safe and production was not impacted.

On a more positive note, the macro-oil environment has been very supportive. The oil price increased from approximately US$45/bbl at the beginning of the year to more than US$75/bbl by the end of June 2021, reflecting a recovery in oil demand as the global impacts of COVID-19 eased, combined with supply constraints implemented by OPEC+. This has had a positive impact on cash flows generated from operations, leading to a material strengthening in our balance sheet over the period.

Delivery of core strategic goals

In last year's Annual Report, we outlined our three-pillar strategy to build a global exploration and production company, with long term production and a prospective exploration portfolio to provide a platform for growth.

The first pillar was to secure a quality production asset. On 6 November 2020, after successfully agreeing adjusted consideration terms, we completed the acquisition of the BM-S-40 Concession in the Santos Basin, offshore Brazil, from Petrobras S.A. This purchase, which includes the producing Baúna oil field and nearby Patola discovery, has transformed Karoon from a pure exploration company into one of the largest oil producers on the ASX, with material cash flows from operations.

The second pillar of Karoon's strategy was to realise value from development projects. Within five months of gaining control of the Baúna assets, the Karoon Board endorsed plans to conduct workovers in four of the six producing wells in BM-S-40. Two months later, a final investment decision was taken to proceed with the development of the Patola project.

Two major contracts were signed to support these projects:

- After an actively bid competitive tender, the Maersk Developer rig was contracted for the Baúna workovers and to drill the Patola development wells, with an option to extend the contract for the potential drilling of a control well on the Neon light oil discovery.
- An integrated Engineering, Procurement, Construction and Installation contract was signed with TechnipFMC for the design, manufacture and installation of the subsea infrastructure associated with the Patola development.

Project delivery teams have been formed with a focus on safely completing the Baúna intervention and Patola projects on time and on budget, with clear project, corporate governance and risk management processes. Project execution, including the remaining contract tenders and contract awards process, is now well underway.

Together, the Baúna interventions and Patola development are expected to add 15,000 – 20,000 bopd by early 2023, more than doubling current production before natural decline resumes. The total future capital commitment for these projects is approximately US$300 million, representing a major investment in our heartland of Brazil.

These approvals followed substantial analysis and due diligence by our operational, technical, project planning, financial and commercial staff in Brazil and Australia, and by independent advisers and financiers.

Progress was also made on maturing and optimising the potential development of the Neon discovery, with a thorough subsurface, engineering and economic review of the previous development concept initiated in March 2021. This has resulted in encouraging alternatives which are being further evaluated. This work is expected to be completed towards the end of calendar 2021, which will lead to a decision in early calendar 2022 on whether to drill a Neon control well using the Maersk Developer rig.

Karoon's Brazilian assets are all located in the offshore Santos Basin, Brazil's prolific and premier petroleum province. These include a 100% interest in concession BM-S-40, which contains the producing Baúna and Piracaba light oil fields and the undeveloped Patola field, the nearby Neon and Goiá oil discoveries and exploration block S-M-1537. Karoon also manages major infrastructure onshore and offshore Brazil.

Karoon head office, Melbourne, Australia

Work on the final pillar, to target strategic growth opportunities, is ongoing. Baúna has created a strong platform to support Karoon's growth aspirations, with the opportunity to leverage the Company's infrastructure base in Brazil, a country where the investment fundamentals are highly attractive.

Strategy Refresh underway, with a focus on long term sustainability and providing attractive returns to shareholders

Having completed our transformation into an oil producer, in April 2021, a Strategic Refresh commenced, aimed at updating Karoon's corporate strategy and our key objectives for the next five years and beyond. Our goal is to create a sustainable oil business, anchored by our current Brazilian producing assets and projects under development, which delivers strong returns for our shareholders.

The Refresh has considered the Company's operational and financial objectives, such as achieving operational excellence and optimising capital management, as well as evaluating organic and inorganic growth options. In addition, a major component of the Refresh has been on what is required to be a responsible operator, with an emphasis on our approach to the communities where we operate and managing our carbon footprint. Considering the accelerating global energy transition, we recognise the challenges facing the oil and gas industry. To ensure we have a sustainable business as the world transitions to lower carbon energy, management of our greenhouse gas (GHG) footprint will form a key component of our strategy and how we position ourselves for both the challenges and opportunities that the energy transition brings.

As a new operator, our focus this year has been on establishing a baseline evaluation of our GHG emissions, estimating Karoon's future emissions profile based on our projected growth strategy, identifying potential projects to reduce or prevent GHG emissions in operations and developing a GHG mitigation strategy. As part of the Strategic Refresh, we are developing a comprehensive carbon management strategy that considers emission reduction targets, including a net zero carbon emissions goal, as well as a climate change action plan.

The Strategic Refresh is now nearing its conclusion and we intend to share the outcomes with the market later in calendar 2021.

Refreshing the Board, management and corporate structure

During the year, several changes were made to Karoon's Board, management and corporate structure, to ensure we have the appropriate skills and capabilities, corporate and operational processes and necessary accountabilities to safely and reliably deliver the Company's production and growth opportunities.

- In November 2020, Founding Chief Executive Officer and Managing Director, Mr Robert (Bob) Hosking retired.
- After an extensive and rigorous international search process, Dr Julian Fowles was appointed as CEO and Managing Director in November 2020. With a long career as a senior executive in the upstream oil and gas industry, Julian has the necessary skills and experience to lead the Company through our new phase of corporate life as an oil producer and developer and in the energy transition.
- In October 2020, Mr Peter Botten AC commenced as an independent non-executive director, and long serving non-executive directors, Mr Geoff Atkins and Mr José Coutinho Barbosa, retired in November 2020.
- In early 2021, the Company was restructured to help clarify reporting lines and accountabilities, leading to improved governance processes and faster decision making, which is essential for Karoon as a substantial oil producer. The restructure included the creation of a Brazil Business Unit, which is responsible for executing all in-country activities, while Karoon's team in Melbourne has responsibility for corporate governance and performance management and for providing strategic, technical assurance and specialist services.
- South America General Manager, Mr Tim Hosking, left Karoon at the end of March 2021.
- Mr Antonio Guimarães was appointed as Executive Vice President and President Karoon Brazil in August 2021 and will join Karoon in October 2021. Antonio, a Brazilian national who has spent much of his career with Shell, will report directly to the CEO, ensuring increased visibility of the Brazil Business Unit at the highest level of the Company. With his extensive and relevant oil and gas executive experience, Antonio is well qualified to help build the organisation's reputation as a safe, reliable and sustainable operator as we seek to grow our business further in Brazil.
- Mr Ray Church was appointed as Executive Vice President and Chief Financial Officer (CFO) in August 2021 and will join Karoon in September 2021, taking over from Karoon's current CFO, Scott Hosking, who will step down at the end of September 2021. Ray has more than 34 years of international experience in finance roles, including TNK-BP and Chevron Corporation.

In addition, over the year, the Company ramped up materially its operating capabilities in Brazil, with a team of highly experienced technical, operational and commercial professionals located in Rio de Janeiro and at our operational shore base in Itajaí.

Capital management

In July 2020, in light of the challenging oil market at the time, Karoon successfully renegotiated with Petrobras the transaction terms for the Baúna asset. The parties changed the structure of the transaction from an upfront payment of US$665 million to a firm consideration of US$380 million, adjusted for operating and investing cash flows attributable to the asset from January 2019, plus a tiered, contingent consideration of up to US$285 million (plus interest at 2% per annum), dependent on future oil prices.

The reduction in the upfront payment, combined with strong cash flows from operations since completion of the purchase, has left the Company in a strong financial position, with cash of US$133 million at the end of June 2021.


Karoon Energy
altera & ocyan

The Baúna intervention program and Patola development will be funded by a combination of cash flows from operations, our existing cash, and a new US$160 million reserve-based, non-recourse, syndicated facility agreement. The facility, with a high-quality international syndicate comprising Deutsche Bank, ING, Macquarie and Shell, represents the first time Karoon has accessed the debt markets and provides a cost competitive source of finance. As part of the terms of the loan, Karoon is planning to implement a hedging program covering approximately 30–40% of production over the first two years of the loan life. The program will protect operating cash flows against the risk of lower oil prices on the hedged barrels, while retaining material upside price exposure.

Karoon's capital management priorities are first, to ensure safe and reliable production from Baúna, and secondly, to continue to invest in our already-sanctioned, high value brownfields growth projects, the Baúna intervention program and Patola field development. Further growth opportunities, both organic and inorganic, will be subject to strict economic assessment and financial discipline.

While oil prices are currently buoyant, the speed of the decline in early 2020 was a salutary lesson for all oil and gas industry participants. The challenging conditions experienced in 2020 have emphasised the need for projects that are resilient to price volatility, the importance of free cash flow generation and capital discipline. A key area for the Board and management team will be on ensuring Karoon's future financial resilience to withstand any future oil price shocks.

Outlook for the 2022 financial year (FY2022)

Our highest priority in FY2022 will be on continuing to deliver safe and reliable production from the Baúna field. We will seek to mitigate production decline from this mature field through active well management and high facilities uptime, and will strive for zero safety or environmental incidents. Financial discipline and strict prioritisation of expenditure will continue to be vital in ensuring operating costs remain low, while at the same time ensuring our facilities are in the best possible condition and are robust for their long-term future.

A key focus will be on progressing the Baúna intervention and Patola projects, safely and on time and on budget. In addition, the outcomes from the current Strategic Refresh will be implemented, with a particular focus on establishing an appropriate carbon management strategy that meets investor and stakeholder expectations.

With continuing restrictions on family life, work and travel, we recognise that these are very challenging times for our staff, contractors and their families, and we will continue to implement programs to promote health and wellbeing and to ensure our strict COVID-19 protocols remain up to date.

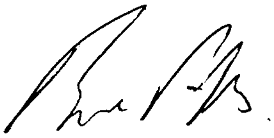
Thanks

On behalf of all at Karoon, we would like to thank sincerely all the departing senior personnel and non-executive directors for their outstanding service over many years. In particular, we owe a debt of gratitude to our former Managing Director, Bob Hosking, for guiding Karoon for 16 years, from a fledgling exploration company to our current position as one of the largest oil producers on the ASX. It is very gratifying to see Bob's vision of becoming a material oil producer finally being realised.

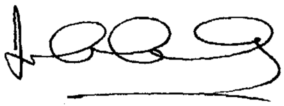
We would like to acknowledge all our employees in Australia, Brazil and Peru, and Karoon's Board members for their dedication and hard work during what has been both a challenging and transformational year for the Company. We would also like to thank the many people from our major contractors and financiers for their hard work and the support which has enabled us to make the Baúna and Patola sanction decisions.

Finally, thank you, our shareholders, for your continued support.

We look forward to building further on our achievements in FY2022.



Bruce Phillips
Chairman



Julian Fowles
Chief Executive Officer and Managing Director

Operational and Financial Overview

The transition from an explorer to an oil producer and operator occurred smoothly and without incident, despite the challenging backdrop of the global COVID-19 pandemic.

Prioritising Health, Safety and the Environment

A key focus prior to, and since, taking over operatorship of Baúna has been to ensure that Karoon's high expectations for health, safety and protection of the environment are embedded throughout the organisation. The Company has developed a fully integrated operating management system to ensure a robust and detailed risk management process. In addition, Karoon implemented a range of initiatives over the year, to reinforce a strong safety culture and to ensure that all our staff and contractors understand that health, safety, security and the environment are our highest priorities.

In the financial year ended 30 June 2021 (FY2021), there was one Lost Time Incident on a supply vessel engaged in a pre-operatorship training session. However, no Lost Time or other recordable incidents occurred onboard the Baúna floating production storage and offloading vessel (FPSO), the Cidade de Itajaí, during the period and there were no significant environmental incidents.

The ongoing COVID-19 pandemic continued to pose major challenges for Karoon's employees and contractors, particularly in Brazil, where case numbers remain high. As well as causing severe disruption and travel restrictions for individuals, with staff largely working from home, it meant a continued requirement for flexibility in our working arrangements. Our strict quarantine program and other COVID-19 safety protocols have been effective in limiting COVID-19's impact on our staff and contractors, and on operations, with one outbreak of COVID-19 offshore early in 2021 managed within our existing protocols and with no interruptions to production.

Karoon is well aware of the stresses that the pandemic has caused to our workforce and has recently implemented a formal Employee Assistance Program, to support the health and wellbeing of our people.

Oil production in line with forecast

The transition of Baúna operatorship from Petrobras to Karoon occurred safely and without incident. Oil production from 7 November 2020, when Karoon commenced operatorship of the field, to 30 June 2021 was 3.14 MMbbl, produced at an average rate of 13,317 bopd. This was in line with market guidance provided at the time of the finalisation of the Baúna purchase and with our half year results announcement in February 2021.

A key focus for Karoon over the year was to ensure the reliability and integrity of the FPSO and the other key items of infrastructure. As a result, the Company undertook some additional proactive maintenance over the year, leading to eight days of unplanned downtime. Despite this, total operational uptime was 92%, or 97% if the 11 days of scheduled maintenance is excluded.

Financial results benefited from strong oil prices

Six oil cargoes were lifted from Baúna, totalling 2.9 MMbbl, which were sold under the Company's oil marketing agreement with Shell at a weighted average realised price, net of selling expenses, of US$59/bbl. The arrangement with Shell, under which oil from Baúna is co-loaded onto large vessels with other similar grade Brazilian crudes, provides Karoon with access to a much wider range of potential international customers than if we conducted the marketing ourselves, but still allows full transparency of the process.

Crude oil sales revenue from the cargoes lifted was US$170.8 million, resulting in a gross profit of US$59.4 million. Adjusting production costs to reflect the FPSO charter lease, part of which is disclosed as finance charges under AASB 16 'Leases', unit production costs for the period were US$25.11 per barrel.

Net profit after income tax (NPAT) for the financial year was US$4.4 million (2020: loss of US$86.1 million). This included an income tax benefit of US$32.3 million (2020: US$0.6 million), of which US$20.7 million related to the initial recognition of temporary differences and historical Brazilian tax losses, which are available to be carried forward to offset against future profits generated from Baúna. Other key items which impacted profitability included net foreign currency losses, an increase in the assessed fair value of the contingent consideration payable to Petrobras, which is dependent on future oil prices from 2022 to 2026, and the settlement of a dispute with Pitkin in respect of Z-38, offshore Peru. When adjusted for these items, as shown in the table opposite, underlying NPAT was US$33.4 million (2020: loss of US$65.2 million).

Operating activities generated cash inflows of US$29.8 million, compared to cash outflows of US$67.1 million in the previous financial year. Receipts from oil sales since taking over operatorship of Baúna were US$136.7 million. Significant operating cash payments for the financial year included the following:

- Payments to suppliers and employees, including production costs from 7 November 2020, of US$56.5 million (2020: US$12.2 million).
- Transition expenditure to acquire the Baúna production asset of US$15.9 million (2020: US$12.7 million).
- Payments for exploration and evaluation, including Marina-1 exploration well prior-year payables of US$15.2 million (2020: US$41 million).
- Interest and other costs of finance paid, largely relating to finance charges on the FPSO lease, of US$13.2 million (2020: US$0.4 million).
- Income tax payments of US$10.8 million (2020: US$0.3 million).

Refer to pages 46 to 47 of the Directors' Report for further discussion of the results, cash flows and also changes to the Group's financial position.

FY2021 Financial Summary

Year to 30 June	2021	2020
Production volume (MMbbl)	3.14	-
Oil sales volume (MMbbl)	2.90	-
Unit production costs[1,2] (US$/bbl)	25.11	-
Weighted average net realised oil price[1] (US$/bbl)	59.00	-
	US$ million	US$ million
Sales revenue	170.8	-
EBITDA[1,3]	9.8	(85.4)
Depreciation and amortisation[4]	(37.6)	(0.7)
Loss before income tax	(27.8)	(86.8)
Net profit/(loss) after income tax	4.4	(86.1)
Underlying net profit/(loss) after income tax[1,5]	33.4	(65.2)
Operating cash flows	29.8	(67.1)
Net assets	380.3	359.5
Investment Expenditure:		
– Baúna intervention and Patola CAPEX[6]	18.6	-
– Exploration and evaluation expenditure and new ventures[7]	7.1	53.6
– Other plant and equipment[8]	6.1	1.3

1. EBITDA (earnings before interest, tax, depreciation, depletion and amortisation) and underlying net profit after tax are non-IFRS measures that are unaudited but are derived from audited financial statements. These measures are presented to provide further insight into Karoon's performance.
2. Unit production costs are based on operating costs as disclosed in Note 5(a) of the Financial Statements adjusted for depreciation on the FPSO right-of-use asset and related finance costs to reflect the accounting expense related to the FPSO charter lease.
3. Includes depreciation on FPSO charter lease right-of-use asset refer Note 2 above.
4. Excludes depreciation on FPSO charter lease right-of-use asset refer Note 2 above.
5. The Statutory net profit after tax has been adjusted for the following items:

Year to 30 June	2021 US$ million	2020 US$ million
NPAT	4.4	(86.1)
Initial recognition of historical Brazilian tax losses and temporary differences	(20.7)	-
Baúna transition costs	15.7	13.5
Impairment and inventory write-down	0.7	12.8
Legal settlement	9.6	-
Foreign exchange losses/(gain)	17.1	(5.4)
Change in fair value of contingent consideration	6.6	-
Underlying NPAT	33.4	(65.2)

6. Excludes Baúna acquisition costs and capitalised borrowing costs associated with the Patola development.
7. Includes exploration and evaluation capitalised of US$1.9 million and exploration, evaluation and new venture expenses US$5.2 million.
8. Excludes leased right-of-use asset additions.

FY2021 oil production of 3.14 MMbbl, unit production costs of US$25.11/bbl and unit depreciation and amortisation of US$11.97/bbl were in line with market guidance.

Production and Development

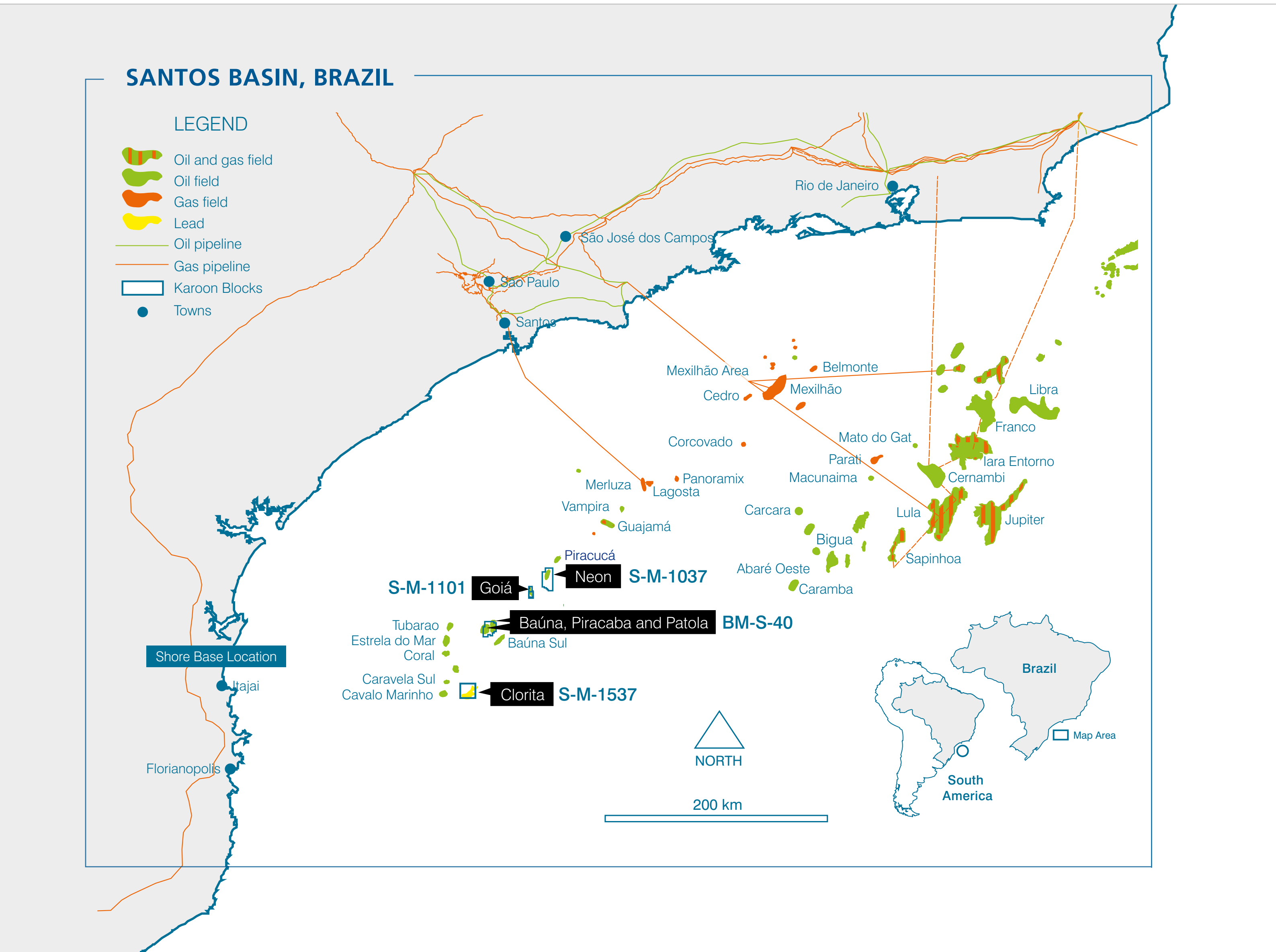
On 6 November 2020, Karoon completed the acquisition of a 100% operating interest in Concession BM-S-40, which is located approximately 220 kilometres offshore Brazil in the southern Santos Basin. The concession holds the producing Baúna and Piracaba light oil fields and the undeveloped Patola oil discovery.

The firm cash consideration paid to date, after operating and investing cash flows from Baúna in the period from January 2019 to closing the transaction, was US$200 million. A deferred consideration of US$41.5 million (plus interest at 1 month LIBOR plus a 3% margin) is also payable in May 2022 and a tiered contingent consideration of up to US$285 million (plus interest at 2% per annum). Any contingent payment is dependent on the annual average Platts Dated Brent oil price in each of the years from 2022 to 2026, and would be paid early in the year following the annual assessment period.

Karoon worked closely with the concession vendor, Petrobras, during a transition period between signing the Sales and Purchase Agreement (SPA) in July 2019 and acquisition closure in November 2020, to ensure the safe and efficient transfer of operatorship to Karoon.

Baúna Concession

Baúna originally came onstream in 2013. Production rates peaked at approximately 70,000 bopd before the field entered its decline phase, with production averaging 14,800 bopd when Karoon



completed its purchase in November 2020. Baúna cumulative oil production from commencement of production up to 30 June 2021 is 135 MMbbl, with an estimated 34.7 MMbbl of 2P recoverable reserves remaining (excluding Patola – see Reserves and Resources Report on page 36).

The Baúna and Piracaba development comprises six production wells, three water injection wells and one gas injection well. All wells have subsea completions, which are tied back to the FPSO. The leased FPSO is owned by Altera and operated by a joint venture, Altera & Ocyan (A&O), under an 'operations and maintenance' contract with Karoon. It has a processing capacity of 80,000 bopd and a storage capacity of approximately 600,000 bbl.

The Baúna Oligocene reservoirs are located at a depth of approximately 2,000 metres subsea in combined stratigraphic and structural traps, which are well imaged on high resolution 3D seismic data. The reservoirs have excellent porosity and permeability (greater than 30% and 2 - 6 darcys, respectively), with net pay ranging from 10 metres to 40 metres in laterally extensive sandstone reservoirs, providing strong aquifer pressure support and high oil recovery factors. The water depth at the Baúna location is approximately 280 metres.

Production and sales

FY2021 production performance

After a smooth transition of operatorship from Petrobras to Karoon, with no safety incidents or interruptions to production, oil production from Baúna was 3.14 MMbbl during the period from 7 November to 30 June 2021, produced at an average rate of 13,317 bopd.

Karoon was successful in partially mitigating the annual production decline rate over its first eight months of operation, from more than 15% over the past few years to approximately 10%. This was achieved largely through the optimisation of gas-lift supply to production wells, which led to higher total liquids production. In addition, despite the maturity of the field, reservoir performance was stronger than expected. Operational uptime, excluding 11 days of scheduled maintenance, was 97%. This reflected eight days of unplanned outages, during which several maintenance activities were implemented proactively to ensure the ongoing integrity and reliability of the FPSO.

The Company is continuing to look for opportunities to enhance production by refining its production management practises and improving operational reliability, with a target of maintaining annual decline rates below 15%, subject to the reservoir response over time.

Focus on safe and reliable operations

Karoon's highest priority is maintaining safe and reliable operations. During the year, the Company focused on ensuring its strong safety culture was adopted for all Baúna operations. This included:

- Direct engagement between the FPSO owner, Altera, and Karoon up to CEO level to establish that Health, Safety, Security and Environment (HSSE) is the primary priority in decision making.
- Targeted safety behaviour campaigns during and following handover of operatorship by Petrobras.
- Regular safety visits to the FPSO from the Karoon Operational HSSE Coordinator.
- Pre-embarkation safety procedures enhanced.
- Strict protocols implemented to manage COVID risks.

While unfortunately one Lost Time Incident occurred during FY2021 (on a supply vessel during a pre-operatorship training session), there were no significant environmental incidents or COVID-related interruptions to production. This strong HSSE performance reflected the excellent commitment of all Karoon staff and contractors, in both the onshore and offshore operations teams, to delivering production safely and reliably.

(See Sustainability section on page 24 for further details)

FY2021 oil sales

During the year, Karoon lifted six oil cargoes from Baúna, totalling 2.9 MMbbl. The average price realised for the crude, net of selling expenses, was US$59/bbl.

The cargoes were sold under the Company's oil marketing agreement with Shell Western Supply and Trading Limited (a member of the Royal Dutch Shell Plc group). This agreement, which was signed in October 2019 for a term of up to five years, provides the Company with access to Shell's global marketing and shipping platform. Baúna crude is marketed by Shell on behalf of Karoon, with the selection of the final customer made by Karoon. The oil is loaded onto shuttle tankers and then co-loaded with other similar grade oil produced in Brazil to larger vessels, to be transported to the end-user.

The Baúna sweet light oil is regarded positively by the market, with the crude's excellent qualities attracting strong competition for cargoes from a range of global refiners.

Production and Development Continued

Development activities

During the first half of calendar 2021, Karoon sanctioned two projects that are expected to more than double current production from the BM-S-40 Concession. The Baúna interventions and Patola development are forecast to lift output to approximately 30,000 bopd in early calendar 2023, before natural decline resumes. By utilising the existing FPSO and much of the other infrastructure, the anticipated increase in production is also expected to result in a material reduction in unit operating costs.

Baúna intervention campaign

In April 2021, following a competitive tender process involving 10 different rig owners, the drilling rig, Maersk Developer, operated by Maersk Drilling, was contracted to undertake well intervention work in four of the six oil production wells on Baúna. In addition, Karoon secured options to extend the rig contract to drill two wells on Patola, subsequently exercised, and to drill a potential control well on the Neon field, which is still under evaluation. The rig is expected to mobilise to Brazil and commence operations in mid-calendar 2022, with the intervention program planned to take approximately four months to complete.

The intervention campaign, which is expected to add between 5,000 bopd and 10,000 bopd to Baúna production, comprises the following:

- Installation of new electric submersible pumps (ESPs) in two wells, SPS-92 and PRA-2, to replace the existing ESP pumps.
- Installation of gas-lift equipment in the SPS-56 well, which is currently producing without the assistance of downhole lift from either a pump or gas-lift.
- Re-opening the lower zone of the BAN-1 well, which was shut-in during a previous workover procedure, to allow production from the lower reservoir zone to recommence.

Final investment decision (FID) taken on the Patola field

Patola is a proven oil accumulation located adjacent to the producing Baúna and Piracaba accumulations, and within the same concession, BM-S-40. It was discovered by the SPS-91 exploration well drilled by Petrobras in 2011. SPS-91 encountered nine metres of net pay with 38° API oil, in a reservoir extension of the same play of Oligocene turbidites sandstone reservoirs found at Baúna and Piracaba, with similar petrophysical properties. 2P reserves are estimated at 14.7 MMbbl (see Reserves and Resources Report on page 36).

In June 2021, Karoon decided to proceed with the development of Patola, which will comprise the following:

- Two near vertical subsea production wells, which will be drilled and completed using the Maersk Developer rig immediately following the completion of the Baúna intervention program.
- The design, manufacture and installation of subsea infrastructure (subsea Christmas trees, flowlines, risers, umbilical, controls and electro-hydraulic control equipment) by TechnipFMC under an integrated Engineering, Procurement, Construction and Installation (iEPCI™) contract. TechnipFMC is one of the world's leading experts in the design and installation of offshore energy infrastructure.
- Following minor equipment additions, tying back the wells to spare riser slots on the existing Baúna FPSO. A pipe-lay support vessel will be mobilised from Rio de Janeiro to facilitate the tie-backs.

Field commissioning works and first oil production, at a forecast initial rate of 10,000 – 12,000 bopd, is expected to occur in early calendar 2023. One of the two oil production wells may switch to water injection depending on the reservoir response. Associated gas production from Patola will be injected into the Baúna reservoir through the SPS-89 gas injection well. Reservoir simulation modelling indicates that this gas injection should result in an Improved Oil Recovery (IOR) in the Baúna Field, due to greater displacement of up-dip volumes and lower residual oil saturation. The IOR has been included as an incremental resource attributable to the Patola development project.

Outlook for FY2022

Karoon's key focus in FY2022 is to continue to deliver safe, reliable and sustainable operations. The Company has an ongoing program to seek opportunities for continuous improvement in all aspects of personal and process safety, and environmental practices. With COVID-19 cases in Brazil remaining high, the COVID-safe protocols to protect staff and contractors will continue to be implemented during FY2022. It is anticipated that all onshore and offshore Karoon employees in Brazil and Australia will be fully vaccinated against COVID-19 by early calendar 2022.

Baúna FY2022 oil production is currently expected to be between 4.2 – 4.6 MMbbl. This assumes nine days of scheduled maintenance on the FPSO and operational uptime of between 92% and 97%.

Activities on both the Baúna intervention campaign and Patola development are expected to ramp up materially during the year. Working closely with Maersk Drilling, Karoon's Rio de Janeiro-based Drilling and Completions teams have moved into the detailed engineering phase of the Baúna intervention campaign and the Patola drilling program. Key items of equipment, such as subsea Christmas Tree tools required to enable access into the Baúna workover wells, are being fabricated and expected to be delivered to Brazil in late calendar 2021, while various Patola subsea infrastructure components being manufactured by TechnipFMC will be delivered in late calendar 2022.

The Maersk Developer is expected to commence the Baúna intervention program in mid-calendar 2022 and commence drilling the Patola wells late in calendar 2022, subject to the timing of completion of the rig's current drilling program.

Maersk Developer Rig

Subsurface Evaluation and New Ventures

As a result of the acquisition of Baúna and the sanction of the Baúna intervention campaign and Patola development, Karoon has evolved into a substantial production and development company. With a focus on short to medium term production growth, the Company has realigned its subsurface focus away from greenfield exploration to one of maximising near-field exploitation and support for new production opportunities.

The Company now manages major infrastructure in the Santos Basin, offshore Brazil, including a shore base, helicopters, support vessels and project management personnel, as well as having an experienced operational, financial and commercial team based in Rio de Janeiro.

There are material operational and logistical synergies to be gained by fully utilising this infrastructure and expertise. Therefore, Karoon's subsurface activities are now focused on finding and developing low-risk, near-field opportunities in the Santos Basin that can leverage off the Company's infrastructure base, and on supporting potential new business opportunities that can drive short to medium term production growth.

Brazil has a stable, well-developed oil and gas industry, with established and attractive fiscal terms. In addition, the Santos and Campos Basins represent a world class petroleum province with an abundance of opportunities. Karoon has a competitive advantage due to its operational experience, network and knowledge of Brazil and can use its world class technical expertise in advanced seismic analysis to de-risk nearfield exploration and appraisal opportunities.

Karoon's near-term subsurface and new ventures priorities are as follows:

- Exit the Company's greenfield exploration portfolio through relinquishing or farming out the relevant interests as appropriate, in as timely a manner as possible. The Company will not seek any new greenfield exploration opportunities.
- Mature near field exploration and appraisal opportunities close to Baúna and in our southern Santos Basin acreage. Recent work to optimise the Neon development concept has been encouraging. In addition, we will seek to exploit key learnings from the Baúna field, leveraging geophysical studies and detailed understanding of the reservoirs to efficiently de-risk prospectivity. Studies indicate that there may be significant remaining potential in post-salt reservoirs similar to the Oligocene turbidite sandstones in Baúna.
- Evaluate acreage immediately adjacent to Karoon's operational footprint that becomes available through the regular bid rounds and the Permanent Offer processes, and through potential mergers and acquisitions, subject to strict risk and capital management considerations.

Karoon's Focus – Brazil and Australia

While Karoon's focus is primarily on Brazil, the Company's strategy also includes the evaluation of high-potential Australian licences that have medium term production potential and provide geographic diversity.

Exploration and evaluation activities in FY2021

Brazil

Santos Basin, Blocks S-M-1037, S-M-1101

100% Equity Interest, Operator

The Neon oil discovery (previously called Echidna) in BM-S-1037 and Goiá oil discovery (previously called Kangaroo) in S-M-1101, located 50-60 kilometres north-east of Baúna, were discovered by Karoon in 2015 and 2013, respectively. Together, they contain 2C contingent oil resources of 82 MMbbl.

In June 2021, Karoon announced it had received approval from the Agencia Nacional do Petroleo Gas Natural e Biocombustiveis (ANP) for the integrated Development Plan for Neon and Goiá that had been submitted to the ANP in December 2019. This approval does not mean that Karoon has reached, or is compelled to reach, a decision to proceed into a development of the fields.

During the year, the Company commenced subsurface development planning and engineering studies on Neon, aimed at optimising the development concept. This work has identified attractive alternative development concepts, which will be further evaluated during FY2022. Karoon has an option to extend its contract with the Maersk Developer to potentially drill a control well on Neon, following the completion of the two Patola development wells. The major objectives of the control well would be to delineate further the southern region of the field, confirm reservoir quality and assist with the planning and design of development wells and supporting infrastructure.

Progress into the potential Neon development is contingent on the results of these studies and drilling the control well.

Santos Basin, Block S-M-1537

100% Equity Interest, Operator

During the year, geological and geophysical studies took place on Block S-M-1537 block, which was acquired in the ANP 14th Bid Round in 2018, to de-risk the main Clorita Prospect. This prospect is targeting the same high-quality Oligocene turbidite reservoirs seen in the producing Baúna field, 50 kilometres to the north. The studies are designed to exploit key learnings from the Baúna field, leveraging advanced seismic analysis and detailed understanding of the play to efficiently de-risk the prospect.

Peru

Tumbes Basin, Block Z-38

75% Equity Interest1, Operator

Evaluation of technical data from the unsuccessful Marina-1 exploration well, drilled in the first quarter of calendar 2020, and reprocessed 2D seismic showed that there was no meaningful prospectivity remaining in the block. Having fulfilled the Third Period work program obligations under the concession agreement, the Joint Venture did not submit an election to proceed into the Fourth Period and consequently the Block Z-38 licence contract lapsed on 27 July 2021.

Tumbes Basin, Area 73

Technical Evaluation Agreement, Operator

During the year, seismic reprocessing and interpretation, and geological studies were completed on offshore Area 73, adjacent to and south of Block Z-38. Based on the results of this work, Karoon decided not to proceed to negotiate a licence contract in respect of the Area.

Australia

Northern Carnarvon Basin, Permit WA-482-P

50% Equity Interest, Non-Operator

Over the year, the WA-482-P Joint Venture completed the reprocessing of existing 3D seismic data and continued geological and geophysical studies, with a focus on de-risking the numerous prospects in the licence and attracting a farmin partner for the next period, for a full carry on a future well.

Ceduna Sub-basin, Great Australian Bight, Permit EPP46

100% Equity Interest, Operator

In late 2019, Karoon submitted a formal application to surrender Permit EPP46 to the regulatory authorities. On 12 July 2021, Karoon was advised by the National Offshore Petroleum Titles Administrator that the Commonwealth-South Australia Offshore Petroleum Joint Authority had issued a notice of the intention to cancel EPP46.

Browse Basin

In relation to Karoon's sale of a 40% interest in permits WA-315-P and WA-398-P, including the Poseidon gas discovery, to Origin Energy Browse Pty Ltd in June 2014, at the end of FY2021, outstanding deferred milestone payments remain contingent. These comprise US$75 million due at FID, US$75 million due at first production and a resource step-up payment of up to US$50 million payable on first production.

Outlook for FY2022

The Baúna acquisition has cemented the southern Santos Basin as a key area of subsurface focus, and has brought operational synergies and improved economics to all Karoon's Santos Basin assets.

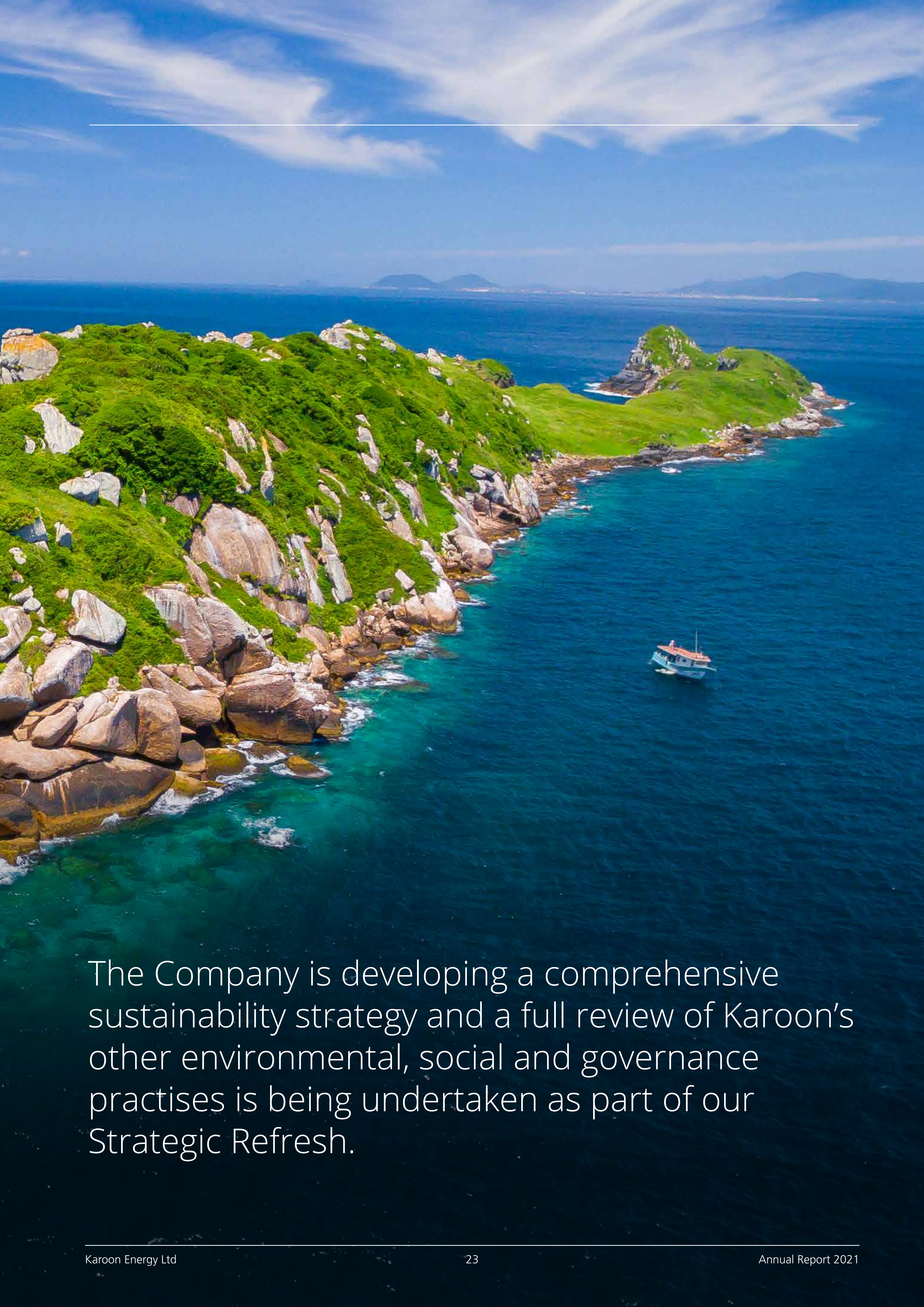
Work will continue on subsurface assessment and development planning for the Neon light oil discovery. A decision will be made in early calendar 2022 on whether to exercise the option to drill a control well in Neon using the Maersk Developer, following the completion of the two Patola development wells.

Karoon's geoscience teams will continue to work on subsurface evaluation of opportunities to enhance production and to evaluate the regular bid rounds and Permanent Offer processes for opportunities that can leverage off the Company's infrastructure base and extend the Baúna economic field life.

1. Karoon's 75% equity interest remains subject to farm-in obligations and regulatory approval.

Karoon recognises societal and investor expectations for oil and gas companies to play a key role in the pathway to net zero greenhouse gas emissions.

Federal Conservation Unit REBIO Arvoredo in Santa Catarina (SC) Ilha Deserta photo credit Joao Paulo Krajewski – Arquivos Projeto



The Company is developing a comprehensive sustainability strategy and a full review of Karoon's other environmental, social and governance practises is being undertaken as part of our Strategic Refresh.

Sustainability

TRIR

0.64

per 200,000 hours

0 Recordable safety incidents on the FPSO

~US$21million

Paid in taxes and royalties to the Brazilian Government

50%

Female employees across the Karoon Group

LTIR

0.32

per 200,000 hours

0 Lost production due to COVID-19

3 New projects initiated to reduce or prevent GHG emissions

Karoon is pleased to provide the Company's first Sustainability Report as an oil producer. Karoon's longstanding commitment to transparent and responsible reporting has continued throughout our transition.

This report provides a summary of Karoon's sustainability performance over the FY2021 reporting period, with an emphasis on health and safety, environmental performance including emissions, and examples of our social and environmental projects.

This has been a time of significant change for Karoon, with our transition from an explorer to a successful oil producer and developer. Highlights have included our strong safety performance with no Lost Time Incidents on board the FPSO, our successful management of COVID-19 with no impact on production, and the identification of projects to reduce or prevent Greenhouse Gas (GHG) emissions in operations.

Karoon is currently in the process of finalising a Strategic Refresh that considers changes in stakeholder expectations as well as recognising our desire to continue to grow our business in a responsible, sustainable way. Our corporate strategy, which is expected to be shared with the market later in 2021, will reflect Karoon's new era as a production and development company.

Developing our Sustainability Strategy

Karoon remains absolutely committed to ensuring the health and safety of our people and safeguarding the environment in which we operate. A key element of the Strategic Refresh is the development of a new sustainability strategy, with a focus on addressing the climate change impacts of Karoon's operations.

We look forward to launching Karoon's new sustainability strategy later this year, detailing our approach to environmental, social and governance issues, including climate change, community engagement and diversity.

Karoon began developing its sustainability strategy before taking ownership of the Baúna asset in 2020 and, in conjunction with the Strategic Refresh, has followed a thoughtful and detailed process of mapping stakeholders, issues, opportunities and actions.

The strategy process enabled various scenarios to be considered to facilitate the most effective growth options for the Company, while recognising our commitment to safe, reliable and sustainable operations. The Company's sustainability strategy will be launched with the corporate strategy later this year. Core environmental, social and governance elements of the sustainability strategy are shown below.

Environment

- Meaningful and responsible approach to climate change
- Safe reliable operations that avoid any adverse environmental, including air quality, impacts
- Protect biodiversity
- Minimise waste

Social

- Prioritise health and safety
- Engage with communities
- Look for opportunities to develop and support projects that work toward the UN Sustainable Development Goals
- Promote diversity within Karoon
- Promote human rights within our supply chain

Governance

- Clear and responsible reporting between Board, management and stakeholder groups
- Clear expectations of conduct of all employees in all aspects of the business
- Robust anti-bribery, fraud and corruption policies and processes
- Transparent reporting
- Executive remuneration linked to financial, operating and sustainability outcomes

On-board the FPSO

Health, Safety, Security and Environment

Safety is our First Priority

People are at the heart of our business and their safety is our highest priority. A focus on health, safety, security and environment (HSSE) during our recent transition from explorer to producer led to the development of a fully integrated operating management system that reflects Karoon's high expectations of safety and integrity in all our operations.

Since taking operatorship of the Baúna oil producing field in November 2020, Karoon has been working closely with the Baúna FPSO operator, Altera & Ocyan, to ensure Karoon's commitment to HSSE is embedded in Baúna operations, as it is throughout the Company.

One Lost Time Incident was recorded in Karoon's Brazil operations during the FY2021 reporting period. This occurred on a supply vessel in October 2020 during a pre-operatorship training session. No Lost Time or other recordable incidents occurred onboard the FPSO during the FY2021 reporting period.

There were no Tier 1 or Tier 2[1] process safety events during the reporting period. There was one High Potential incident relating to a dropped object on the FPSO. A dropped objects safety campaign has since been implemented.

Karoon is seeking continuous improvement in all aspects of operations, particularly in safety and emergency incident management. Several exercises were undertaken in the reporting period to refine and improve Karoon's emergency and incident management response, including medevac drills and two exercises that included the corporate crisis management response.

Karoon has undertaken several safety audits and inspections onboard the FPSO since taking operatorship, including more than ten safety inspection visits to the FPSO and other vessels and more than ten regulatory (third-party) audits. In addition, together with Altera & Ocyan, Karoon has conducted targeted safety campaigns and introduced safety messages for all personnel as part of the embarkation process.

Karoon will continue to look for ways to further optimise safety in operations.

Karoon's HSSE statistics, 1 July 2020 – 30 June 2021

Location	Lost Time Injury Rate*	Total Recordable Incident Rate*
Baúna FPSO	0.00	0.00
All Baúna Operations	0.49	0.49
Karoon Group	**0.32**	**0.64**

* Per 200,000 work hours.

Karoon has been working to ensure our commitment to safety is embedded in the Baúna operations including strict COVID-19 protocols.

COVID-19

Karoon's operations, and the majority of Karoon's employees, are located in Brazil, a country which has been hit particularly hard by the COVID-19 pandemic. Brazil recorded more than 17 million cases of COVID-19 during the FY2021 reporting period and more than 450,000 deaths.

Despite the significant challenges posed by COVID-19, there was only one minor outbreak of the disease recorded in Karoon's operations during the reporting period, without any interruption to production. This positive outcome is largely due to the rigorous adherence to the quarantine program and other COVID-19 safety protocols implemented throughout our operations. This includes isolation requirements prior to entering hotel quarantine, testing protocols in hotel quarantine and before embarkation, 24-hour security and medical services at the quarantine facility, dedicated transport between quarantine and air transport, and isolation groups onboard for a period after each embarkation.

While Karoon's offices in Brazil have remained closed and most of our Brazil employees have been in lockdown since March 2020, 21 employees have been infected with the virus since the beginning of the pandemic, albeit, thankfully, all of them have recovered.

The Company has provided support to employees during the pandemic, particularly for those who have become ill and have experienced extended lockdown. This includes online wellbeing programs, such as mindfulness and yoga programs, fitness classes and the delivery of care baskets. Ongoing support continues to be provided to all employees to facilitate working from home, including provision of IT and ergonomic equipment and availability of flexible working arrangements.

Fortunately, the vaccine rollout in Brazil has been progressing well and it is hoped that all onshore and offshore Karoon employees will be fully vaccinated (two doses of a vaccine) against COVID-19 by early calendar 2022.

1. Tier 1 and Tier 2 Loss of Primary Containment (LOPC) events are defined in the International Oil and Gas Producers (IOGP) Report Number 456: "Process safety – Recommended practice on Key Performance Indicators".

Environmentally responsible operations

Karoon uses several environmental indicators to monitor environmental performance in operations. These include produced water discharge, oily water discharge, unplanned releases and flaring volumes.

Environmental Indicator	Performance
Produced water discharge	No occurrences of produced water discharge exceeding the maximum allowable monthly average limit (29 ppm oil in water per day) occurred, with all monthly averages below 15 ppm.
Oily water discharge	There were three oily water discharges in the period, all well below the maximum daily limit of 15 ppm.
Unplanned releases	There was one unplanned release from the FPSO in April 2021 totalling approximately 30L, conservatively classified as minor (code 1 incident – sheen)[1]
Flaring volumes	There were three incidences of flaring volumes above the daily limit of 27% of produced associated gas, due to start-up/shutdown processes, which is allowable for safety reasons. The monthly average volumes were well below 20%, with all but one month below 10%.

The Karoon operations team have been investigating ways in which flaring can be further reduced, with plans to replace the low-pressure flare blower to improve flaring efficiency and reduce potential fugitive methane emissions.

Karoon takes its environmental obligations very seriously and has a target of zero environmental incidents. We are working with Altera & Ocyan to take action to prevent any future incidents, including preventative pipeline maintenance and replacement and a thorough integrity audit of the FPSO which will commence in quarter three of the 2021 calendar year.

Karoon is committed to spending nearly US$1.8 million in federal and state government environmental contributions to support and protect marine reserves and national parks in Brazil.

Social-Environmental Projects

Karoon has risen to the challenge of transitioning from an explorer to an oil producer and embraced the social and environmental opportunities of responsible operations.

Karoon is currently committed to more than 12 social and environmental projects related to our Baúna operations and will look for opportunities to expand our commitments to communities in Brazil through our new sustainability strategy.

Through its current projects Karoon undertakes a range of stakeholder engagement, environmental monitoring and environmental protection activities. These are carefully implemented with appreciation and respect for local communities, our people and for the biodiversity of the areas in and around our operations, all within our commitment to safe, reliable and sustainable operations.

Set out on the following page is information summarising three of our current projects, being Project Rumo (a social and environmental project), the Sun Coral Project (an environmental project) and an environmental education project. This project, aimed at workers, ensures all involved in Baúna operations understand and respect the importance of protecting the local environment and minimising any impacts from operations.

In addition to these projects Karoon has committed nearly US$1.8 million in federal and state government environmental contributions to support and protect marine reserves and national parks in Brazil.

1. Code 1 refers to "Sheen" (40-300L) under the Bonn Agreement Oil Appearance Code (BAOAC).

Mouth of the Itajaí-Açu river

Karoon supports the UN Sustainable Development Goals through its social-environmental projects.

Project Rumo

Karoon commenced Project Rumo during 2021, which is expected to take approximately two years to complete. The name 'RUMO' was chosen as it stands for Resiliance and Unity in Marine Organisation in both English and Portuguese. The project will document, through an episodic documentary video, the issues of shared use of the maritime and coastal zone of the mouth of the Itajaí-Açu River, which is used by the Baúna operations support vessels. The issues to be explored include traditional activities, land and water use conflicts and political-economic interests.

Prevention and control of exotic species – Sun Coral Project

Sun coral is an exotic species that threatens the native biodiversity of the waters around Baúna operations and in waters elsewhere in Brazil. The Sun Coral Project aims to monitor the occurrence of sun coral and to evaluate the reproductive, nutritional and growth aspects of the invasive species. This data will help to identify and manage early points of invasion and to develop and apply new management technologies for effective control. The project, sponsored by Karoon, will be undertaken by the Chico Mendes Institute for Biodiversity Conservation (ICMBio) and the Federal University of Santa Catarina State (UFSC).

Environmental Education of Workers

All workers on the Baúna FPSO are provided with environmental education and training to ensure they are aware of, and familiar with, the environmental management system and environmental monitoring projects. Importantly, this ensures that workers understand the potential environmental impacts of oil production operations and are trained to prevent and respond to environmental incidents and the management of waste, effluents and atmospheric emissions.

Itajaí shoreline

Climate Change

Our climate change reporting has been prepared using the Taskforce on Climate-Related Financial Disclosure (TCFD) framework. As Karoon has not yet completed a full year of operatorship of Baúna, our initial priority has been to establish a baseline of emissions from which we can measure reduction targets. In addition, we have undertaken significant analysis of available information, including stakeholder mapping and consultation and investigated the potential to avoid or reduce emissions within our existing operations.

Karoon recognises the challenges facing the oil and gas industry globally and our role as a responsible operator. We believe we have a duty to reduce our GHG emissions where possible and to mitigate what cannot be removed, thereby helping with the global effort to reduce the impact of climate change. This is core to our sustainability strategy, to be released later this year.

Governance

Karoon has built a sustainability management framework that enables us to identify and manage climate change risks and opportunities at all levels throughout the organisation, with ultimate oversight resting with the Karoon Board and its committees.

The Sustainability and Operational Risk Committee of the Board has oversight of Karoon's operations including HSSE, social and environmental projects, the regulatory environment, our operating management system and operational risks, which include physical climate change risks. The committee meets at least four times annually to review management and performance in each of these areas. A key document for review is the Operational Risk Register, which is maintained by the Chief Operating Officer but will come under the the responsibility of the Executive Vice President and President of Karoon Brazil in the future. The Sustainability and Operational Risk Committee is responsible for monitoring Karoon's climate change metrics and will review performance against any emissions reduction targets under a new sustainability strategy.

The Audit and Risk Committee has oversight of overall risk at Karoon, including the Corporate Risk Register that includes climate change transition risks. The Corporate Risk Register is maintained by the Chief Financial Officer. The committee meets at least four times annually and considers the financial impacts of climate change risks, ensuring that these are considered in commercial decision making. With responsibility for risk at Karoon, the Audit and Risk Committee also oversees the risk management framework for the Company including risk tolerance and our risk management policy.

Risk Management

Risks are assessed based on several criteria in keeping with the risk tolerance set by the Board. These criteria include safety, environmental, financial, legal and reputational impacts. Climate change risks are integrated within the overall business risk registers at both the operational and corporate level, ensuring the full range of physical and transition climate change risks are considered. Where possible, due consideration is given to both the current and likely future risk environment, for example when considering potential regulatory changes related to GHG emissions.

Regular monitoring of risk registers at senior management, executive management and Board level ensures mitigation measures can be assessed and further action taken as needed. The relative priority of climate-related risks informs Karoon's financial decision making and is being taken into account in developing Karoon's corporate strategy.

Strategy

During 2021, senior and executive management, in consultation with the Board, engaged in an extensive Strategy Refresh to establish a revised corporate strategy that will specifically include a new sustainability strategy, expected to be released later this year.

The Strategy Refresh team has been working to establish growth options for Karoon in the short, medium and long term that will enable Karoon to grow as a producer. Karoon is focused on delivering safe and reliable operations and strong returns to shareholders, while recognising the climate-related risks and opportunities that impact the business at each stage. These risks and opportunities have been identified through a process of research and collaboration across all streams of the business and are summarised below.

	Physical Risks and Opportunities	Transition Risks and Opportunities
Short term (1–3 years)	Increased frequency and severity of extreme weather events resulting in a potential increase in HSSE or equipment incidents or interruptions to operations Project to improve localised weather forecasting and monitoring to assist activity planning to optimise safety and reliability	Changes to the emissions management regulatory environment in Karoon's jurisdictions (eg introduction of an Emissions Trading Scheme in Brazil) Change in oil demand influencing commerciality of key projects or assets in the Karoon current or future portfolio Access to equity or debt funding impacted by ESG strategies of investors or lenders Investment in research and development of technological solutions to reduce or offset emissions in Karoon's operations Changes to sustainability reporting requirements in Karoon's jurisdictions (eg mandatory reporting of Scope 1, 2 and 3 GHG emissions)
Medium term (3–8 years)	Increased frequency and severity of extreme weather events resulting in: • A potential increase in HSE or equipment incidents or interruptions to operations • Disruptions in the operations supply chain • Disruptions to operations at the shorebase (Port of Itajaí)	Changes to the emissions management regulatory environment in Karoon's operational jurisdictions Change in oil demand influencing commerciality of key projects or assets in the Karoon current or future portfolio Changes to sustainability reporting requirements in Karoon's jurisdictions (eg mandatory reporting of Scope 1, 2 and 3 GHG emissions) and/or introduction of mandatory GHG emissions or other climate metric targets beyond those set by Karoon Inclusion of transition or alternative fuel assets, renewable assets and/or nature based solutions in Karoon's portfolio
Long term (9+ years)	Increased frequency and severity of extreme weather events resulting in: • A potential increase in HSE or equipment incidents or interruptions to operations • Disruptions in the operations supply chain • Disruptions to operations at the shorebase	Change in oil demand influencing commerciality of key projects or assets in the Karoon current or future portfolio Inclusion of transition or alternative fuel assets, renewable assets and/or nature based solutions in Karoon's portfolio

The financial impacts of climate change related risks and opportunities have been integrated into Karoon's Strategic Refresh, using known operational cost data where appropriate and a range of climate-related scenarios and carbon price scenarios to assess future transition risks and opportunities. Karoon is using this modelling to ensure its corporate strategy will be resilient to future climate change related impacts and to integrate potential climate change impacts into specific project decision making.

Metrics and Targets

As a new producer Karoon has yet to complete a full year of operations to establish a baseline of climate-related metrics. However, we have been working to establish an internal framework for reporting on our GHG emissions. Karoon has developed, with its external advisors, a new emissions inventory tool to analyse fuel use and flaring data direct from our operations team. The tool facilitates monthly reporting on emissions and enables management and the Board to monitor performance relative to future emission reduction targets. The tool was used to calculate Karoon's Scope 1 and 2 emissions for the FY2021 reporting period.

All Scope 2 emissions were generated from electricity usage in offices in Melbourne, Lima and Rio and the Baúna shorebase in Itajaí, with the majority generated from our Melbourne office. During the 2022 financial year Karoon intends opting into green power to ensure all its electricity supplied in Australia is from renewable-linked sources.

Karoon's Scope 1 emissions were almost entirely generated from our Baúna operations, at an intensity of approximately 15.3 $kgCO_2e/bbl$.

The FY2021 emissions do not represent Karoon's baseline for future emissions reduction targets because Karoon took ownership of Baúna during the reporting period and has yet to record a full year of emissions data.

Scope 1
49,525
tCO_2e

Scope 2
143
tCO_2e

Intensity
15.3
$kgCO_2e/bbl$

Actively Reducing and Preventing GHG Emissions

Since taking ownership of Baúna, and ahead of releasing future emissions reductions targets through our sustainability strategy, Karoon has already started looking for ways to reduce our emissions from operations. Three specific projects have been identified for further investigation and, if possible, implementation.

Karoon intends to investigate further opportunities for emissions reduction projects that reflect our commitment to safe and reliable operations. Further details of Karoon's climate change response will be disclosed with the release of Karoon's sustainability strategy, expected later this year.

Mooring Buoy

- Karoon is required to have two support vessels in Baúna operations to support operations and ensure unplanned releases can be fully controlled quickly and effectively. These vessels are diesel fuelled and consume fuel while stationary.
- Karoon has identified a mooring tool that will enable the support vessels to anchor safely to the buoy while on standby, alleviating the need to consume diesel while stationary.
- This is expected to result in a reduction of Scope 1 emissions of more than 2,000 tCO_2e per year.

Low Pressure Flare Blower

- Flaring is required on the Baúna FPSO for safety reasons.
- Since taking ownership of Baúna in November 2020, Karoon has been conducting ongoing inspections of the FPSO.
- Blowers play a critical role in improving the efficiency of flaring. During an inspection, it was discovered that the low pressure flare blower was not operational thus enabling excess GHG emissions from flaring.
- Karoon investigated options to rectify the issue and is planning to replace the faulty blower before the end of the 2021 calendar year, which will improve the efficiency of flaring and reduce GHG emissions.

Gas well inversion to power the Baúna FPSO

- The majority of emissions from the Baúna FPSO are generated by large turbines. The turbines have historically been powered by produced gas, however this gas is now in decline, with the turbines likely to require diesel fuel which will significantly increase emissions.
- In order to prevent this emissions increase, Karoon, through the planned Baúna well intervention program, is investigating converting a gas injection well to a gas producer to power the FPSO.
- The well inversion would prevent a significant increase in Karoon's GHG emissions.

The sharing of ideas across disciplines and cultures has brought an appreciation of issues and improved understanding at all levels.

Leadership and Culture

Karoon's smooth transition from explorer to producer following the successful completion of the acquisition of Baúna is testament to the skill, experience and dedication of our staff. Karoon recognises that our people are our most valuable assets and understands the importance of ensuring they are engaged and supported within the Company.

An inaugural staff engagement survey in Australia, Brazil and Peru was conducted in March 2021 to help the Board and the executive management team better understand the Karoon cultural environment and identify any areas for improvement. The most common words staff used to describe Karoon were Friendly, Collaboration, Respect and Commitment, highlighting the way in which teams are working together to achieve success as we grow. Importantly staff also provided valuable suggestions to further improve on the way we can engage and motivate our people to ensure they are able to achieve their best. Karoon's executive management team is continuing to foster the core elements of our culture identified in the survey through ongoing communication with, and support for, our staff during the extended COVID-19 lockdowns. This is particularly important for our teams in Peru and Brazil who have been working remotely since March 2020.

In our Melbourne office we have been encouraging engagement between teams and between offices through sessions such as Lunch and Learn to develop cross-discipline knowledge within the Company and improve awareness and understanding of operational issues at the corporate level.

Transparency

All Karoon staff are expected to undertake their responsibilities in accordance with the high standards set out in our Code of Conduct. This is complemented with other corporate policies, such as the Anti – Bribery, Fraud and Corruption Policy, available on our website. All personnel are encouraged to speak up regarding any potential breach of Karoon's policies, including our Code of Conduct. An anonymous reporting service is available to all personnel in accordance with our Whistleblower Protection Policy. No reports were made to the service during the reporting period.

Diversity

Karoon recognises the value that comes from diversity of thinking and has taken steps over the past year to increase the opportunities for consultation and collaboration between offices, particularly between Brazil and Australia. The sharing of ideas across disciplines and cultures has brought an appreciation of issues and improved understanding at all levels and has been instrumental in helping shape the Strategic Refresh. This is led by the Board and key management personnel, who undertook unconscious bias training during the reporting period.

Gender diversity is important to Karoon and we have set an objective of achieving 30% female participation by 2025 at Board level, in the senior executive and across the Company as a whole. Karoon is planning to achieve these targets through a strong commitment to diversity and inclusion in our recruitment and management practices including:

- A Flexible Working Arrangement Policy;
- Monitoring recruitment and remuneration processes to ensure there is no unintended gender bias;
- Maintaining a zero-tolerance approach to gender pay gap; and
- Ensuring at least one female candidate is considered when the Board is appointing a new director or member of the KMP.

Progress against our diversity objectives is monitored by senior management and reviewed at least annually by the Board through the People, Culture and Governance Committee. Karoon remains confident in achieving these objectives.

Commitment to Brazil

Karoon's transformation from an explorer to a producer has had a significant impact on our management and people, not just our operations. During the reporting period, Karoon increased the number of employees in Brazil by around 65% to support our production operations and upcoming workover and drilling campaign, further cementing our commitment to our business in Brazil.

Karoon is pleased to be able to support the local economy in Brazil and in FY2021 paid wages of more than US$4 million to employees in Brazil and approximately US$5 million in taxes and nearly US$16 million in royalties to the Brazilian government.

Karoon's sustainability strategy, to be released later in 2021, will provide further details of Karoon's commitment to Brazil and its people, particularly through investment in environmental protection and social projects.

Karoon Board

17%

Female

Karoon Senior Management

26%

Female

Karoon Group

50%

Female

Reserves and Resources

Karoon took over operatorship of BM-S-40 on 7 November 2020, with an effective date of the transaction of 1 January 2019.

Karoon's internal assessment of 2P Reserves at 30 June 2021 are 49.4 MMbbl oil. Major 2P Reserves movements over the year were due to field production, the reclassification of Patola Resources to Reserves following a FID on the development, and revisions related to better than expected field decline from existing wells through the period.

Oil Reserves at 30 June 2021 (MMbbl)

BM-S-40 (Baúna)

	1P	2P	3P
Developed[1]	30.0	34.7	46.8
Undeveloped[2]	1.11	14.7	19.3
Total	**41.1**	**49.4**	**66.1**

1. Baúna producing.
2. Patola under development.

Year-on-year movement in Oil Reserves (MMbbl)

BM-S-40 (Baúna)

	1P	2P	3P
Reserves at 30 June 2020[1]	34.7	39.2	53.2
Production[2]	-5.1	-5.1	-5.1
Contingent Resources to Reserves[3]	11.1	14.7	19.0
Revisions[4]	0.4	0.6	-1.0
Reserves at 30 June 2021	**41.1**	**49.4**	**66.1**

1. Disclosed to the ASX on 9 November 2020.
2. Reflects total production from 1 July 2020 to 30 June 2021, including the period to 6 November 2020 when Petrobras was the concession holder of BM-S-40.
3. Reclassification of Patola Resources following FID, announced to the ASX on 3 June 2021.
4. Based on production performance analysis.

2C Contingent Resources at 30 June 2021 are assessed at 86 MMbbl oil. The major 2C Contingent Resources movement over the year was due to the reclassification of Patola Resources to Reserves, following the FID on the development. No changes have been made to Neon and Goiá Contingent Resource estimates.

Contingent Oil Resources at 30 June 2021 (MMbbl)

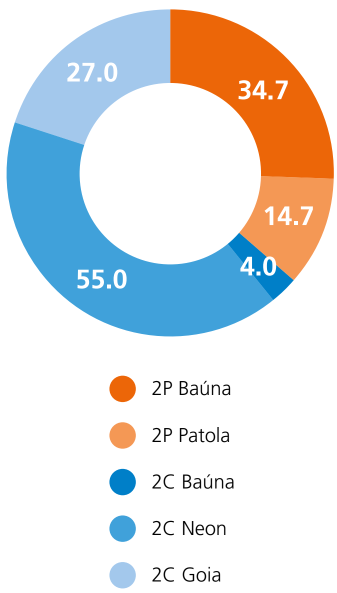
	1C	2C	3C
BM-S-40 (Baúna)	2	4	8
S-M-1037 (Neon)	30	55	92
S-M-1101 (Goiá)	16	27	46
Total	**47.9**	**86.2**	**146.3**

Year-on-year movement in Contingent Oil Resources (MMbbl)

	1C	2C	3C
Contingent Resources at 30 June 2020[1]	58.7	100.9	166.5
Contingent Resources to Reserves[2]	-11.1	-14.7	-19.0
Revisions[3]	0.3	0.0	-1.2
Contingent Resources at 30 June 2021	47.9	86.2	146.3

1. Baúna, Patola disclosed to the ASX 9 November 2020, and Neon, Goiá disclosed to the ASX 8 May 2018.
2. Reclassification of Patola Resources following FID, announced to the ASX on 3 June 2021.
3. Baúna, Patola.

2P Oil Reserves and 2C Contingent Oil Resources (MMbbl)



Oil loading from FPSO to Shell tanker

Notes on calculation of Reserves and Resources

Reserves and Resources estimates are prepared in accordance with the guidelines of the Petroleum Resources Management System (SPE-PRMS) 2018 jointly published by the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), and American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE).

All statements are net to Karoon's interests at 30 June 2021 and use a combination of deterministic and probabilistic methods.

The reference point for reserves calculation is at the fiscal meter situated on the FPSO Cidade de Itajaí.

Governance and Competent Persons Statement

Karoon notes that it has previously provided a summary of the Competent Persons Report prepared by an independent consultancy (specialising in, among other things, petroleum reservoir evaluation, reserves auditing and economic analysis), for the Reserves and Contingent Resources relating to Santos Basin concession BM-S-40 containing the Baúna oilfield and Patola oil discovery.

It is noted that the Reserves and Resource statements in this report have not been prepared by an independent consultant.

Members of Karoon's Subsurface and Engineering teams have considered and assessed all proposed changes and additions to the Company's Reserves and Resources (as set out in this report), considering advice and contributions from subject matter experts and external consultants.

All Reserves and Resources statements in this report are based on, and fairly represent, information and supporting documents prepared by, or under the supervision of, Mr Lino Barro, Karoon Energy Ltd, Engineering Manager. Mr Barro holds a Bachelor of Engineering (Chemical – Hons) and a Master of Business Administration and is a member of the Society of Petroleum Engineers. Mr Barro has consented in writing to the inclusion of this information in the format and context in which it appears.

Forward Looking Statements

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

This Annual Report 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 Annual Report. 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 Annual Report 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 Annual Report.

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.

Strengths and Key Risks

Strengths

- Successful transition from explorer to oil producer following acquisition of Baúna.
- 100% owner and operator of quality production asset producing 33-38 API crude oil with no impurities.
- Building reputation as safe and reliable operator.
- Production growth through sanctioned Baúna intervention campaign and Patola development.
- Additional growth potential at Neon and Goiá light oil discoveries.
- Strong cash flows at relatively low operating cost per barrel, set to improve with production growth through sanctioned project delivery over the next 18 months.
- Agile organisation, able to exploit opportunities quickly, with experienced Board and management team.
- Robust financial position with a robust balance sheet.
- Demonstrated ability to access debt financing.
- Knowledgeable and experienced operations and development teams.
- One of the only companies with pure oil exposure listed on the ASX.

Key Risks

Unplanned interruptions to production may result in inability to meet production forecasts and generate revenue to support delivery of base business and to fund growth.

Geographic, social and political risks resulting from production located in a single jurisdiction (Brazil).

Production concentration risk.

Ongoing health and economic impacts of COVID-19 pandemic affecting Karoon's offshore operations.

Geological evaluation relies on the interpretation of complex and often uncertain data, which may not lead to expected outcomes. Oil production and recovery volumes may differ from Karoon's assumptions and forecasts.

Lower than expected demand for oil or low oil prices may negatively impact revenues, available liquidity or access to capital markets, resulting in a funding shortfall and/or an inability to service debt.

Changes to the rate of taxes imposed on Karoon, changes in tax legislation or changing interpretations enforced by taxation authorities, whether in Australia, Brazil or other foreign jurisdictions in which Karoon operates.

Changes in foreign exchange rates and interest rates may negatively impact the Group's liquidity.

Interruptions or delays in the supply or availability of required infrastructure (including drilling rigs), equipment, goods or services could impact production.

Cyber-attacks could result in interruptions to, or the failure of, the Company's operations and business.

Litigation or actions by activist groups could impact the execution of Karoon's strategy.

Regulatory approvals or required licences may not be forthcoming or may be delayed.

Insufficient cash flows could result in an inability to meet contingent payment obligations to Petrobras that might arise under the Baúna acquisition oil-linked contingent consideration regime.

Insurance coverage may be insufficient to cover all risks associated with oil and gas production, development, exploration and evaluation.

Karoon may be required, but unable, to raise or attract debt or equity finance to fund its ongoing operations.

Policies related to climate change and the energy transition may adversely affect oil demand, oil prices, carbon costs, oil industry investment and funding behaviour. Further, climatic changes and extreme weather events may result in physical damage to assets or interruption to operations.

Development work has inherent risks and is subject to various hazards including unexpected geological conditions, equipment failures, environmental incidents and risks to the health and safety of personnel and other incidents.

Oil and gas exploration, development and production activities may damage the environment. If Karoon is responsible, it will be required to remediate such damage which may involve substantial expenditure and adversely affect Karoon's reputation.

Karoon has entered into a debt facility agreement. In certain circumstances, the facility may be terminated, funding unavailable or withdrawn and/or repayments accelerated.

Each of the key risks set out above, if they were to materialise, could have a material and adverse impact on (among other aspects) Karoon's business, reputation, growth, financial position and/or financial performance.

Karoon has an established risk management framework in place to identify, assess and mitigate risks in accordance with the materiality and risk tolerance parameters set by the Board of Directors. A corporate and operational risk register is maintained by senior management with oversight from the executive leadership team. The executive reports regularly to the Board through the Audit and Risk Committee (in respect of corporate risks) and the Sustainability and Operational Risk Committee (in respect of operational risks), including mitigation and monitoring plans for all key risks.

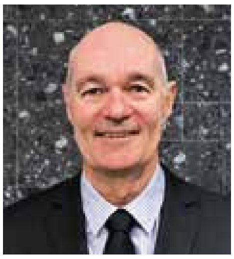
Directors’ Report

The Board of Directors submits its Directors’ Report on Karoon Energy Ltd (the ‘Company’) and its subsidiaries (the ‘Group’) for the financial year ended 30 June 2021 (the ‘financial year’).

Board of Directors

Under the Company’s Constitution, the minimum number of Directors that may comprise the Board of Directors is currently 3 and the maximum number of Directors is 10. Directors are elected and re-elected at annual general meetings of the Company.

The names of the Directors of the Company during the financial year and up to the date of this Directors’ Report are set out below:



Mr Bruce Phillips

BSc. (Hons), (Geology)
Independent
Non-Executive Chairman
Appointed 1 January 2019.

Mr Phillips has approximately 45 years of technical, financial and commercial experience in the global energy industry, encompassing a number of corporate entities. Bruce has extensive experience in upstream oil and gas exploration and production via involvement in projects in Australasia, Africa, Europe and the Americas. He also has considerable experience in governing publicly listed companies, including the chairmanship of four companies listed on the ASX.

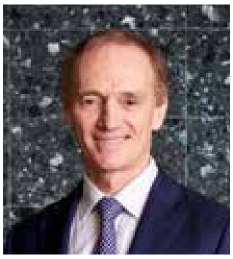
Since founding AWE Limited in 1997, Mr Phillips has held positions as CEO, Chairman and Non-executive Director. He is currently the Chairman of ALS Limited (ALQ: ASX), is the former Chairman of Platinum Capital and AWE Limited (now part of Mitsui Corporation), and a former Non-Executive Director of AGL Energy Limited (AGL: ASX) and Sunshine Gas Limited (formerly SHG: ASX: pre-merger with QGC). During Mr Phillips’ executive career he held varied positions within the industry initially as a geophysicist for AMAX and Esso, graduating to a business development role at Command Petroleum Limited and General Manager of Petroleum Securities Australia Limited.

He is a member of the Petroleum Society of Australia and the Australian Society of Exploration Geophysicists.

Current directorships of other listed companies include: Chair, ALS Limited.

Member of the People, Culture and Governance Committee.

Chairman of the Board of Directors.



Dr Julian Fowles

BSc (Hons), PhD,
Grad Dip App Fin Inv
Chief Executive Officer
and Managing Director
Appointed 27 November 2020.

Dr Fowles started his career with Shell International where he spent 17 years working across the upstream sector in Europe, West Africa, Australasia, South Asia and Latin America, including 5 years as the Exploration and New Ventures Manager in Shell Brazil. Following Shell, he held senior executive positions with Cairn India, Petra Energia, and most recently Oil Search, where he firstly led exploration and new business and then the PNG operated and non-operated oil and LNG production and development businesses. Leaving Oil Search in late 2018, Dr Fowles joined the boards of Central Petroleum and FAR Limited in 2019 as an independent non-executive director, roles he relinquished prior to joining Karoon.

Dr Fowles speaks Portuguese and is a Graduate of the Australian Institute of Company Directors. He holds a BSc (Hons) degree in Geology from the University of Edinburgh and a PhD from the University of Cambridge. Dr Fowles also holds a Graduate Diploma in Applied Finance and Investment from the Australian Securities Institute.

Ms Luciana Bastos de Freitas Rachid

B Chem Eng. Post Grad
Degree Corporate Finance
Independent
Non-Executive Director
Appointed 26 August 2016.

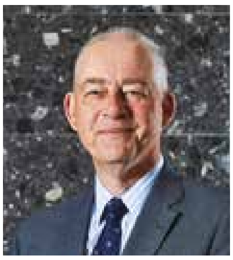
Ms Rachid has over 40 years' experience in the oil and gas industry in both technical and senior leadership roles in Brazil, including 20 years in the Exploration and Production Division of Petrobras.

Ms Rachid's technical experience covers a variety of project evaluation, development and management roles, the design of the first offshore platforms in the Campos Basin, the production, handling and processing of natural gas onshore and offshore, the coordination of the Petrobras E&P Deepwater Strategic Project.

Ms Rachid has also held positions in the Petrobras financial team including Executive Manager of Investor Relations and Executive Manager of Financial Planning and Risk Management. She also served as Chief Executive Officer of Transportadora Brasileira Gasoduto Bolivia-Brasil SA (TBG) and Chief Executive Officer of Transportadora Associada de Gás SA (TAG), each of which is a subsidiary of Petrobras.

Ms Rachid also has a number of years' experience serving on Boards in Brazil. She has represented Petrobras as Chairperson of TBG and Gás Brasiliano Distribuidora SA as well as a Director of TAG, Companhia de Gás de Minas Gerais and Companhia Paranaense de Gás.

Chair of the Sustainability and Operational Risk Committee.



Mr Clark Davey

B. Commerce, FTIA, MAICD
Independent
Non-Executive Director
Appointed 1 October 2010.

Mr Davey is a professional independent Company Director with over 40 years of experience in the natural resources industry as a taxation and strategy advisor. Clark was a partner at Price Waterhouse and PricewaterhouseCoopers for a number of years with an oil and gas and natural resources specialty holding industry leadership roles in both firms. Clark is a member of the Australian Institute of Company Directors.

The wealth of taxation and business advisory experience Clark brings to Karoon includes input on international company tax, Australian and overseas resource and indirect taxation and oversight of accounting, governance and capital management procedures. Clark has advised many companies with both tax and management of joint venture interests as well as merger and acquisition transactions. He has also assisted both listed and unlisted companies expand their resource industry interests internationally.

Clark is a former director of Redflex Holdings Limited.

Chair of the Audit and Risk Committee.

Member of the People, Culture and Governance Committee.

Mr Peter Turnbull AM

B. Commerce, LLB,
FGIA (Life), FAICD
Independent
Non-Executive Director
Appointed 6 June 2014.

Mr Turnbull is an ASX experienced independent non-executive director and chair with significant exposure to the global mining, energy and technology sectors.

Peter brings to the board significant commercial, legal and governance experience gained from working with boards and management to conceive, structure, fund and complete corporate transactions and to prioritise and maximise the value of organic growth strategies for shareholders.

Peter also has significant regulatory and public policy experience from prior executive roles including as a Director of the Securities & Futures Commission of Hong Kong and roles with ASIC. Over time, Peter has held roles as a director or senior officer of several global organisations which promote best practice governance and is a regular contributor and speaker in Australia and overseas on corporate governance issues. Peter is a former President and current Life Member of the Governance Institute of Australia and the current president of the global Chartered Governance Institute.

Peter's senior executive roles over 30 years involved significant experience in very large publicly listed organisations with global operations, particularly South East Asia, Europe and the USA. This experience included over a decade in energy markets and the resources sector including as Company Secretary of Newcrest Mining Limited, Company Secretary and General Counsel of BTR Nylex Limited and General Manager, Legal and Corporate Affairs with Energex Limited.

In June 2020, Peter was made a member of the Order of Australia for services to business and corporate governance institutes.

Current directorships of other listed companies include: Chair, Calix Limited, since its ASX listing on 20 July 2018.

Chair of the People, Culture and Governance Committee.

Member of the Audit and Risk and the Sustainability and Operational Risk Committees.

Mr Peter Botten AC, CBE

BSc ARSM, MICD
Independent Non-Executive Director
Appointed 1 October 2020

Mr Botten is a highly experienced and successful former Chief Executive and internationally recognised business leader with over 40 years' experience in the international resources sector. His executive career was dominated by his 26-year tenure as CEO of Oil Search, where he was synonymous with its growth from a market capitalisation of A$200 million to a peak of A$15 billion.

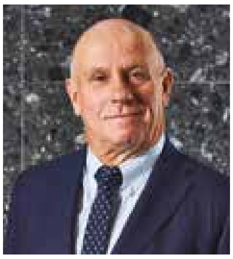
Peter's executive experience spanned all aspects of the upstream petroleum sector, including deep experience in upstream oil and gas exploration, development and production operations through his involvement in projects in PNG, Australia, Africa, the Middle East and North America.

Peter also has considerable experience in governing and growing ASX-listed companies and other business entities. Apart from his previous involvement at Oil Search, he is currently the non-executive Chairman of AGL Energy Limited (2021-present), Chairman of NiuPower (2019-present), Chairman of Hela Provincial Health Authority (2015-present) and Chairman of the Oil Search Foundation (2011-present).

Peter holds a Bachelor of Science (Geology) from the Imperial College of Science and Technology, London University and the Royal School of Mines. In recognition of building relations between Australia and PNG, along with services to business and communities in PNG, Peter was awarded Companion of the Order of Australia (AC) along with Commander of the British Empire (CBE).

Current directorships of other listed companies include: Chair, AGL Energy Limited.

Member of the Audit and Risk and Sustainability and Operational Risk Committees from 1 December 2020.

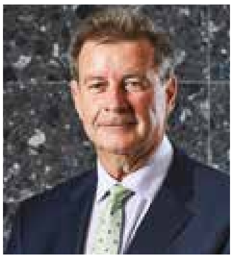


Mr Robert Hosking

Managing Director
Appointed 11 November 2003.
Retired 27 November 2020.

Mr Hosking is the founding Director of the Company and has more than 35 years of commercial experience in the management of several companies. Robert has been involved in the oil and gas industry for more than 20 years and was a founding director/shareholder of Nexus Energy Limited.

Robert also has a background of more than 18 years commercial experience in the steel industry. He jointly owned and managed businesses involved in the trans global sourcing, shipping and distribution of steel-related products, with particular expertise gained in Europe and the Asia/Pacific Rim.



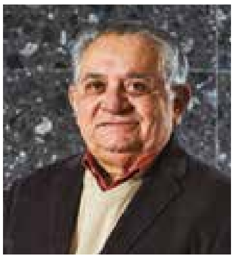
Mr Geoff Atkins

FIE Aust. CP Eng.
Independent
Non-Executive Director
Appointed 22 February 2005.
Retired 27 November 2020.

Mr Atkins has over 45 years' experience in investigation, planning, design, documentation and project management of numerous significant port, harbour and maritime projects. These include container terminals, LNG jetties, oil and gas wharves, heavy lift facilities, cement, coal, bauxite, iron ore and other bulk terminals, shipping logistics and naval bases.

Geoff has gained substantial overseas experience completing marine projects in Indonesia, Malaysia, Thailand, Vietnam, Sri Lanka, India, South Africa, Namibia, New Zealand and the United Kingdom. LNG, oil, gas, bulk ports and other large maritime infrastructure projects that Geoff has been involved in have included the design of Woodside Petroleum Limited's LNG jetty, tender design of ConocoPhillips' Darwin LNG jetty and concept designs for the Sunrise LNG jetty. Geoff has also been involved in investigations of proposed LNG marine terminals in Taiwan, Iran and Israel for BHP Petroleum and the West Kingfish and Cobia oil drilling platforms for ESSO/BHP in Bass Strait.

Member of the Audit and Risk and People, Culture and Governance Committees until 27 November 2020.



Mr José Coutinho Barbosa

Bsc. (Geology),
Msc. (Geophysics)
Non-Executive Director
Appointed 31 August 2011.
Retired 27 November 2020.

Mr Coutinho spent 38 years with Petrobras, beginning his career in several technical and management positions, culminating with his appointment as Acting President and CEO of Petrobras, one of the world's largest petroleum exploration and production companies.

Earlier in his career, as an explorer, José Coutinho worked in most sedimentary basins in Brazil, onshore and offshore, as well as in basins in the Middle East, Africa and the Gulf of México, having incorporated Petrobras America Inc., in the USA, and directing the company as CEO for four years. After that, he returned to Brazil to assume the position of Executive Vice-President and CEO of Petrobras Internacional SA (also known as Braspetro).

During the period from 1999 to 2002, José Coutinho worked as Managing Director for Exploration and Production of Petrobras, leading up the production ramp from 700,000 bopd to 1,500,000 bopd. In that period, the giant oil fields of Roncador, Albacora, Marlin and Marlim South in the Campos Basin were developed.

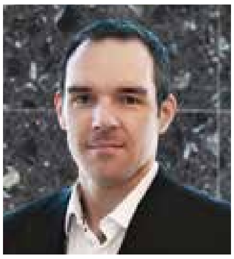
After that, José Coutinho retired and has managed, since then, his own independent consulting firm, Net Pay Óleo & Gás Consultoria Ltda, operating in areas of the petroleum industry.

José Coutinho brought knowledge and experience to the Company, including experience with geology, exploration and production as well as local knowledge of the oil and gas industry in Brazil and internationally.

José Coutinho is also the Temasek Representative Director on the Board of Directors of Odebrecht Oleo e Gas (unlisted).

Member of the Sustainability and Operational Risk Committee until 27 November 2020.

Company Secretary



Nick Kennedy

B.Com., LLB (Hons.), Grad Dip Applied Corporate Governance, FGIA
Appointed on 25 June 2020.

Mr Kennedy is an experienced lawyer and company secretary with over 15 years' experience in corporate and commercial law, including particular expertise in public and private mergers and acquisitions, equity and debt capital markets, energy and resources and corporate governance.

Prior to joining the Company, Nick was a Head of Legal at ENGIE ANZ and before that worked in top tier law firms in Australia and London.

Meetings

The number of Directors' meetings (including meetings of committees of Directors) and attendance by each Director of the Company during the financial year were:

Director	Board Meetings A	Board Meetings B	Audit and Risk Committee Meetings A	Audit and Risk Committee Meetings B	Sustainability and Operational Risk Committee Meetings A	Sustainability and Operational Risk Committee Meetings B	People, Culture and Governance Committee Meetings A	People, Culture and Governance Committee Meetings B
Mr Bruce Phillips	12	12	–	–	–	–	6	6
Dr Julian Fowles (Appointed 27 November 2020)	6	6	–	–	–	–	–	–
Mr Robert Hosking (Retired 27 November 2020)	6	6	–	–	–	–	–	–
Ms Luciana Rachid	12	12	–	–	4	4	–	–
Mr Geoff Atkins (Retired 27 November 2020)	6	6	4	4	–	–	3	3
Mr Clark Davey	12	12	8	8	–	–	6	5
Mr Peter Turnbull	12	12	8	8	4	4	6	6
Mr José Coutinho Barbosa (Retired 27 November 2020)	6	6	–	–	2	1	–	–
Mr Peter Botten (Appointed 1 October 2020)	8	8	4	4	2	2	–	–

A. The number of meetings held during the time the Director held office during the financial year.

B. The number of meetings attended during the time the Director held office during the financial year.

Directors' Interests in the Company's Shares, Share Options and Performance Rights

As at the date of this Directors' Report, the Directors held the following number of ordinary shares (and did not hold any share options or performance rights over unissued ordinary shares) in the Company:

Director	Ordinary Shares, Fully Paid
Dr Julian Fowles	107,659
Mr Bruce Phillips	1,750,000
Ms Luciana Rachid	52,960
Mr Clark Davey	147,214
Mr Peter Turnbull	146,269
Mr Peter Botten	–

Principal Activities

Karoon is an international oil and gas exploration and production company with projects in Australia, Brazil and Peru.

Significant Changes in State of Affairs

During the financial year, the Group completed the acquisition of a 100% operating interest in Concession BM-S-40 containing the producing Baúna oil field and the undeveloped Patola oil discovery ('Baúna') located in the Santos Basin, offshore Brazil. The acquisition transformed Karoon into one of the largest oil producers on the ASX.

Results

The consolidated result for the financial year was a profit after income tax of $4,384k (2020: loss of $86,138k).

The profit for the financial year included crude oil sales revenue of $170,809k at a weighted average net realised price of $59 per barrel. Since taking over ownership and operatorship of Baúna between 7 November 2020 and 30 June 2021, 3.14 mmbbl of oil were produced, resulting in a gross profit of $59,434k, which includes a total cost of sales of $111,375k. The total cost of sales includes depreciation associated with the right-of-use asset being the FPSO lease, but does not include finance charges on the FPSO right-of-use asset of $12,389k, which are disclosed as part of finance costs.

The financial year result includes a significant income tax benefit of $32,257k (2020: $634k) relating predominantly to the initial recognition of historical Brazilian tax losses, which are available to be carried forward to offset against future profits generated from Baúna. Furthermore, temporary differences have been recognised arising from foreign exchange movements in the US$/Brazilian Real exchange rate, resulting in a decrease in the accounting carrying value of non-monetary assets denominated in US$ compared to their taxable carrying values denominated in the Brazilian Real as at 30 June 2021. The income tax benefit was partially offset by current income tax expense incurred in Brazil and Australia totalling $15,321k (2020: $3,140k).

Other key items impacting the profit during the financial year were as follows:

- net foreign currency losses of $17,053k (2020: net foreign currency gains of $5,389k) almost entirely attributable to losses resulting from the depreciation of the US$ against the A$ on the transfer of US$'s by the Australian ultimate parent entity during the year to fund overseas operations and on US$ cash and cash equivalents held by the Australian ultimate parent entity at 30 June 2021;
- transition costs associated with the Baúna acquisition prior to completion on 6 November 2020 of $15,748k (2020: $13,550k);
- finance costs of $15,241k (2020: $2,180k) including finance charges on right-of-use assets of $12,501k (2020: $95k) relating predominantly to the recognition of the FPSO right-of-use asset acquired as part of the acquisition of Baúna of $12,389k;
- corporate costs of $10,421k (2020: $9,360k) which include net employee benefits expense, insurance and director fees;
- settlement costs of $9,600k relating to the Company's wholly owned branch KEI (Peru Z-38) Pty Ltd, Sucursal del Peru, without admitting any liability, entering into a deed of settlement and release in respect of its dispute with Pitkin Petroleum Peru Z-38 SRL (Pitkin) relating to Block Z-38, offshore Peru. Under the deed of settlement and release, Pitkin has agreed to full and final settlement of all claims of Pitkin and its associates in connection with Block Z-38;
- expense of $6,632k relating to the fair value movement of the contingent consideration payable to Petrobras from acquisition date to 30 June 2021, which is dependent on meeting future oil prices each calendar year from (and including) 2022 to (and including) 2026; and
- exploration and evaluation expenditure expensed or impaired of $3,416k (2020: $52,526k, which related predominately to the unsuccessful Marina-1 exploration well drilled during the prior year in Block Z-38, Peru).

Cash Flows

Operating activities resulted in cash inflows for the financial year of $29,786k compared to cash outflows of ($67,116k) in the previous financial year. The positive operating cash flows are attributable to receipts received from oil sales of $136,978k since taking over operatorship of Baúna. Significant operating cash payments for the financial year included payments to suppliers and employees, including production costs from 7 November 2020, of $56,461k (2020: $12,176k), transition expenditure to acquire the Baúna production asset of $15,941k (2020: $12,714k), payments for exploration and evaluation, including prior year Marina-1 exploration well payables, of $15,231k (2020: $40,980k), interest and other costs of finance paid, predominately relating to finance charges on the FPSO lease, of $13,246k (2020: $351k) and payment of income tax $10,823k (2020: $266k).

Cash outflow from investing activities for the financial year was $169,213k (2020: $52,650k), which included the Baúna completion payment of $150,000k (2020: $49,875k relating to payment of a deposit for Baúna). $16,031k was also paid during the year for CAPEX relating to the planned Baúna intervention campaign and Patola development.

Cash outflow from financing activities for the financial year was $23,411k in relation to principal elements of right-of-use asset lease payments (2020: $188,111k inflow resulting from a successful equity raising).

Financial Position

At the end of June 2021, the Group had a cash and cash equivalents balance of $133,209k (30 June 2020: $296,420k).

The Group's working capital, being current assets less current liabilities, decreased from $285,988k as at 30 June 2020 to $53,572k as at 30 June 2021 predominantly as a result of the Baúna completion payment of $150,000k, payments for Baúna transition expenditure and exploration and evaluation expenditure, including the Marina-1 exploration well creditors, recognition of deferred consideration for Baúna payable to Petrobras of $42,422k and recognition of the current lease liability associated with the FPSO right-of-use asset. The current lease liabilities have increased from $203k as at 30 June 2020 to $45,393k as at 30 June 2021.

During the financial year, total assets increased from $398,013k to $1,013,956k, total liabilities increased from $38,531k to $633,706k and total equity increased by $20,768k to $380,250k. The major changes in the consolidated statement of financial position were largely due to completion of the Baúna transaction on 6 November 2020 and ongoing operations at Baúna, which included:

- oil and gas assets of $736,422k as at 30 June 2021 incorporating a production asset of $411,665k, development asset of $19,020k and a right-of-use asset associated with the charter of the FPSO of $305,737k. The impact on the Group's net asset position was largely offset by the recognition of a lease liability relating to the right-of-use asset, provision for a future restoration obligation relating to the oil and gas assets outstanding liabilities in relation to deferred and contingent consideration payable for the oil and gas assets, and payment made at completion of the transaction;
- Baúna transition costs expensed prior to transaction completion;
- positive cash flows generated from Baúna from 7 November 2020 including crude oil sales receivable at 30 June 2021 of $33,831k;
- bringing to account a deferred tax asset in relation to historical Brazilian tax losses and recognising a deferred tax asset in relation to the temporary differences for the financial year ended 30 June 2021;
- reduction of deferred tax liabilities resulting from crystallising foreign currency gains on the payment for Baúna completion and exploration costs denominated in USD; and
- oil in inventory at the end of the financial year at a total cost of $10,952k.

Review of Operations

Information on the operations of the Group is set out in the Operations Review on pages 14 to 21 of this Annual Report.

Business Strategies and Prospects, Likely Developments and Expected Results of Operations

The Operations Review sets out information on the business strategies and prospects for future financial years, refers to likely developments in operations and the expected results of those operations in future financial years. Information in the Operations Review is provided to enable shareholders to make an informed assessment of the business strategies and prospects for future financial years of the Group. Details that could give rise to likely material detriment to Karoon, for example, information that is confidential, commercially sensitive or could give a third party a commercial advantage has not been included. Other than the matters included in this Directors' Report or elsewhere in the Annual Report, information about other likely developments in the Group's operations and the expected results of those operations have not been included.

Dividends

No dividend has been paid or declared by the Company to shareholders since the end of the previous financial year. The Company may pay future dividends during financial periods when appropriate to do so.

Share Options and Performance Rights

As at the date of this Directors' Report, the details of share options over unissued ordinary shares in the Company were as follows:

Type of Share Option	Grant Date	Date of Expiry	Exercise Price Per Share Option	Number of Share Options
ESOP options	21 September 2018	30 June 2022	$1.40	2,996,437
ESOP options	31 December 2018	30 June 2022	$1.40	1,069,686
Total ESOP options				4,066,123

As at the date of this Directors' Report, the details of performance rights over unissued ordinary shares in the Company were as follows:

Type	Grant Date	Date of Expiry	Exercise Price Per Performance Right	Number of Performance Rights
Performance rights	21 September 2018	30 June 2022	$–	760,265
Performance rights	31 December 2018	30 June 2022	$–	280,298
Performance rights	12 November 2019	30 June 2022	$–	143,980
Performance rights	12 November 2019	30 June 2023	$–	685,621
Performance rights	18 October 2019	30 June 2022	$–	428,256
Performance rights	18 October 2019	30 June 2023	$–	2,367,643
Performance rights	29 November 2019	30 June 2023	$–	666,323
Performance rights	25 September 2020	30 June 2023	$–	2,880,420
Performance rights	25 September 2020	30 June 2024	$–	4,172,267
Total performance rights				12,385,073

For details of share options and performance rights issued to Directors and other key management personnel of the Group as remuneration, refer to the Remuneration Report in this Directors' Report.

665,496 fully paid ordinary shares have been issued since 1 July 2021 as a result of the vesting and conversion of performance rights under the 2016 Performance Rights Plan and the 2019 Performance Rights Plan (each being a 'PRP').

Information relating to the Company's PRP and share options, including details of performance rights and share options granted, exercised, vested and converted, cancelled, cash-settled, forfeited and expired during the financial year and performance rights and share options outstanding at the end of the financial year, is set out in Note 30 of the consolidated financial statements.

No share option or performance right holder has any right under the share options or performance rights to participate in any other share issue of the Company or any other entity.

Indemnification of Directors, Officers and External Auditor

An indemnity agreement has been entered into between the Company and the Directors of the Company named earlier in this Directors' Report and with the full-time executive officers, directors and secretaries of the Company and all Australian subsidiaries. Under this agreement, the Company has agreed to indemnify, to the extent permitted by law, these Directors, full-time executive officers, directors and secretaries against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. The Company has also entered into a contract of insurance in respect of any liability incurred by the Directors, full-time executive officers, directors and secretaries (referred to above) in such capacity. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium (which is paid by the Company).

As approved by shareholders at the 2009 Annual General Meeting, the Company will continue to pay those Director insurance premiums for a period of ten years following termination of their directorships of the Company and will provide each Director with access, upon ceasing for any reason to be a Director of the Company and for a period of ten years following cessation, to any Company records which are either prepared or provided to the Director during the time period they were a Director of the Company.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or external auditor of the Company or of any related body corporate against a liability incurred as such by an officer or external auditor.

Proceedings on Behalf of the Company

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to any such proceeding during the financial year.

Corporate Governance

In recognising the need for the highest standards of corporate governance in order to drive performance and accountability, the Directors support the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Company's Corporate Governance Statement can be found under the Governance tab on the Company's website at **www.karoonenergy.com.au**.

Environmental Regulation

The Company and its subsidiaries are subject to a range of relevant Commonwealth, State and International environmental laws.

The Board of Directors believes the Company has adequate systems in place for managing its environmental obligations and is not aware of any material breach of those environmental obligations as they apply to the Company and/or Group. Other than in respect of two minor incidents which were required to be reported to the Brazilian regulator, Agência Nacional do Petróleo, Gás Natural e Biocombustiveis, no circumstances arose during the financial year that required an incident to be reported by the Company and/or Group under environmental legislation.

Greenhouse Gas Emissions and Reporting Requirements

Relevant entities are required to report greenhouse gas emissions, energy consumption and energy under the National Greenhouse and Energy Reporting Scheme. The Group was not required to register and report greenhouse gas emissions, energy consumption, or energy production under the scheme for this financial year, as it did not meet the relevant Australian thresholds for the reporting period. As expected, the Group's global carbon footprint during the financial year was higher than recent previous years, approximately 49,668 tonnes of carbon dioxide equivalent based on equity share and including scope 1 and scope 2 emissions (2020: 20,140 tonnes) predominantly due to fuel consumed in the Baúna operations. The Company's corporate emissions were approximately 152 tonnes of carbon dioxide equivalent based on equity share and including scope 1 and scope 2 emissions, which is slightly lower than past years (2020: 226) due to the closure of Karoon's office in Zorritos in Peru and less travel in fleet vehicles as a result of the impacts of the COVID-19 pandemic.

The emissions are generally higher than previous years as a result of the Baúna asset acquisition in November 2020. Given that this does not reflect a full year of production operations it is anticipated that future years' emissions will rise further. The Company will seek to establish a base level of emissions following a full year of operatorship, from which to assess targets for emissions reduction. The Company is aware of the need to continue to seek cost-effective, reliable and environmentally efficient methods for addressing future greenhouse gas emissions and energy consumption and is developing a new sustainability strategy through the corporate strategy refresh currently in progress.

Further details of the Company's approach to Climate Change risks and opportunities can be found in the Sustainability Report, contained within this Annual Report.

Non-Audit Services

The Company may decide to engage its external auditor, PricewaterhouseCoopers, on assignments additional to its statutory audit duties where the external auditor's expertise and experience with the Company and/or Group are important.

Details of the amounts paid or payable to the external auditor for audit and non-audit services provided during the financial year are set out in Note 7 of the consolidated financial statements.

The Board of Directors has considered the position and, in accordance with written advice received from the Audit and Risk Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for external auditors imposed by the *Corporations Act 2001*. The Board of Directors is satisfied that the provision of non-audit services by the external auditor did not compromise the external auditor independence requirements of the *Corporations Act 2001* for the following reasons:

(a) all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the external auditor; and

(b) none of the services undermine the general principles relating to external auditor independence as set out in APES 110 *'Code of Ethics for Professional Accountants'*, including reviewing or auditing the external auditor's own work, acting in a management or a decision making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and reward.

External Auditor's Independence Declaration

A copy of the external Auditor's Independence Declaration for the financial year, as required under Section 307C of the *Corporations Act 2001,* is set out on page 75 of this Annual Report.

No officer of the Company has previously belonged to an audit practice auditing the Company during the financial year.

Matters Arising Subsequent to the End of the Financial Year

Other than the matters disclosed in Note 33 of the consolidated financial statements, no other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) the Group's state of affairs in future financial years.

Remuneration Report (Audited)

Dear Shareholders,

On behalf of the Board of Directors I am pleased to present to you the Karoon Energy Ltd Remuneration Report for the financial year ended 30 June 2021.

In the midst of an on-going global pandemic it has been a year in which a range of challenges have been encountered and managed head-on by the team at Karoon who have all worked very well together across multiple countries. The team has successfully advanced the strategic plan, including, importantly, making the very significant transition from an exploration led company to a significant production entity, thus building enterprise value and a future growth platform for shareholders.

The COVID-19 pandemic has affected different parts of the world in varying degrees with Brazil impacted significantly. In this environment Karoon has focussed on protecting and assisting its workforce whilst at the same time doing everything possible to keep moving forward by achieving the various elements of our strategic plan. In this regard, good progress has been made.

Over the 2021 financial year, the following significant strategic and operational milestones have been achieved:

- Acquisition of Baúna – after successfully agreeing adjusted consideration terms;
- Commencing safe and reliable production operations – Karoon successfully transitioned to Operator of Baúna and transformed into one of the largest oil producers on the ASX;
- Baúna workover campaign – decision taken to proceed with the workover of 4 wells in BM-S-40 and the contracting of the Maersk Developer drilling rig for the workover campaign and the Patola development and for the potential drilling of a control well on the Neon light oil discovery;
- Patola Development – FID being taken to proceed with the development of the Patola discovery and, in connection with this, Karoon entering into:
  - an integrated Engineering, Procurement, Construction and Installation (iEPCI[tm]) contract with TechnipFMC; and
  - a US$160 million reserve-based, non-recourse, syndicated facility agreement;
- Leadership – Dr Julian Fowles being appointed as Chief Executive Officer and Managing Director following the retirement of the founding Managing Director, Mr Robert Hosking;
- Board succession – long serving non-executive directors ('NED's), Mr Geoff Atkins and Mr José Coutinho Barbosa retiring on 27 November 2020;
- NED appointment – Mr Peter Botten AC, CBE commencing as an independent non-executive director on 1 October 2020;
- Organisational restructure – the creation of a Brazil Business Unit and the restructure of the management team to enhance and deepen executive capability.

During the 2021 financial year Karoon continued to maintain conservative remuneration settings. In this regard, it is noted that:

- senior executive base salaries remained unchanged;
- base Board fees remained unchanged (with minor changes made to committee fees to reflect the structural change of one less Board committee being in place necessitating a re-ordering of committee responsibilities);
- from 1 July 2020 to 31 October 2020, the Board and key management personnel ('KMP') in Australia took a 20% reduction in fees and salary to help preserve capital given the serious COVID-19 uncertainties;
- based on the significant operational progress detailed above, and achieving Karoon's strategic targets set at the beginning of the 2021 financial year, 61.5% of the possible Short-Term Incentive ('STI') outcome vested (subject to the satisfaction of a 12 month employment retention period);
- given the company's share price out-performance relative to the requisite peer group and with a 34.6% absolute total shareholder return, the Long Term Incentive ('LTI') hurdles were satisfied and 100% of the possible LTI outcome as judged over the previous three years was achieved; and
- no Board discretion was exercised in connection with the STI and LTI outcomes set out above and, over the past 5 years, this financial year is the first in respect of which LTIs have vested to executives.

Remuneration Report (Audited) continued

1. Remuneration Strategy and Guiding Principles

Our overriding aim continues to be to ensure that executive performance outcomes are aligned with building asset value and securing long-term cash flow in order to support share price growth for all shareholders over the longer term. Remuneration outcomes need to align with shareholder value accretion through achieving strategic and operational milestones.

Karoon's guiding principles for its remuneration framework have not significantly changed and remain as follows:

- **Safety, culture and ethics:** ensuring that clear vesting gateways exist based on appropriate safety and ethical outcomes.
- **Shareholder value is paramount:**
  - » remuneration outcomes (particularly incentive-based outcomes) are designed to take account of share price movements across the reporting period and therefore, the value delivered to shareholders; and
  - » a close alignment is created between operational performance, reward and sustained growth in shareholder value. This is done through achieving robust company building milestones year-on-year via the STI Plan and, in respect of the period 1 July 2018 to 30 June 2021, through achieving an absolute total shareholder return of at least 10% per annum and aiming to outperform a select group of 19 industry peer companies via the LTI Plan.
- **People:**
  - » our remuneration structures are designed to attract, motivate and retain the best people whilst remunerating them reasonably and competitively; and
  - » we encourage our people to hold equity in Karoon which builds a culture of viewing management decisions as an owner, thereby helping to further align executives' and shareholders' interests.
- **Transparency:** remuneration measures, outcomes and reporting are as simple and transparent as possible for shareholders and other stakeholders.
- **Longer term focus:** we aim to ensure that key decision making is always appropriately longer term in its nature and focus (including by continuing to have STI hurdles linked to sustainability outcomes).

Karoon commenced a broad review of its remuneration policies during the 2021 financial year which is currently ongoing. In respect of executive base salaries, the following will be implemented for the 2022 financial year:

- **Salaries:** noting there have been no increases to KMP base salary levels for 6 years, in respect of the majority of:
  - » Australian staff members – a standard 3.1% increase will be applied to their base salary; and
  - » Brazilian staff members – in recognition of a higher inflationary environment, a standard 5.5% increase will be applied to their base salary.

It is noted that, in select individual cases where a relevant employee's salary was significantly below the applicable benchmark salary for that position or for retention purposes, the relevant employee may receive a greater increase than that set out above.

- **2022 STI:** 50% of any STI will be payable in cash, and 50% of any STI will be awarded in performance rights (subject to a 12 month employment retention period). The number of performance rights awarded will be based on a 20 day value weighted average price (VWAP) of the Company's share price following the release of the Company's 2022 financial results.
- **Board fees:** there will be no change to Board and Board committee fees for the 30 June 2022 financial year.

2. 2021 Financial Year Remuneration Outcomes:

- STI – a 61.5% STI outcome was awarded for the 2021 financial year based on the achievement of the previously approved STI performance hurdles including objectives associated with operating and capital expenses, the Baúna Acquistion, Intervention campaign, the Patola development and changes to the Company's 'corporate operating model'.

  This award was earned due to the significant performance achieved during the year (as set out above).

  For KMP other than a Managing Director, a component of their STI role-specific objectives was granted depending on individual performance in accordance with pre-set proportions of STI.

- LTI – a 100% LTI outcome was earned due to an absolute total shareholder return ('TSR') of 10% per annum, and the Company's relative shareholder return rating it between the 75th to 99th percentile (as compared to a group of peer companies), over the prior 3 year period.

3. Summary

During the financial year, Karoon significantly advanced its strategic plan by achieving key milestones and by successfully enacting the necessary succession plans at the Board and management level to ensure the best possible team is in place to build shareholder value.

In summary, our corporate strategy and remuneration related targets are designed and managed to link remuneration outcomes to shareholder value. Given this, Karoon's STI and LTI have worked as they should to responsibly and fairly reward the achievement of key performance milestones for the Company and returns generated by the Company's performance when compared to its peers.

As always, we will continue to engage with our shareholders, proxy advisors and our wider group of stakeholders to seek feedback so we can continue to improve our remuneration framework and associated disclosures.

Mr Peter Turnbull AM
Chair, People, Culture and Governance Committee

20 September 2021

Remuneration Report (Audited) continued

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Section 1. Introduction

The Board of Directors is pleased to provide Karoon's Remuneration Report, which details the remuneration for its KMP, defined as those persons having the authority and responsibility for planning, directing and controlling, directly or indirectly, the activities of the Group.

For the financial year ended 30 June 2021, KMP disclosed in the Remuneration Report are as follows:

Name	Position	Term as KMP
Executive Directors		
Mr Robert Hosking	Managing Director	Retired as a Director on 27 November 2020
Dr Julian Fowles	Chief Executive Officer and Managing Director	Commenced as a Director on 27 November 2020
Non-Executive Chairman		
Mr Bruce Phillips	Independent Non-Executive Chairman	Full financial year
Non-Executive Directors		
Ms Luciana Rachid	Independent Non-Executive Director	Full financial year
Mr Geoff Atkins	Independent Non-Executive Director	Retired as a Director on 27 November 2020
Mr Clark Davey	Independent Non-Executive Director	Full financial year
Mr Peter Turnbull	Independent Non-Executive Director	Full financial year
Mr José Coutinho Barbosa	Non-Executive Director	Retired as a Director on 27 November 2020
Mr Peter Botten	Independent Non-Executive Director	Commenced as a Director on 1 October 2020
Other KMP		
Mr Edward Munks	Chief Operating Officer	Full financial year
Mr Scott Hosking	Chief Financial Officer (Group)	Full financial year
Mr Tim Hosking	South American General Manager and Chief Executive Officer Brazil	Ceased as South American General Manager and Chief Executive Officer Brazil on 31 March 2021
Mr Ricardo Abi-Ramia	Senior VP Operations	Commenced as Senior VP Operations from 31 March 2021

For the purposes of the Remuneration Report, the term 'executive' refers to the former Managing Director or the Chief Executive Officer and Managing Director (as applicable) and other KMP of the Group.

The Remuneration Report for the financial year ended 30 June 2021 outlines the remuneration arrangements of KMP of the Group in accordance with the requirements of the *Corporations Act 2001* and its regulations. The information provided in this Remuneration Report has been audited by Karoon's external auditor, as required by Section 308(3C) of the *Corporations Act 2001*. The Remuneration Report forms part of this Directors' Report.

Section 2. People, Culture and Governance Committee Oversight

To assist in ensuring good remuneration governance at Karoon, the Board of Directors established a People, Culture and Governance Committee that provides oversight and recommendations on all aspects of the remuneration arrangements for executives and Non-Executive Directors.

The People, Culture and Governance Committee currently consists of a majority of independent Non-Executive Directors and is responsible for reviewing and making recommendations to the Board of Directors regarding (among other things):

- the quantum of executive remuneration;
- the executive remuneration framework, including the operation of and performance-based outcomes under Karoon's share-based incentive schemes;
- the recruitment, retention and termination policies and procedures for executives; and
- related party remuneration.

The Board of Directors, assisted by the People, Culture and Governance Committee, conducts annual remuneration reviews for its Non-Executive Chairman, Non-Executive Directors, executives and all employees to ensure that remuneration remains market competitive, fair and aligned with both market practice and the best interests of shareholders.

Further information on the role and responsibilities of the People, Culture and Governance Committee is contained in the People, Culture and Governance Committee Charter, which can be found under the Governance tab on Karoon's website at **www.karoonenergy.com.au**.

2020 Remuneration Report Vote

At the Company's 2020 Annual General Meeting, Karoon's 2020 Remuneration Report received a 97.56% vote FOR on a poll.

At the Annual General Meeting, a question was asked as to whether the Company would consider revising its remuneration policy to reflect its new status as an oil producer with cash generating assets. In relation to this, it is noted that the Company's 2021 performance hurdles included various operational considerations, including in relation to production volumes, operating costs, capital costs and a smooth transition of the Baúna asset from Petrobras to the Company.

Share Trading Policy

The trading of ordinary shares by Non-Executive Directors and executives is subject to, and conditional upon, compliance with Karoon's Share Trading Policy.

Under Karoon's Share Trading Policy, an individual may not limit his or her exposure to risk in relation to securities (including unlisted share options and performance rights). Directors and executives are prohibited from entering into any hedging arrangements over unvested share options or performance rights under Karoon's share-based remuneration schemes. To gain approval to trade and ensure that trading restrictions are not in force any employee wishing to trade in Karoon securities must consult the Company Secretary, the Executive Vice President and President Karoon Brazil, the Company Secretary or any Director wishing to trade in Karoon securities must consult the Chairman, whilst the Chairman must consult and seek approval of the Audit and Risk Committee Chair. All trades by Directors and executives during the financial year ended 30 June 2021 were conducted in compliance with Karoon's Share Trading Policy.

Karoon's Share Trading Policy can be found under the Governance tab on Karoon's website at **www.karoonenergy.com.au**.

Section 3. Executive Remuneration

The Board of Directors has developed a remuneration policy that ensures executive remuneration supports the current business strategy and needs of the business. In particular, the decision to use performance tested share-based grants for its incentive plans reflects the Board of Directors' belief that this best aligns executive and shareholder interests in the short and long-term. Karoon's success is measured by the delivery of its strategic objectives in the short-term and a clear demonstration of shareholder value creation in the long-term.

Broadly, the objectives of Karoon's executive remuneration framework are to ensure:

- remuneration is reasonable and competitive in order to attract, retain and motivate talented and high calibre executives capable of managing Karoon's diverse international operations;
- remuneration is set at a level acceptable to shareholders, having regard to Karoon's performance, and rewards individual achievements;
- remuneration structures create alignment between performance, reward and sustained growth in shareholder value;
- remuneration outcomes provide recognition of contribution to overall long-term growth in the value of Karoon's asset portfolio and are transparent to both participants and shareholders; and
- remuneration incentivises the best possible outcomes for the broader stakeholder community, including sustainability and safety, along with best practice in preventing bribery and/or corruption.

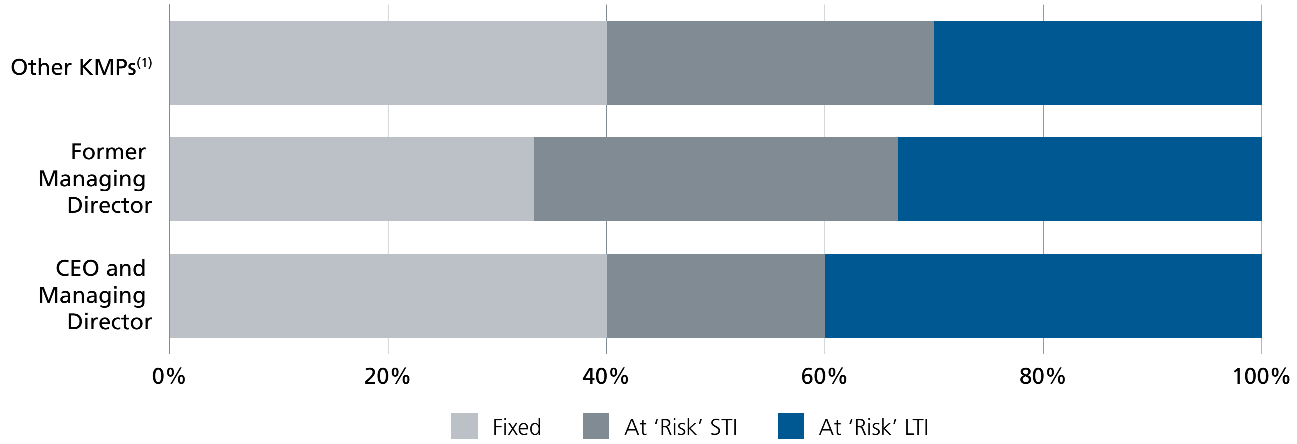
Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2021

The following table summarises the target remuneration mix for executives for the financial year ended 30 June 2021, based on maximum achievement of incentive plan outcomes:

Remuneration Mix – financial year ending 30 June 2021



(1) "Other KMPs" excludes the remuneration mix of Mr Ricardo Abi-Ramia who commenced as a KMP on 31 March 2021. Mr Abi-Ramia's remuneration mix comprises 50% 'fixed', 25% at 'risk' STI and 25% at 'risk' LTI.

Fixed Remuneration

Fixed remuneration consists of cash salary, superannuation contributions and any salary sacrifice items or non-monetary benefits including health insurance, motor vehicles, expatriate travel, certain membership and associated fringe benefits tax, depending on each individual's respective employment arrangements.

Fixed remuneration is reviewed annually by the Board. Broadly, fixed remuneration is positioned within a range that references the median of the relevant market for each role. In recognition of the current economic climate, primarily caused by COVID-19 and oil and gas industry market conditions, base salary for Executive Directors and other KMP did not increase for the financial year ended 30 June 2021.

It is also noted that, during the financial year until 31 October 2020, Australian KMP fixed remuneration was reduced by 20% as part of the Company's COVID-19 response.

Superannuation

Other than the Chief Executive Officer and Managing Director who receives superannuation contributions equal to 9.5% of his cash salary, the Australian executives of the Company received statutory superannuation contributions of 9.5% of cash remuneration up to the maximum statutory contribution. Individuals may choose to sacrifice part of their salary to increase payments towards superannuation.

Social Security and Indemnity Fund Contributions

Karoon's Brazilian based executives are subject to specific Brazilian employment regulations, whereby the Group is required to contribute 27.3% of Brazilian cash compensation as social security to fund Government pensions paid in retirement. However, the executives upon retirement will only be entitled to a portion of this contribution. A further 8% of their cash remuneration is required to be contributed to a Federal Severance Indemnity Fund ('FGTS'). In the situation of unfair dismissal without just cause, the Group would have to pay a fine equivalent to 50% of the accumulated balance of the individual's FGTS account.

'At Risk' Remuneration

Karoon aims to align the interests of executives with those of shareholders by having a significant proportion of executive remuneration 'At Risk'. 'At Risk' remuneration represents the proportion of remuneration that requires pre-determined performance conditions to be met before the remuneration is vested to the executive. Annually, the Board reviews the financial and operational goals and targets, looking broadly at where the building blocks for long-term value exist, then sets performance conditions that generate a link between operating performance, remuneration received and value created for shareholders.

All executives that received grants of performance rights during the financial year ended 30 June 2021 received performance rights that were issued under the 2019 Performance Rights Plan ('2019 PRP').

STI Plan

The key features of the STI grant for the financial year ended 30 June 2021 ('FY21 award') are outlined in the table below:

Participation	All executives. Participation in the STI Plan is at the discretion of the Board of Directors on the recommendation of the People, Culture and Governance Committee.
STI Opportunity	The STI opportunity level of each executive is a pre-determined proportion of an executives' total remuneration. The quantum of performance rights received is determined by dividing the STI opportunity for each employee by Karoon's weighted average share price in the 20-trading day period leading up to the first day of the performance period. The STI opportunity available to an executive is between 25%-33.33% of total remuneration dependant on seniority in the Group. The Board calculates the incentive value and establishes a maximum number of performance rights 'At Risk' at the beginning of the period. It is noted that, in respect of: • the former Managing Director it was decided, given his retirement occurred part way through the financial year, that an at-risk pro rata cash STI (as opposed to an STI to be received in performance rights) would be available (with no Deferral Period); and • in respect of the current Chief Executive Officer and Managing Director it was decided, given his appointment occurred part way through the financial year, that an at-risk pro rata cash STI (as opposed to an STI to be received in performance rights) would be available.
Form of Incentive	Executives receive performance rights. The quantum of performance rights received was determined by dividing the STI opportunity for each executive by the six month weighted average share price at the beginning of the test period. Maximum amount of performance rights available were determined in connection with the finalisation of the 30 June 2020 audited accounts and remained 'At Risk' until tested during July 2021 and the satisfaction of retention conditions to be met on 1 July 2022. Performance rights do not have a strike price. Each performance right provides the participant with the right to receive one fully paid ordinary share in Karoon, or its equivalent value, for no consideration. Under the rules of the PRP, ordinary shares issued as a result of the exercise of vested and converted performance rights may be issued as new ordinary shares, ordinary shares acquired on-market or an equivalent value in cash at Karoon's discretion.
Performance Period	1 year.
Deferral Period	Vested performance rights are subject to a retention period of 12 months, being the continuation of employment, immediately following the satisfaction of performance conditions.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2021 continued

STI Plan continued

Performance Conditions

As part of the 2021 remuneration review, for the financial year ended 30 June 2021 the Board set out the FY21 award for short-term incentives based on a mix of the following performance hurdles:

	Company-wide Objectives	Role-specific Objectives
Executive Directors	100%	Nil%
Other KMP	80%	20%

Company-wide Objectives

Company-wide Objectives were set by the Board at the beginning of the performance period.

The Company-wide Objectives included strategic and operational targets, along with cost management goals.

Role-specific Objectives

Role-specific Objectives were set at the beginning of the performance period and related directly to the individual's specific portfolio of responsibility.

All short-term performance outcomes are tempered by both a gateway for safety outcomes and a clawback (negative discretion) provision in relation to bribery and/or corruption issues.

Further details on the performance conditions, targets and outcomes for the FY21 award are outlined below in the STI outcomes within Section 3B on page 61.

Grant Date

Grant date occurs following the offer and acceptance of performance rights. However, any performance rights offered and accepted by an Executive Director are subject to shareholder approval at the next Annual General Meeting.

Termination of Employment

Unvested performance rights will lapse upon cessation of employment with Karoon, subject to the discretion of the Board of Directors depending on the nature and circumstances of the termination.

Change of Control

Upon a change of control, the Board of Directors may determine that a portion of the individual's unvested performance rights will vest based on pro-rata achievement of the performance conditions.

Link Between Performance and Reward

The STI framework is based on a set of challenging Company building goals, granted on a rolling short-term basis. Linking outcomes to operational performance develops an essential alignment between Karoon's year-to-year inherent value growth and rewards those who establish that value only when the goals are met. The Board assess the goals for the performance period annually in light of the long-term strategic building blocks and upcoming key value drivers within Karoon's operations, allowing for transparent measurement of performance against these objectives,

The Board recognises the risks associated with offshore production and drilling and considers safety, anti-bribery and zero corruption paramount to its operations. Safety is used as a gateway for vesting conditions, while bribery and corruption can be utilised to clawback incentives.

LTI Plan

The key features of the LTI grant for the financial year ended 30 June 2021 are outlined in the table below:

Participation	All executives. Participation in the LTI plan is at the discretion of the Board of Directors on the recommendation of the People, Culture and Governance Committee.
LTI Opportunity	The LTI opportunity available to an executive is between 25%-40% of total remuneration dependent on seniority in the Company.
Form of Incentive	The quantum of performance rights received was determined by dividing the LTI opportunity for each executive by the six month weighted average share price at the beginning of the test period. Performance rights do not have a strike price. Each performance right provides the participant with the right to receive one fully paid ordinary share in Karoon, or its equivalent value, for no consideration. Under the rules of the PRP, ordinary shares issued as a result of the exercise of vested and converted performance rights may be issued as new ordinary shares, ordinary shares acquired on-market or an equivalent value in cash at Karoon's discretion.
Performance Period	3 years.
Performance Conditions	The LTI performance hurdles for the period commencing 1 July 2020 and ending 30 June 2023 are split 50% relative to TSR performance as assessed against a list of closely comparable and representative industry peer group companies, whose business models and/or regions of operations are similar to those of Karoon; and 50% Absolute TSR, which is set at a range of 10% to 18%. Vesting consideration details for the industry peer group companies is outlined below:

Performance Against Industry Peer Group	Proportion of Performance Rights Vesting
Less than 50th percentile	Nil%
At 50th percentile	50%
Between 50th and 75th percentile	50% plus 2% for each additional percentile ranking above the 50th percentile
At or above 75th percentile	100%
At 100% percentile	100%

Vesting consideration details for the Absolute TSR measure are set out below.

Absolute TSR	Proportion of Performance Rights Vesting
Less than 10%	Nil %
At 10%	50%
Between 10.01% and 17.99%	50% plus 6.25% for each additional percentage point above the 10% threshold
At or above 18.00%	100%

Grant Date	Grant date occurs following the offer and acceptance of performance rights. However, any performance rights offered and accepted by an Executive Director are subject to shareholder approval at the next Annual General Meeting.
Exercise Period	Performance rights will remain exercisable for a period of 1 year following vesting.
Termination of Employment	Unvested (and unconverted) performance rights will lapse upon cessation of employment with Karoon, subject to the discretion of the Board of Directors depending on the nature and circumstances of the termination.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2021 continued

LTI Plan continued

Change of Control	Upon a change of control, the Board of Directors may determine that a portion of the individual’s unvested performance rights will vest, based on pro-rata achievement of the performance conditions.
Link Between Performance and Reward	The Board of Directors and People, Culture and Governance Committee consider it important to link remuneration to share price performance relative to Karoon’s industry peer group companies and overall share price performance over the long-term. In the case where performance does not reach the 50th percentile, no incentive will be paid.

B. Executive Remuneration Outcomes

Relationship between the Executive Remuneration Framework and Company Performance

Karoon has a transparent performance-based remuneration structure in place that provides a direct link between Company performance and remuneration in the short and long-term. As part of this structure, executive rewards are directly linked to operational, safety and financial performance metrics along with relative market and absolute performance. ‘At Risk’ remuneration is only awarded if pre-determined Company building milestones are achieved or the Company outperforms an industry peer group of companies or achieves a minimum level of absolute return in the long term.

Notwithstanding the Company has progressed its Southern Santos Basin strategy and has maintained a robust financial position in a difficult oil and gas industry environment, the Company’s share price has fluctuated during the past five financial years.

Over the past 5 years, this financial year is the first in respect of which LTI’s have vested to Executives. This result is directly correlated to the Company’s share price and performance against its peer group.

Further, it is noted that whilst Karoon achieved various key milestones in the performance testing period for the current financial year, the hurdle related to closing the Baúna acquisition in the third quarter of calendar year 2020 did not occur within that time and therefore, the STI linked to this hurdle did not satisfy the performance condition.

Given the above, the Board of Directors, believes its current policy is effective in linking remuneration to Company performance.

The tables below set out summary information about the Company’s earnings, net assets and movements in shareholder wealth from 1 July 2016 to 30 June 2021.

Financial Year Ended	30 June 2021 US$’000	30 June 2020 US$’000	30 June 2019[A] US$’000	30 June 2018[A,B] US$’000	30 June 2017[A,B] US$’000
Revenue	170,809	–	–	–	–
Profit (loss) before income tax	(27,873)	(86,772)	(11,351)	(142,699)	(70,557)
Profit (loss) for financial year	4,384	(86,138)	(13,316)	(140,932)	(62,711)
Net assets at end of financial year	380,250	359,482	298,831	410,367	572,584

Financial Year Ended	30 June 2021	30 June 2020	30 June 2019[A]	30 June 2018[A]	30 June 2017[A]
Share price at beginning of financial year	A$0.61	A$0.96	A$1.13	A$1.28	A$1.285
Share price at end of financial year	A$1.33	A$0.61	A$0.96	A$1.13	A$1.28
Basic profit (loss) per ordinary share (US$)	0.0079	(0.1936)	(0.0550)	(0.5740)	(0.2559)
Diluted profit (loss) per ordinary share (US$)	0.0077	(0.1936)	(0.0550)	(0.5740)	(0.2559)

(A) The comparative financial information for the financial year ended 30 June 2019 and prior financial years have been restated for the voluntary change in presentation currency from A$ to US$ at the prevailing average exchange rates for the profit and loss and year-end rate for the balance sheet for each respective year.

(B) The comparative financial information for the financial year ended 30 June 2017 and 30 June 2018 have not been restated for the impact of the voluntary change to successful efforts method of accounting for exploration and evaluation expenditure.

Performance Hurdles and STI Outcomes for the Financial Year Ended 30 June 2021

The table below outlines the Company-wide Objectives for the financial year ended 30 June 2021:

Criteria	Hurdle
Safety (0% – gateway)	Zero fatalities and a TRIR of < 2 required for any award to proceed.
Financial and Operational Objectives (65%)	
• Operational Performance and Budgeting	Achieve the challenging Baúna approved budget operational targets.
• Baúna Operatorship	Successful transition to operatorship of the Baúna asset.
• Baúna Schedule	Secure relevant regulatory approvals for planned Baúna workovers. Obtain FID for the Patola field development.
• COVID-19 Response	Demonstrate effective management of the COVID-19 pandemic.
Strategic (35%)	
• Completion of the Baúna Acquisition	Achieve a legal settlement and financial close of the Baúna acquisition by the third quarter of calendar year 2020.
• Balance Sheet Protection	Develop and implement certain strategies to strengthen the Group's balance sheet.
• Further evolution of the corporate operating model	Continued refinement of the corporate operating model towards a lower cost and more development and production centric business model.
Anti-bribery and Corruption (0% – clawback)	Negative discretion will be applied, if necessary, by the Board of Directors should any material event which constitutes a breach of Karoon's Anti-bribery and Corruption Policy occur.

Based on actual results, in respect of the current Chief Executive Officer and Managing Director, a total of 61.5% of the available STI opportunity (pro-rated from employment start date) in the form of a cash bonus, which is subject to a one year employment retention, satisfied the requisite STI performance targets outlined above. For other KMP, between 59.2% and 73.3% of the available STI opportunity satisfied requisite performance targets (based on the results of Role-specific performance targets).

Performance rights (associated with the STI) that have satisfied requisite performance hurdles have a 1-year retention period ending 30 June 2022 before they become exercisable and convertible into fully paid ordinary shares or paid for the equivalent value in cash. These STI performance rights expire on 30 June 2023.

LTI Outcomes

Karoon's 2019 LTI performance conditions of achieving an absolute total shareholder return ('TSR') of 10% per annum and a minimum 50th percentile against the Company's Relative TSR when compared with a select group of peer companies over the period from 1 July 2018 to 30 June 2021 was met. Karoon was at or above the 75th to 99th percentile when compared against the relevant industry peer group and, accordingly, 100% of the 2019 LTI entitlement vested.

Voluntary Information: 2021 'Remuneration Received'

The amounts disclosed below reflect the actual benefits received by each executive during the financial year ended 30 June 2021 and have been translated into US$ from local currencies using the average exchange rate for the 2021 financial year. The average rate used for A$/US$ was 0.7472 and BRL/US$ was 0.1857. The amounts disclosed below include the actual value of any equity-settled and/or cash-settled award received from STI and/or LTI.

The amounts disclosed in the table below are not the same as the statutory remuneration expensed in relation to each executive in accordance with Australian Accounting Standards shown in the statutory table in Section 5 of the Remuneration Report. The remuneration values disclosed below have been determined as follows:

Fixed Remuneration

Fixed remuneration includes cash salary and fees, non-monetary benefits, superannuation contributions and paid long service leave.

Fixed remuneration excludes any accruals of annual or long service leave.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

B. Executive Remuneration Outcomes continued

Short-term Incentives

Includes cash bonuses and the equity-settled and/or cash-settled award received from STI incentives by executives. The value of STI equity-settled and cash-settled awards received reflects the amounts disclosed to the relevant tax authorities during the financial year ended 30 June 2021.

Cash bonus

Bonus paid during the 2021 financial year relates to a one off payment relating to the successful completion of the Baúna acquisition.

Long-term Incentives

Includes the equity-settled and/or cash-settled award received from LTI incentives by executives. The value of LTI equity-settled awards and cash-settled awards received reflects the amounts disclosed to the relevant tax authorities during the financial year ended 30 June 2021.

	Fixed Remuneration US$	Cash Bonus US$	Short-term Incentives US$	Long-term Incentives US$	Termination Benefit US$	Total Remuneration Received US$
Executive Directors						
Dr Julian Fowles	362,676	–	–	–	–	362,676
Mr Robert Hosking	325,105	–	112,080	–	–	437,185
Other KMP (Group)						
Mr Scott Hosking	320,473	44,832	33,460	–	–	398,765
Mr Tim Hosking	246,447	23,643	29,780	–	469,609	769,479
Mr Edward Munks	382,126	22,416	50,067	–	–	454,609
Mr Ricardo Abi-Ramia (Commenced as Senior VP Operations from 31 March 2021)	68,781	–	–	–	–	68,781

The Board of Directors believes that 'remuneration received' is more relevant to shareholders for the following reasons:

- the statutory remuneration expensed through share-based payments (ESOP options and/or performance rights) is based on historic cost and does not reflect the value of equity-settled and/or cash-settled amounts when they are actually received;
- the statutory remuneration shows benefits before they are actually received by executives;
- where ESOP options or performance rights do not vest because a market-based performance condition is not satisfied (for example, an increase in Karoon's share price), Karoon must still recognise the full amount of the share-based payments expense even though the executives do not receive the benefit; and
- share-based payment awards are treated differently under Australian Accounting Standards depending on whether the performance conditions are market conditions (no reversal of share-based payments expense) or non-market conditions (reversal of share-based payments expense when ESOP options or performance rights fail to vest), even though the benefit received by the executive is the same ($Nil where the ESOP option or performance right fail to vest).

The information in this section has been audited together with the rest of the Remuneration Report.

C. Executive Agreements

Remuneration and other terms of employment for the executives are formalised in employment agreements. Each of these agreements may provide for the provision of benefits such as health insurance, motor vehicles, one expatriate business class flight for an executive and his family, and participation, when eligible, in the Company's PRP. Other major provisions of the agreements relating to remuneration are set out below.

Termination payments for executives, if any, are agreed by the Board and/or People, Culture and Governance Committee in advance of employment and stated in the relevant employment agreements. Upon retirement, executives are paid employee benefit entitlements accrued to the date of retirement.

Details of existing employment agreements between the Company and the Executive Director and other KMP are as follows:

Name	Term	Expiry	Notice/ Termination Period	Termination Payments	Share Option Eligible	Performance Right Eligible
Executive Directors						
Dr Julian Fowles	From 27 November 2020, ongoing	Ongoing	In writing six months	Not applicable.	Yes	Yes
Other KMP						
Mr Scott Hosking	Ongoing	Ongoing	In writing six months	Fundamental change upon a change of control: one year, two weeks' salary for each year of service.	Yes	Yes
Mr Edward Munks	From 1 July 2011, ongoing	Ongoing	In writing six months	Fundamental change upon a change of control: one year.	Yes	Yes
Mr Ricardo Abi-Ramia	Ongoing	Ongoing	In writing one month	Not applicable (statutory entitlements).	Yes	Yes

All termination payments are subject to the limits prescribed under Section 200B of the *Corporations Act 2001*.

Other than in respect Mr Scott Hosking who will cease as an employee during the financing year ending 30 June 2022, and subject to any further changes to the executive team as a result of recent executive appointments, the employment agreements of executives are on a continuing basis, the terms of which are not expected to change in the immediate future.

Section 4. Independent Non-Executive Chairman and Non-Executive Directors

Fees and payments to the independent Non-Executive Chairman and other Non-Executive Directors reflect the demands, which are placed on, and the responsibilities of the Directors of Karoon. The Company reviews Independent Non-Executive Chairman and other Non-Executive Director remuneration annually and assesses the change to the Company's activities and overall responsibilities of each Non-Executive Director.

Subject to a 20% reduction between 1 July 2020 to 31 October 2020, there have been no changes to Non-Executive Directors' base or individual committee fees during the course of the financial year ending 30 June 2021. The tables at the end of this section provides a summary of Karoon's Non-Executive Director fee policy for the 2021 financial year.

Non-Executive Director fees are determined within an aggregate Directors' fee pool limit, which is periodically approved by shareholders. The maximum aggregate amount, including superannuation contribution, that may be paid to Non-Executive Directors of the Company as remuneration for their services per annum is A$1,200,000, as approved by shareholders at the Company's 2015 Annual General Meeting. For the financial year ended 30 June 2021, the total fees paid to Non-Executive Directors was A$838,917.

Superannuation contributions are paid, in accordance with Australian superannuation guarantee legislation, on Directors' fees paid to Australian resident Non-Executive Directors.

Share-based Remuneration

Non-Executive Directors do not ordinarily receive performance-related remuneration. The Company has determined that it will not grant bonus or incentive related share-based remuneration to Non-Executive Directors. Non-Executive Directors will continue to be encouraged to purchase ordinary shares in the Company on-market in accordance with the Director Minimum Shareholding Policy.

Retirement Allowance for Directors

Karoon does not provide any Non-Executive Director with a retirement allowance.

Remuneration Report (Audited) continued

Section 4. Independent Non-Executive Chairman and Non-Executive Directors continued

Non-Executive Director Fees for the Financial Years Ending 30 June 2021

Non-Executive Directors' fees for the financial year ended 30 June 2021 (excluding superannuation contribution) are outlined in the following table:

Base fee:	
Non-Executive Chairman*	A$220,000
Non-Executive Directors	A$100,000
Committee member fees	
Audit and Risk Committee	
Chairman	A$25,000
Member	A$20,000
People, Culture and Governance Committee	
Chairman	A$20,000
Member	A$15,000
Sustainability and Operational Risk Committee	
Chairman	A$20,000
Member	A$15,000

* Non-Executive Chairman base fee includes compensation for the appointment to relevant Committees.

Section 5. Statutory and Share-based Reporting

Details of the Remuneration of the Directors and Other Key Management Personnel

Details of the remuneration of the Directors and other KMP of the Group for the financial year and previous financial year are set out in the following tables. For all remuneration reporting stated in US$, exchange rates of AU$/US$ 0.7472 (2020: 0.6714) and BRL/US$ 0.1857 (2020: 0.1826) have been used.

Financial Year Ended 30 June 2021	Short-term Benefits			Post-employment Benefits		Long-term Benefits		Share-based Payments Expense		
Name	Cash Salary and Fees US$	Non-monetary Benefits US$	Cash STI/ Bonus US$	Super-annuation Contributions US$	Social Security & Indemnity Fund Contributions US$	Long Service Leave US$	Termination Payments US$	Share Options/ Performance Rights US$	Remuneration Consisting of Share Options Performance Rights* %	Total Remuneration US$
Executive Directors										
Dr Julian Fowles (commenced as Director on 27 November 2020)	331,211	–	37,262	31,465	–	310	–	102,548	20.4	502,796
Mr Robert Hosking (retired as a Director on 27 November 2020)	277,343	23,818	112,080	16,210	–	7,735	–	455,034^	51.0	892,220
Non-Executive Directors										
Mr Bruce Phillips	153,425	–	–	15,616	–	–	–	–	–	169,041
Ms Luciana Rachid	83,686	–	–	–	–	–	–	–	–	83,686
Mr Geoff Atkins (retired as a Director on 27 November 2020)	35,305	–	–	3,993	–	–	–	–	–	39,298
Mr Clark Davey	97,634	–	–	9,938	–	–	–	–	–	107,572
Mr Peter Turnbull	108,095	–	–	11,003	–	–	–	–	–	119,098
Mr José Coutinho Barbosa (retired as a Director on 27 November 2020)	30,075	–	–	–	–	–	–	–	–	30,075
Mr Peter Botten (commenced as a Director on 1 October 2020)	71,295	–	–	6,773	–	–	–	–	–	78,068
Total Directors' remuneration	1,188,069	23,818	149,342	94,998	–	8,045	–	557,582		2,021,854
Other KMP (Group)										
Mr Scott Hosking	291,508	12,756	44,832	16,210	–	4,683	–	603,040	62.0%	973,029
Mr Tim Hosking (ceased as South American General Manager and Chief Executive Officer Brazil on 31 March 2021)	201,442	15,207	23,643	–	29,798	–	469,609	1,161,031^	61.1%	1,900,730
Mr Edward Munks	364,385	1,531	22,416	16,210	–	4,833	–	403,554	49.6%	812,929
Mr Ricardo Abi-Ramia (commenced as Senior VP Operations from 31 March 2021)	49,522	1,778	–	–	17,481	–	–	39,735	36.6%	108,516
Total other KMP remuneration (Group)	906,857	31,272	90,891	32,420	47,279	9,516	469,609	2,207,360		3,795,204
Total KMP remuneration (Group)	2,094,926	55,090	240,233	127,418	47,279	17,561	469,609	2,764,942		5,817,058

* The percentage of total remuneration consisting of share options and performance rights, based on the value of share options and performance rights expensed in the consolidated statement of profit or loss and other comprehensive income during the financial year.

^ Robert Hosking and Tim Hosking's share-based expense includes the accelerated vesting of STI and LTI for accounting purposes, which they retained on cessation of their employment with the Company.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Details of the Remuneration of the Directors and Other Key Management Personnel continued

Financial Year Ended 30 June 2020	Short-term Benefits		Post-employment Benefits		Long-term Benefits	Share-based Payments Expense		
Name	Cash Salary and Fees US$	Non-monetary Benefits US$	Super-annuation Contributions US$	Social Security & Indemnity Fund Contributions US$	Long Service Leave US$	Share Options/ Performance Rights US$	Remuneration Consisting of Share Options and Performance Rights* %	Total Remuneration US$
Executive Directors								
Mr Robert Hosking	389,211	32,598	14,101	–	2,496	249,792	36.3%	688,198
Mr Mark Smith (retired as a Director on 29 November 2019 and remained as other KMP until 15 March 2020)	289,849	11,053	10,576	–	–	86,209	21.7%	397,687
Non-Executive Directors								
Mr Bruce Phillips	142,784	–	14,032	–	–	–	–	156,816
Ms Luciana Rachid	77,659	–	–	–	–	–	–	77,659
Mr Geoff Atkins	87,461	–	8,579	–	–	–	–	96,040
Mr Clark Davey	103,798	–	10,141	–	–	–	–	113,939
Mr Peter Turnbull	107,267	–	10,492	–	–	–	–	117,759
Mr José Coutinho Barbosa	68,662	–	–	–	–	–	–	68,662
Total Directors' remuneration	1,266,691	43,651	67,921	–	2,496	336,001		1,716,760
Other KMP (Group)								
Mr Scott Hosking	271,290	13,831	14,101	–	5,605	27,106	8.2%	331,933
Mr Tim Hosking	229,103	29,076	–	40,395	–	26,246	8.1%	324,820
Mr Edward Munks	339,113	851	14,101	–	7,875	253,336	41.2%	615,276
Total other KMP (Group)	839,506	43,758	28,202	40,395	13,480	306,688		1,272,029
Total KMP remuneration (Group)	2,106,197	87,409	96,123	40,395	15,976	642,689		2,988,789

* The percentage of total remuneration consisting of share options and performance rights, based on the value of share options and performance rights expensed in the consolidated statement of profit or loss and other comprehensive income during the financial year.

The amounts disclosed for the remuneration of Directors and other key management personnel include the assessed fair values of share options and performance rights granted during the financial year, at the date they were granted, with the exception of cash-settled share base payments which are revalued at year end and long-term performance rights granted to Dr Julian Fowles which have been valued at year end as they remain subject to approval by shareholders at the 2021 AGM. The value attributable to share options and performance rights is allocated to particular financial periods in accordance with AASB 2 *'Share-based Payment'*, which requires the value of a share option and performance right at grant date to be allocated equally over the period from grant date to vesting date, adjusted for not meeting the vesting condition. For share options and performance rights that vest immediately, the value is disclosed as remuneration immediately, in accordance with the accounting policy described in Note 1(s) of the consolidated financial statements. In addition, acceleration of vesting occurs for share options and performance rights up to the end of an employee's respective service period, where the options and rights are retained post cessation of employment.

Fair value of share options is assessed under the Black-Scholes option pricing model. The Black-Scholes option pricing model considers the exercise price, the term of the share option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share option. With the exception of long-term performance rights granted during the current financial year, the fair value of performance rights were based on the Company's closing share price at grant date. Long-term performance rights granted during the current financial year, which are subject to market-based performance conditions, have been valued using a Monte Carlo simulation approach.

The relative percentage proportions of remuneration that are linked to performance conditions, those that are not and those that are fixed are as follows:

					Related to Performance Conditions							
	Fixed Remuneration		Termination Payments		Cash Bonus		STI (Performance Rights)		LTI (Performance Rights)		LTI (Share Options)	
Name	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Executive Directors												
Dr Julian Fowles	72.2%	–	–	–	7.4%	–	–	–	20.4%	–	–	–
Mr Robert Hosking	36.4%	63.8%	–	–	12.6%	–	2.9%	2%	48.1%	26.7%	–	7.5%
Mr Mark Smith (ceased as a director 29 November 2019 and ceased as other KMP 15 March 2020)	–	78.3%	–	–	–	–	–	–	–	12.5%	–	9.2%
Non-Executive Directors												
Mr Bruce Phillips	100%	100%	–	–	–	–	–	–	–	–	–	–
Ms Luciana Rachid	100%	100%	–	–	–	–	–	–	–	–	–	–
Mr Geoff Atkins	100%	100%	–	–	–	–	–	–	–	–	–	–
Mr Clark Davey	100%	100%	–	–	–	–	–	–	–	–	–	–
Mr Peter Turnbull	100%	100%	–	–	–	–	–	–	–	–	–	–
Mr Peter Botten	100%	–	–	–	–	–	–	–	–	–	–	–
Mr José Coutinho Barbosa	100%	100%	–	–	–	–	–	–	–	–	–	–
Other KMP (Group)												
Mr Scott Hosking	33.4%	91.8%	–	–	4.6%	–	20.8%	3.5%	34.3%	3.8%	6.9%	0.9%
Mr Tim Hosking (ceased as South American General Manager and Chief Executive Officer Brazil on 31 March 2021)	13.1%	91.9%	24.7%	–	1.2%	–	17.5%	3.4%	40.1%	3.8%	3.4%	0.9%
Mr Edward Munks	47.6%	58.9%	–	–	2.8%	–	16.0%	7.8%	29.2%	25.8%	4.4%	7.5%
Mr Ricardo Abi-Ramla (commenced as Senior VP Operations from 31 March 2021.)	63.4%	–	–	–	–	–	13.2%	–	21.6%	–	1.8%	–

Further information on share options and performance rights is set out in Note 31 of the consolidated financial statements.

Amounts disclosed for remuneration of Directors and other KMP exclude insurance premiums paid by the Company in respect of directors' and officers' liability insurance contracts, as the contracts do not specify premiums paid in respect of individual Directors and officers. Information relating to insurance contracts is set out in this Directors' Report.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Share-based Remuneration

The exercise price of share options on issuance is currently $1.40. There are currently 4,066,123 share options and 12,385,073 performance rights issued under the 2016 ESOP, 2016 PRP and 2019 PRP respectively, representing approximately 2.97% of the Company's total number of ordinary shares issued.

The terms and conditions of each grant of share options and performance rights over unissued ordinary shares in the Company affecting remuneration in the current or a future financial year are as follows:

Grant Date	Date Vested and Exercisable	Expiry Date	Exercise Price Per Share Option or Performance Right	Fair Value Per Share Option or Performance Right at Grant Date	% Vested	Performance Condition Achieved
ESOP options						
21 September 2018	1 July 2021	30 June 2022	A$1.40	A$0.285	100	2021 Performance condition
31 December 2018	1 July 2021	30 June 2022	A$1.40	A$0.100	100	2021 Performance condition
Performance rights						
21 September 2018	1 July 2021	30 June 2022	$–	A$1.150	100	2021 Performance condition
31 December 2018	1 July 2021	30 June 2022	$–	A$0.850	100	2021 Performance condition
12 November 2019	1 July 2021	30 June 2022	$–	A$1.060	21	2020 Performance condition
12 November 2019	1 July 2022	30 June 2023	$–	A$1.060	–	To be determined
18 October 2019	1 July 2021	30 June 2022	$–	A$1.075	43	2020 Performance condition
18 October 2019	1 July 2022	30 June 2023	$–	A$1.075	–	To be determined
29 November 2019	1 July 2021	30 June 2022	$–	A$1.115	7.5	2020 Performance condition
29 November 2019	1 July 2022	30 June 2023	$–	A$1.115	–	To be determined
25 September 2020	1 July 2022	30 June 2023	$–	A$0.740	69	2021 Performance condition
25 September 2020	1 July 2023	30 June 2024	$–	A$0.587	–	To be determined
27 November 2020	1 July 2023	30 June 2024	$–	A$1.195	–	To be determined

Share options and performance rights are granted for no consideration. Share options and performance rights granted carry no dividend or voting rights.

Number of Share Options and Performance Rights Provided as Remuneration During the Financial Year

Details of share options and performance rights over unissued ordinary shares in the Company provided as remuneration to each Director and each of the other KMP, including their personally related parties, are set out below:

Name	Number of Share Options and Performance Rights Granted During Financial Year	Fair Value Per Share Options and Performance Rights at Grant Date*	Value of Share Options and Performance Rights at Grant Date*	Number of Share Options and Performance Rights Vested During Financial Year	Number of Share Options and Performance Rights Forfeited	Value of Share Options and Performance Rights Forfeited**
Executive Directors						
Dr Julian Fowles						
– Performance rights (LTI)	502,989	A$1.195	A$601,072	–	–	–
Mr Robert Hosking						
– ESOP options	–	–	–	–	574,172	A$419,146
– Performance rights (LTI)	–	–	–	–	819,252	A$598,054
Non-Executive Director						
Mr José Coutinho Barbosa						
– ESOP options	–	–	–	–	18,100	A$13,213
– Performance rights (STI)	74,331	A$0.740	A$55,005	9,706	13,838	A$10,102
– Performance rights (LTI)	74,331	A$0.587	A$43,647	–	14,925	A$10,895
Other key management personnel (Group)						
Mr Scott Hosking						
– ESOP options	–	–	–	–	222,340	A$162,308
– Performance rights (STI)	464,444	A$0.740	A$343,689	38,704	275,183	A$200,884
– Performance rights (LTI)	464,444	A$0.587	A$272,722	–	78,571	$57,357
Mr Tim Hosking						
– ESOP options	–	–	–	–	215,290	A$157,162
– Performance rights (STI)	449,717	A$0.740	A$332,791	48,331	266,458	A$194,514
– Performance rights (LTI)	449,717	A$0.587	A$264,074	–	76,080	A$55,538
Mr Edward Munks						
– ESOP options	–	–	–	–	166,755	A$121,731
– Performance rights (STI)	580,556	A$0.740	A$429,611	48,380	343,979	A$251,105
– Performance rights (LTI)	580,556	A$0.587	A$340,902	–	137,500	A$100,375
Total key management personnel						
– Share options	–		–	–	1,196,657	A$873,560
– Performance rights	3,641,085		A$2,683,513	145,121	2,025,786	A$1,478,824

* The value at grant date, calculated in accordance with AASB 2, of share options and performance rights granted during the financial year as part of their remuneration.

** The value of share options and performance rights forfeited during the financial year because a vesting condition was not satisfied was determined at the time of forfeit (28 August 2020), but assuming the condition was satisfied, based on the underlying value of the share options or performance rights at that date.

No share options or performance rights over unissued ordinary shares in the Company, held by any Director or other KMP, lapsed during the financial year, except for 1,196,657 share options and 2,025,786 performance rights that were forfeited by Directors and other KMP.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Shares Issued on the Exercise of Share Options Provided as Remuneration

No share options were exercised by any Director or other KMP, including their personally related parties, during the financial year.

Shares Issued on the Conversion of Performance Rights Provided as Remuneration

Details of fully paid ordinary shares in the Company issued, as a result of the exercise and conversion of remuneration performance rights to each Director and other KMP, during the financial year, including their personally related parties, are set out below:

Name	Date of Conversion of Performance Rights	Number of Ordinary Shares Issued	Value at Conversion Date*	Amount Paid per Performance Right
Other KMP (Group)				
Mr Edward Munks	7 June 2021	48,380	A$67,006	$–
		48,380	A$67,006	

* The value at conversion date of performance rights that were granted as part of their remuneration and were converted during the financial year has been determined as the underlying value of the performance rights at that date.

No amounts are unpaid on any ordinary shares issued on the conversion of the above remuneration performance rights.

Cash-settled Payments on the Cancellation of Performance Rights Provided as Remuneration

Details of cash-settled payments by the Company, as a result of the cancellation of remuneration performance rights to each Director and other KMP during the financial year, including their personally related parties, are set out below:

Name	Date of Cancellation of Performance Rights	Number of Performance Rights Cancelled	Cash-settled Payment Value*	Amount Paid per Performance Right
Mr José Coutinho Barbosa	14 August 2020	9,706	A$7,194	$–
Mr Scott Hosking	5 May 2021	38,704	A$44,781	$–
Mr Tim Hosking	9 February 2021	48,331	A$47,767	$–
		96,741	A$99,742	

* The cash-settled value of performance rights that were granted as part of their remuneration and were cancelled during the financial year was determined based on a ten day volume weighed average Company share price.

Details of Remuneration – Share Options and Performance Rights

For each grant of share options or performance rights in current or previous financial years which resulted in a share-based payment expense to Directors and other KMP, the percentage of the grant that vested and percentage that was forfeited because the individual did not meet the service and/or pre-determined performance conditions is set out below:

Name	Financial Year End Granted	Vested %	Forfeited %	Financial Years in Which Share Options or Performance Rights May Vest	Maximum Total Value of Grant Yet to Vest US$
Executive Directors					
Dr Julian Fowles					
– Performance rights (LTI)	30 June 2021	–	–	30 June 2024	346,573
Mr Robert Hosking					
– Performance rights (LTI)	30 June 2020	–	–	30 June 2023	–
– Performance rights (STI)	30 June 2020	7.5	92.5	30 June 2022	–
Other KMP (Group)					
Mr Scott Hosking					
– ESOP options (LTI)	30 June 2019	100	–	30 June 2022	–
– Performance rights (LTI)	30 June 2019	100	–	30 June 2022	–
– Performance rights (STI)	30 June 2020	21	79	30 June 2022	–
– Performance rights (LTI)	30 June 2020	–	–	30 June 2023	154,095
– Performance rights (STI)	30 June 2021	63.2	36.8	30 June 2023	165,328
– Performance rights (LTI)	30 June 2021	–	–	30 June 2024	300,034
Mr Tim Hosking					
– ESOP options (LTI)	30 June 2019	100	–	30 June 2022	–
– Performance rights (LTI)	30 June 2019	100	–	30 June 2022	–
– Performance rights (STI)	30 June 2020	21	79	30 June 2022	–
– Performance rights (LTI)	30 June 2020	–	–	30 June 2023	–
– Performance rights (STI)	30 June 2021	59.2	40.8	30 June 2023	–
– Performance rights (LTI)	30 June 2021	–	–	30 June 2024	–
Mr Edward Munks					
– ESOP options (LTI)	30 June 2019	100	–	30 June 2022	–
– Performance rights (LTI)	30 June 2019	100	–	30 June 2022	–
– Performance rights (STI)	30 June 2020	21	79	30 June 2022	–
– Performance rights (LTI)	30 June 2020	–	–	30 June 2023	129,338
– Performance rights (STI)	30 June 2021	63.2	36.8	30 June 2023	114,984
– Performance rights (LTI)	30 June 2021	–	–	30 June 2024	184,289
Mr Ricardo Abi-Ramia					
– ESOP options (LTI)	30 June 2019	100	–	30 June 2022	–
– Performance rights (LTI)	30 June 2019	100	–	30 June 2022	–
– Performance rights (STI)	30 June 2020	53.8	46.2	30 June 2022	–
– Performance rights (LTI)	30 June 2020	–	–	30 June 2023	46,455
– Performance rights (STI)	30 June 2021	73.3	26.7	30 June 2023	38,053
– Performance rights (LTI)	30 June 2021	–	–	30 June 2024	60,898

No share options or performance rights will vest if the service and/or pre-determined performance conditions are not met, therefore the minimum value of the share option or performance right yet to vest is $Nil.

The maximum value of share options and performance rights yet to vest was determined as the amount of the grant date fair value of the share options or performance rights that is yet to be expensed in the consolidated statement of profit or loss and other comprehensive income.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Share Options and Performance Rights over Unissued Ordinary Shares in the Company as at 30 June 2021

During the financial year 3,641,085 performance rights over unissued ordinary shares in the Company were issued to Directors and other KMP, including their personally related parties.

The movement of share options and performance rights over unissued ordinary shares in the Company held by Directors and other KMP, including their personally related parties, during the financial year was as follows:

	Balance as at 1 July 2020	Granted as Remun-eration	Exercised Share Options/ Vested and Converted Performance Rights	Cash-settled	Share Options or Performance Rights Forfeited	Other	Balance as at 30 June 2021	Total Vested and Exercisable as at 30 June 2021	Total Unvested as at 30 June 2021
Executive Directors									
Dr Julian Fowles									
– Performance rights[1]	–	502,989	–	–	–	–	502,989	–	502,989
Mr Robert Hosking									
– ESOP options	574,172	–	–	–	(574,172)	–	–	–	–
– Performance rights	1,535,549	–	–	–	(819,252)	(716,297)[2]	–	–	–
Non-Executive Directors									
Mr Bruce Phillips	–	–	–	–	–	–	–	–	–
Ms Luciana Rachid	–	–	–	–	–	–	–	–	–
Mr Geoff Atkins	–	–	–	–	–	–	–	–	–
Mr Clark Davey	–	–	–	–	–	–	–	–	–
Mr Peter Turnbull	–	–	–	–	–	–	–	–	–
Mr Peter Botten	–	–	–	–	–	–	–	–	–
Mr José Coutinho Barbosa									
– ESOP options	67,486	–	–	–	(18,100)	(49,386)[2]	–	–	–
– Performance rights	97,410	148,662	–	(9,706)	(28,763)	(207,603)[2]	–	–	–
Other KMP									
Mr Scott Hosking									
– ESOP options	591,598	–	–	–	(222,340)	–	369,258	–	369,258
– Performance rights	910,700	928,888	–	(38,704)	(353,754)	–	1,447,130	–	1,447,130
Mr Tim Hosking									
– ESOP options	572,839	–	–	–	(215,290)	(357,549)[3]	–	–	–
– Performance rights	892,678	899,434	–	(48,331)	(342,538)	(1,401,243)[3]	–	–	–
Mr Edward Munks									
– ESOP options	628,327	–	–	–	(166,755)	–	461,572	–	461,572
– Performance rights	1,177,663	1,161,112	(48,380)	–	(481,479)	–	1,808,916	–	1,808,916
Mr Ricardo Abi-Ramia									
– ESOP options	–	–	–	–	–	258,138[4]	258,138	–	258,138
– Performance rights	–	–	–	–	–	692,353[4]	692,353	–	692,353
Total key management personnel									
– Share options	2,434,422	–	–	–	(1,196,657)	(148,797)	1,088,968	–	1,088,968
– Performance rights	4,614,000	3,641,085	(48,380)	(96,741)	(2,025,786)	(1,632,790)	4,451,388	–	4,451,388

1 Long-term performance rights issued to Dr Julian Fowles and subsequent holding remain subject to shareholder approval at the 2021 Annual General Meeting.

2 Reflects respective holdings, held both individually and personally via related parties, when each director retired on 27 November 2020.

3 Reflects Tim Hosking's holdings when he ceased his employment on 31 March 2021.

4 Reflects Ricardo Abi-Ramia holdings when he commenced his role as Senior VP Operations on 31 March 2021.

All performance rights issued during the financial year were issued under the 2019 PRP.

The number of ordinary shares held by Directors and other KMP, including their personally related parties, as at 30 June 2021 was as follows:

	Balance as at 1 July 2020	Received as Remuneration	Exercised (Share Options)/ Vested and Converted (Performance Rights)	Ordinary Shares Purchased	Ordinary Shares Sold	Other^	Balance as at 30 June 2021
Executive Directors							
Dr Julian Fowles (commenced as Director on 27 November 2020)	–	–	–	100,000	–	7,659	107,659
Mr Robert Hosking (retired as a Director on 27 November 2021)	12,813,506	–	–	–	–	(12,813,506)	–
Non-Executive Directors							
Mr Bruce Phillips	1,750,000	–	–	675,000	(675,000)	–	1,750,000
Mr Geoff Atkins (retired as a Director on 27 November 2021)	726,676	–	–	–	–	(726,676)	–
Mr Clark Davey	47,214	–	–	100,000	–	–	147,214
Mr Peter Turnbull	146,269	–	–	–	–	–	146,269
Ms Luciana Rachid	52,960	–	–	–	–	–	52,960
Other KMP							
Mr Scott Hosking	606,913	–	–	123,290	(115,569)	–	614,634
Mr Tim Hosking (ceased as South American General Manager and Chief Executive Officer Brazil on 31 March 2021)	298,334	–	–	–	–	(298,334)	–
Mr Edward Munks	1,066,552	–	48,380	–	–	–	1,114,932
Mr Ricardo Abi-Ramia (commenced as Senior VP Operations from 31 March 2021)	–	–	–	–	–	173,402	173,402
Total KMP	17,508,424	–	48,380	998,290	(790,569)	(13,657,455)	4,107,070

^ Other reflects the respective director or other KMP shareholdings (held both individually and by personally related parties) when they either commenced or ceased their role as a KMP during the year.

None of the ordinary shares are held nominally by any Director or any of the other key management personnel. 'Held nominally' refers to the situation where the ordinary shares are in the name of the Director or other key management person, but he is not the beneficial owner.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Other Transactions with Directors and Other KMP

A formal Related Party Protocol requires the approval by the People, Culture and Governance Committee and, thereafter, the Board of Directors of all new related party transactions.

During the financial year, Mr José Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda that provided business and geology consulting services to the Group. The value of these transactions from 1 July 2020 to the date of his retirement of 27 November 2020 was $103,927 (2020: $254,562). Given Karoon's size relative to other operators in Brazil, the consulting services provided by Net Pay Óleo & Gás Consultoria Ltda were required for Karoon to operate effectively within the Brazilian oil industry. The Consultancy Agreement under which such services were provided was terminated with effect on and from 28 February 2021.

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director (who retired on 27 November 2020), was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration (including share-based payments expense) from 1 July 2020 to 27 November 2020 was $112,724 (2020: $151,048). Ms Barbosa has been an employee of the Company since 2011 and has a comprehensive understanding of the Brazilian legal and regulatory framework.

During the financial year, Ms Marina Sayão, the wife of Mr Tim Hosking (a KMP until 31 March 2021), received a payment relating to 2019 STIs during the financial year of $8,110 (2020: $122,531). The prior financial year included remuneration Ms Sayão received as the Sustainability and Communications Manager, South America until the position was made redundant during the 2020 financial year and she ceased as an employee.

The related party transactions referred to above will not be recurring in respect of the financial year ending 30 June 2022.

Amounts paid to Mr Tim Hosking in connection with the cessation of his employment (as disclosed in this Remuneration Report) include payments and benefits required to be paid under Brazilian law.

Loans to Directors and Other KMP

There were no loans to Directors or other KMP during the financial year.

Rounding

The amounts in the financial report are rounded to the nearest thousand dollars (US$'000) unless otherwise indicated, under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

This Directors' Report, incorporating the Remuneration Report, is made in accordance with a resolution of the Directors.

On behalf of the Directors:

Mr Bruce Phillips
Independent Non-Executive Chairman

Dr Julian Fowles
Chief Executive Officer and Managing Director

20 September 2021

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Karoon Energy Ltd for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Karoon Energy Ltd and the entities it controlled during the period.

Anthony Hodge
Partner
PricewaterhouseCoopers

Melbourne
20 September 2021

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Consolidated Financial Statements

For the Financial Year Ended 30 June 2021

Karoon Energy Ltd (the 'Company') is a public company limited by shares and is listed on the ASX. It is incorporated and domiciled in Australia.

The registered office and principal place of business of Karoon Energy Ltd is Suite 3.02, Level 3, 6 Riverside Quay, Southbank VIC 3006.

The consolidated financial statements are for the consolidated entity consisting of the Company and its subsidiaries.

The consolidated financial statements are presented in United States dollars.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 30 June 2021

		Consolidated	
			Restated*
		2021	2020
	Note	US$'000	US$'000
Revenue	4(a)	170,809	–
Cost of Sales	5(a)	(111,375)	–
Gross Profit		59,434	–
Other income	4(b)	305	8,078
Business development and transition costs	5(b)	(17,564)	(14,474)
Exploration expenses	5(c)	(3,416)	(52,526)
Finance costs	5(d)	(15,241)	(2,180)
Net foreign currency losses		(17,053)	–
Change in fair value of contingent consideration	22(a)	(6,632)	–
Other expenses	5(e)	(27,706)	(25,670)
Loss before income tax		(27,873)	(86,772)
Income tax benefit	6	32,257	634
Profit (Loss) for financial year attributable to equity holders of the Company		4,384	(86,138)
Other comprehensive income, net of income tax:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising from the translation of financial statements into presentation currency		13,493	(44,344)
Other comprehensive income (loss) for financial year, net of income tax		13,493	(44,344)
Total comprehensive income (loss) for financial year attributable to equity holders of the Company, net of income tax		17,877	(130,482)
Profit (Loss) per share attributable to equity holders of the Company:			
Basic profit (loss) per ordinary share	9	0.0079	(0.1936)
Diluted profit (loss) per ordinary share	9	0.0077	(0.1936)

* The comparative statement for the year ended 30 June 2020 has been restated to show the effect of the voluntary change in presentation currency.

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2021

		Consolidated		
			Restated*	Restated*
		2021	2020	1 July 2019
	Note	US$'000	US$'000	US$'000
Current assets				
Cash and cash equivalents	10	133,209	296,420	228,758
Receivables	11	34,162	9,380	1,319
Inventories	12	10,952	–	1,490
Security deposits	13	209	3,775	376
Other assets	14	5,317	1,645	851
Total current assets		183,849	311,220	232,794
Non-current assets				
Deferred tax assets	6	36,528	–	–
Inventories	12	6,536	7,213	22,083
Property, plant and equipment	15	8,260	2,806	556
Intangible assets	16	102	211	376
Exploration and evaluation expenditure carried forward	17	40,853	41,204	59,957
Oil and gas assets	18	736,422	–	–
Security deposits	13	1,406	1,298	5,268
Other assets	14	–	34,061	–
Total non-current assets		830,107	86,793	88,240
Total assets		1,013,956	398,013	321,034
Current liabilities				
Trade and other payables	19	76,174	21,899	5,177
Current tax liabilities		8,253	2,721	–
Lease liabilities	21	45,393	203	–
Provisions	20	457	409	411
Total current liabilities		130,277	25,232	5,588
Non-current liabilities				
Trade and other payables	19	4,261	183	383
Other financial liabilities	22	71,161	–	–
Deferred tax liabilities	6	1,775	11,720	16,148
Lease liabilities	21	267,447	1,313	–
Provisions	20	158,785	83	84
Total non-current liabilities		503,429	13,299	16,615
Total liabilities		633,706	38,531	22,203
Net assets		380,250	359,482	298,831
Equity				
Contributed equity	23	905,138	905,281	716,502
Accumulated losses		(414,365)	(418,749)	(332,611)
Share-based payments reserve		50,190	47,156	44,802
Foreign currency translation reserve		(160,713)	(174,206)	(129,862)
Total equity		380,250	359,482	298,831

* The comparative statements for the year ended 30 June 2020 and opening balance 1 July 2019 have been restated to show the effect of the voluntary change in presentation currency.

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2021

		Consolidated				
	Note	Contributed Equity US$'000	Accumulated Losses US$'000	Share-based Payments Reserve US$'000	Foreign Currency Translation Reserve US$'000	Total Equity US$'000
Restated balance as at 1 July 2019		716,502	(332,611)	44,802	(129,862)	298,831
Restated loss for financial year		–	(86,138)	–	–	(86,138)
Restated exchange differences arising from the translation of financial statements into presentation currency		–	–	–	(44,344)	(44,344)
Restated total comprehensive loss for financial year		–	(86,138)	–	(44,344)	(130,482)
Transactions with owners in their capacity as owners:						
Restated ordinary shares issued	23	195,456	–	–	–	195,456
Restated transaction costs arising on ordinary shares issued, net of tax	23	(6,677)	–	–	–	(6,677)
Restated share-based payments expense		–	–	2,354	–	2,354
		188,779	–	2,354	–	191,133
Restated balance as at 30 June 2020		905,281	(418,749)	47,156	(174,206)	359,482
Profit for financial year		–	4,384	–	–	4,384
Exchange differences arising from the translation of financial statements into presentation currency		–	–	–	13,493	13,493
Total comprehensive loss for financial year		–	4,384	–	13,493	17,877
Transactions with owners in their capacity as owners:						
Deferred tax adjustment on transaction costs arising on ordinary shares issued in prior period	23	(143)	–	–	–	(143)
Share-based payments expense		–	–	3,034	–	3,034
		(143)	–	3,034	–	2,891
Balance as at 30 June 2021		905,138	(414,365)	50,190	(160,713)	380,250

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the Financial Year Ended 30 June 2021

	Note	Consolidated 2021 US$'000	Restated* 2020 US$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST refunds)		136,978	1,527
Payments to suppliers and employees (inclusive of GST)		(56,461)	(12,176)
Net refunds (payments) for Peruvian VAT		4,247	(4,518)
Payments for exploration and evaluation expenditure expensed		(15,231)	(40,980)
Payments for Baúna transition expenditure		(15,941)	(12,714)
Interest received		263	2,362
Interest and other costs of finance paid		(13,246)	(351)
Income taxes paid		(10,823)	(266)
Net cash flows from (used in) operating activities	29(a)	29,786	(67,116)
Cash flows from investing activities			
Purchase of plant and equipment and computer software		(4,717)	(1,462)
Acquisition of oil and gas assets		(150,000)	(49,875)
Payments for oil and gas assets		(16,031)	–
Borrowing costs paid		(191)	–
Payments for exploration and evaluation expenditure capitalised		(1,915)	(1,401)
Release/refund of security deposits		3,621	70
Proceeds from disposal of non-current assets		20	18
Net cash flows used in investing activities		(169,213)	(52,650)
Cash flows from financing activities			
Principal elements of lease payments		(23,411)	(254)
Proceeds from issue of ordinary shares		–	195,456
Payment of equity raising costs		–	(7,091)
Net cash flows from (used in) from financing activities		(23,411)	188,111
Net increase (decrease) in cash and cash equivalents		(162,838)	68,345
Cash and cash equivalents at beginning of financial year		296,420	228,758
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(373)	(683)
Cash and cash equivalents at end of financial year	10	133,209	296,420

* The comparative statement for the year ended 30 June 2020 has been restated to show the effect of the voluntary change in presentation currency.

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. Significant Accounting Policies

The consolidated financial statements are for the consolidated entity consisting of the Company and its subsidiaries (the 'Group'). Information on the nature of the operations and principal activities of the Group are described in the Directors' Report.

The following is a summary of significant accounting policies adopted by the Group in the preparation of these consolidated financial statements. The accounting policies have been consistently applied to all the financial years presented, unless otherwise stated. As a result of acquiring an Oil and Gas asset during the financial year a number of new accounting policies were adopted. These new accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Currency of Presentation

The Directors elected to change the Group's presentation currency in accordance with AASB 108 *'Accounting Policies, Changes in Accounting Estimates and Errors'* from Australian dollars ('A$') to United States dollars ('US$'), effective from 1 July 2020. The Directors believe that the change provides investors and other stakeholders with a clearer and more reliable understanding of the Group's global business performance as a whole and is more comparable to the Company's peers, most of which are presented in US$. The change is accounted for retrospectively and as such comparative information has been restated in US$, including presentation of Statement of Financial Position as at 1 July 2019.

The financial report has been restated to US$ using the procedures below:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average rate prevailing for the relevant period[1]
Assets and liabilities	Period-end rate
Equity	Historical rate
Statement of cash flows	Average rate prevailing for the relevant period

1. Unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions.

The average rate used for the current financial year was A$/US$ 1:0.7472 (2020: 1:0.6714) and the period-end exchange rate used was A$/US$ 1:0.7518 (2020: 1:0.6863).

In addition, the Company has changed the presentation in the profit or loss to aggregate expenses according to their function as opposed to nature. It is the view of the Company that following the completion of Baúna, presenting expenses in this manner provides information that is more relevant and enhances comparability to other international oil and gas companies.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with financial year amounts and other disclosures.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (the 'AASB') and the *Corporations Act 2001* (Cth). The Company is a for-profit entity for the purpose of preparing financial statements.

Rounding

The amounts in the financial statements are rounded to the nearest thousand dollars (US$'000) unless otherwise indicated, under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

Historical Cost Convention

The consolidated financial statements have been prepared on an accrual basis under the historical cost convention as modified, when relevant, by the revaluation of selected financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Significant Accounting Estimates, Assumptions and Judgements

The preparation of financial statements requires the use of certain significant accounting estimates. It also requires management to exercise its judgement in the process of applying Group accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

Compliance with International Financial Reporting Standards

Compliance with Australian Accounting Standards ensures that the consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Note 1. Significant Accounting Policies continued

(a) Basis of Preparation continued

New, Revised or Amended Australian Accounting Standards and Interpretations that are First Effective in the Current Reporting Period

The Group has adopted all of the new, revised and/or amended Australian Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the financial year ended 30 June 2021.

New and revised Australian Accounting Standards and amendments thereof and Interpretations effective for the financial year include:

(i) Amendments to AASB 3 *'Business Combinations'*: Definition of a Business;

(ii) Amendments to AASB 101 *'Presentation of Financial Statements'* and AASB 108 *'Accounting Policies, Changes in Accounting Estimates and Errors'*: Definition of Material;

(iii) Amendments to AASB 7 *'Financial Instruments Disclosures'*, AASB 9 'Financial Instruments' and AASB 139 *'Financial Instruments: Recognition and Measurement '*: Interest rate benchmark reform;

(iv) Amendments to AASB 2019-1*,'Amendments to Australian Accounting Standards'* Reference to the Conceptual Framework; and

(v) Amendments to AASB 16 *'Leases'*: COVID-19 Related Rent Concessions.

The initial adoption of all of these new, revised and/or amended Australian Accounting Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has had no effect on either the amounts reported for the current or previous years.

Early Adoption of Australian Accounting Standards

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(b) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2021 and the results of all subsidiaries for the financial year then ended.

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Interests in subsidiaries are set out in Note 24.

All subsidiaries have a financial year end of 30 June, with the exception of: Karoon Petróleo & Gas Ltda; Karoon Peru Pty Ltd, Sucursal del Peru; and KEI (Peru Z38) Pty Ltd, Sucursal del Peru which have a financial year end of 31 December in accordance with relevant Brazilian and Peruvian tax and accounting regulations respectively.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies applied by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.

(c) Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for assessing performance and in determining the allocation of resources of the operating segments, has been identified as the Chief Executive Officer and Managing Director.

(d) Revenue

Revenue from contracts with customers is recognised when the performance obligations are considered met, which is when control of the products or services provided are transferred to the customer. Revenue is recognised at an amount that reflects the consideration the Group expects to be entitled to, net of goods and services tax or similar taxes.

Where part or all of the transaction is price variable, revenue is recognised only to the extent that it is highly probable that a significant reversal of revenue will not occur.

Oil sales

Performance obligations are satisfied when the control of oil is transferred to the customer at the despatch point to the offtake vessel. The transaction price for oil sales may not be finalised at the date the customer takes control of the product. In such cases, a provisional transaction price is used until a final transaction price can be determined. The difference between the provisional and the final transaction price is recognised at the point when the final price is determined.

Credit terms for crude cargoes are between 30 and 45 days.

Interest Income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income as other income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of the relevant financial asset, except for financial assets that subsequently become credit impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(e) Foreign Currency Transactions and Balances

Functional and Presentation Currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary or branch operates (the 'functional currency').

The functional currency of the Company is Australian dollars. During the year the Group's Brazilian subsidiary's functional currency changed from Brazilian REAL to US$ following the acquisition of a producing oil and gas asset (refer Note 1 above). The Peruvian Branches also have a functional currency of US$.

The presentation currency of the consolidated financial statements is US$.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income, except when they are attributable to part of the net investment in a foreign operation.

Non-monetary items measured at historical cost continue to be carried at the foreign exchange rate at the date of the transaction. Foreign exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise foreign exchange differences are recognised in the consolidated statement of profit or loss and other comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income on a net basis within other income or expenses.

Group Companies

The results and financial position of entities within the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the foreign exchange rates prevailing at the end of each reporting period.
- income and expenses are translated at the average foreign exchange rates for the financial period (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting foreign exchange differences are recognised in other comprehensive income.

On consolidation, foreign exchange differences arising on translation of foreign currency financial statements are transferred directly to the foreign currency translation reserve in the consolidated statement of financial position. The relevant differences are recognised in the consolidated statement of profit or loss and other comprehensive income during the financial period when the investment in the entity is disposed.

Note 1. Significant Accounting Policies continued

(f) Income Taxes and Other Taxes

Current Tax

Current tax (expense) income is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the financial period. It is calculated using income tax rates and tax laws that have been enacted or are substantively enacted by the end of each reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Current tax for current and previous financial periods is recognised as a liability (or asset) to the extent that it is unpaid or refundable.

Deferred Tax

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax base of an asset or liability is the amount attributed to that asset or liability for income taxation purposes.

No deferred tax is recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are enacted or substantively enacted by the end of the financial period and are expected to apply to the financial period when the asset is realised, or liability is settled. Deferred tax is credited in the consolidated statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary tax differences or unused tax losses and tax offsets can be utilised.

Deferred tax assets and tax liabilities are offset when there is a legally enforceable right to offset current tax assets and tax liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

Tax Consolidation

The Company and its wholly owned Australian subsidiaries are part of an income tax-consolidated group under Australian taxation law. The Company is the head entity in the income tax-consolidated group. Tax income (expense), deferred tax liabilities and deferred tax assets arising from temporary tax differences of the members of the income tax-consolidated group are recognised in the separate financial statements of the members of the income tax-consolidated group using the 'stand-alone taxpayer' approach, by reference to the carrying amounts in the separate financial statements of each company and the tax values applying under tax consolidation. Current tax liabilities and tax assets and deferred tax assets arising from unused tax losses and tax credits of members of the income tax-consolidated group are recognised by the Parent Company (as head entity of the income tax-consolidated group).

Due to the existence of a tax funding agreement between the companies in the income tax-consolidated group, each company contributes to the income tax payable or receivable in proportion to their contribution to the income tax-consolidated group's taxable income. Differences between the amounts of net tax assets and tax liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to, the head entity.

Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office ('ATO'). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or equity or as part of an item of expense.

Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO, is included as current receivables or payables respectively in the consolidated statement of financial position.

Cash flows are included on a gross basis in the consolidated statement of cash flows. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

Petroleum Resource Rent Tax ('PRRT')

PRRT is accounted for as income tax under AASB 112 *'Income Taxes'*.

(g) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of financial position and for presentation in the consolidated statement of cash flows comprise cash at bank and on hand (including share of joint operation cash balances) and short-term bank deposits that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

(h) Receivables

Receivables, which normally have 30-45 day terms, are generally non-interest-bearing amounts. They are recognised initially at the amount of the consideration that is unconditional unless they contain significant financing components, when they are recognised initially at fair value. The Group holds receivables with the objective to collect the contractual cash flows. They are presented as current assets unless collection is not expected for more than 12 months after reporting date. For receivables expected to be settled within 12 months, these are subsequently measured at amortised cost using the effective interest method, less any loss allowance. For receivables expected to be settled later than 12 months, these are subsequently measured at amortised cost based on discounted cash flows using an effective interest rate, less any loss allowance.

Cash flows relating to non-current receivables are not discounted if the effect of discounting would be immaterial.

Refer Note 3(c) for a description of the Group's receivable impairment policies.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost for petroleum products, which comprise extracted crude oil stored in the FPSO, are valued using the absorption cost method.

Other inventories are represented by assets acquired from third parties, in the form of casing and other drilling inventory to be consumed or used in exploration and evaluation activities or production activities. They are presented as current assets unless inventories are not expected to be consumed or used in exploration and evaluation activities within 12 months. The cost of casing and other drilling inventory includes direct materials, direct labour and transportation costs.

(j) Security Deposits

Certain financial assets have been pledged as security for performance guarantees, bank guarantees and bonds related to exploration tenements and operating lease rental agreements. Their realisation may be restricted subject to terms and conditions attached to the relevant exploration tenement agreements or operating lease rental agreements.

Security deposits are non-derivative financial assets that are not quoted in an active market. Security deposits are initially recognised at fair value. Such assets are subsequently carried at amortised cost using the effective interest method, less any loss allowance. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Security deposits are derecognised when the terms and conditions attached to the relevant exploration tenement agreements or lease rental agreements have expired or been transferred.

Refer Note 3(c) for a description of the Group's security deposit impairment policies.

(k) Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income as incurred.

Commencing from the time the plant and equipment is held ready for use, depreciation expense is calculated on a straight-line basis to allocate their cost amount, net of their residual values, over their estimated useful lives ranging from 2 to 10 years.

Plant and equipment residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

Note 1. Significant Accounting Policies continued

(k) Property, Plant and Equipment continued

Gains and losses on disposals are determined by comparing proceeds with the net carrying amount. These gains and losses are included in the consolidated statement of profit or loss and other comprehensive income.

Property, plant and equipment are tested for impairment in accordance with the accounting policy described in Note 1(p).

(l) Oil and Gas Assets

Production assets

Production assets are stated at cost less accumulated amortisation and impairment charges. Production assets include the costs to acquire, construct, install or complete production and infrastructure facilities, capitalised borrowing costs, transferred exploration and evaluation assets, development wells and the estimated cost of dismantling and restoration. Subsequent capital costs, including major maintenance, are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured.

Assets in development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated and approval of commercial development occurs, the field enters its development phase. The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When the committed development expenditure programs are completed and commercial production commences, these costs are subject to amortisation.

Amortisation of production assets

Amortisation is calculated using the units of production method for an asset or group of assets from the date of commencement of production. Depletion charges are calculated using the units of production method over the life of the estimated proved plus probable ('2P') reserves for an asset or group of assets.

(m) Intangibles

Computer Software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Computer software costs have a finite life.

Commencing from the time the computer software is held ready for use, amortisation expense is calculated on a straight-line basis to allocate their cost amount, net of their residual values, over their estimated useful lives ranging from 2 to 2.5 years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

Computer software is tested for impairment in accordance with the accounting policy described in Note 1(p).

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(o) Exploration and Evaluation Expenditure

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Expenditure in respect of each area of interest is accounted for using the 'successful efforts' method of accounting. The 'successful efforts' method requires all exploration and evaluation expenditure in relation to an area of interest to be expensed in the period it is incurred, except the cost of successful wells, the costs of acquiring interests in new exploration assets, and appraisal costs relating to determining development feasibility, which are capitalised as intangible exploration and evaluation assets.

Exploration and evaluation assets are recognised in relation to an area of interest when the rights to tenure of the area of interest are current and either:

- it is expected to be recovered through sale or successful development and exploitation of the area of interest; or
- relates to an exploratory discovery for which at balance date a reasonable assessment of the existence or otherwise of economically recoverable reserves is not yet complete, or additional appraisal work is underway or planned.

All exploration expenditure in relation to directly attributable general administration costs, geological and geophysical costs, seismic and pre-tenure costs is expensed in the consolidated statement of profit or loss and other comprehensive income as incurred.

For exploration wells, costs directly associated with drilling the wells are initially capitalised on a well-by-well basis pending the evaluation of whether potentially economic reserves of hydrocarbons have been discovered. If no recoverable hydrocarbons are identified, or discoveries are deemed non-commercial, then the capitalised costs are expensed.

As capitalised exploration and evaluation expenditure is not available for use, it is not amortised.

Cash flows associated with exploration and evaluation expenditure expensed are classified as operating activities in the consolidated statement of cash flows. Whereas cash flows associated with capitalised exploration and evaluation expenditure are classified as investing activities.

When the technical feasibility and commercial viability of extracting economically recoverable reserves have been demonstrated, any related capitalised exploration and evaluation expenditure is reclassified as development expenditure in the consolidated statement of financial position. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Petroleum tenement acquisition costs capitalised, along with licence costs paid in connection with a right to explore in an existing exploration area.

Farm-out

The Group does not record any exploration and evaluation expenditure made by a farmee, including any carries incurred by the farmee to earn an ownership interest.

Any cash consideration received on sale or farm-out of an area within an exploration area of interest is recognised as revenue in the consolidated statement of profit or loss and other comprehensive income, unless any of the consideration is attributable to capitalised exploration and evaluation expenditure. Cash consideration received in relation to capitalised exploration and evaluation expenditure is offset against the carrying value of the capitalised exploration and evaluation expenditure. Where the total carrying value has been recouped in this manner, the balance of the proceeds is brought to account as income as a gain on disposal.

Impairment of Capitalised Exploration and Evaluation Expenditure

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the asset level whenever facts and circumstances (as defined in AASB 6 *'Exploration for and Evaluation of Mineral Resources')* suggest that the carrying amount of the asset may exceed its recoverable amount. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written-down to its recoverable amount. Impairment losses are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

Capitalised exploration and evaluation expenditure impairment during previous reporting periods are tested for possible reversal of the impairment loss whenever facts or changes in circumstances indicate that the impairment may have reversed.

(p) Impairment of Assets (Other than Capitalised Exploration and Evaluation Expenditure)

All other current and non-current assets (other than receivables, inventories, security deposits and deferred tax assets) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

At the end of each reporting period, the Group conducts an internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Impairment losses are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

Assets that suffered impairment are tested for possible reversal of the impairment loss whenever events or changes in circumstances indicate that the impairment may have reversed.

Note 1. Significant Accounting Policies continued

(q) Trade and Other Payables

Trade and other payables are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. They are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(r) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

For purposes of subsequent measurement, financial liabilities are classified in two categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost (loans and borrowings).

The Group's financial liabilities include trade and other payables, and a derivative financial instrument relating to contingent consideration for the acquisition of an asset.

(s) Employee Benefits

Wages, Salaries, Annual Leave and Personal Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the reporting period in which the employees render the related services are recognised in respect of employees' services up to the end of the reporting period. They are measured at the amounts expected to be paid when the liabilities are settled plus related on-costs. Expenses for non-vesting personal leave are recognised when the leave is taken and are measured at the rates paid or payable.

The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Share-based Payments

Share-based remuneration benefits are provided to Executive Directors and employees via the Company's PRP and ESOP (refer Note 30). The Group issues equity-settled and cash-settled share-based payments to certain employees.

The fair value of share options and performance rights granted is recognised as a share-based payments expense in the consolidated statement of profit or loss and other comprehensive income. The total amount to be expensed is determined by reference to the fair value of the share options and performance rights granted, which includes any market performance conditions, but excludes the impact of any service and non-market performance vesting conditions. Non-market performance vesting conditions are included in assumptions about the number of share options or performance rights that are expected to vest.

The fair value is measured at grant date. For equity-settled share-based payments the corresponding credit is recognised directly in the share-based payments reserve in equity. For cash-settled share-based payments a liability is recognised based on fair value of the payable earned by the end of the reporting period. The liability is re-measured to fair value at each reporting date up to, and including the vesting date, with changes in fair value recognised in share-based payments expense. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of share options and performance rights that are expected to vest based on the non-market performance vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss and other comprehensive income.

The fair value of share options at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the share option, the impact of dilution, the non-tradeable nature of the share option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share option.

The fair value of performance rights, granted for $Nil consideration, at grant date is based on the Company's closing share price at that date, with the exception of long term performance rights granted during the current financial year.

Long term performance rights granted during the current financial year, which are subject to market-based performance conditions, have been valued using a Monte Carlo simulation approach.

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restoration costs

A provision for restoration is provided by the Group where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. Site restoration costs are capitalised within the cost of the associated assets and the provision is stated in the statement of financial position at total estimated present value and amortised on the same basis as the associated asset. These costs are based on judgements and assumptions regarding removal dates, technologies, industry practice and relevant legislation. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the statement of comprehensive income through depletion of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is included as an accretion charge within finance costs.

Long Service Leave

A provision has been recognised for employee entitlements relating to long service leave measured at the discounted value of estimated future cash outflows. In determining the provision, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. The cash outflows are discounted using market yields with terms of maturity that match the expect timing of cash outflows.

Employee entitlements relating to long service leave are presented as a current provision in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(u) Contributed Equity

Ordinary shares are classified as equity.

Transaction costs directly attributable to the issue of new ordinary shares, share options or performance rights are shown in equity as a deduction, net of any related income tax, from the proceeds. Transaction costs are the costs that are incurred directly in connection with the issue of new ordinary shares, and which would not have been incurred had those ordinary shares not been issued. These directly attributable transaction costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and marketing costs.

Where the Company acquires its own ordinary shares, as a result of a share buy-back, those ordinary shares are cancelled. No gain or loss is recognised, and the consideration paid to acquire the ordinary shares, including any transaction costs directly attributable, net of any related income tax, is recognised directly as a reduction from equity.

(v) Interests in Joint Operations

A joint operation is a joint arrangement whereby the participants that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises assets, liabilities, revenues and expenses according to its share in the assets, liabilities, revenues and expenses of a joint operation or similar as determined and specified in contractual arrangements (joint operating agreements). These have been incorporated in the consolidated financial statements under the appropriate headings.

The Group's share of assets, liabilities, revenues and expenses employed in joint operations is set out in Note 26.

Note 1. Significant Accounting Policies continued

(w) Leases

The Group has lease contracts for property, an FPSO vessel and other equipment used in its operations.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments expected to be paid over the lease term, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Group's estimated incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The lease liability is further remeasured if the estimated future lease payments change as a result of index or rate changes, residual value guarantees or likelihood of exercise of purchase, extension or termination options.

The Group has applied judgement to determine the lease term for lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the measurement of lease liabilities and right-of-use assets recognised.

Right-of-use assets

The right-of-use asset is initially measured at cost (present value of the lease liability plus deemed cost of acquiring the asset), and subsequently at cost less any accumulated depreciation, impairment losses and adjustment for remeasurement of the lease liability.

Property leases generally have terms between 2 and 5 years. The FPSO vessel lease has a fixed term to February 2026 with renewal options available.

(x) Earnings Per Share

Basic Earnings Per Share

Basic earnings per ordinary share is calculated by dividing the profit or loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the financial year.

Diluted Earnings Per Share

Diluted earnings per ordinary share adjusts the figures used in the determination of basic earnings per ordinary share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(y) Parent Company Financial Information

The financial information for the Parent Company, Karoon Energy Ltd, disclosed in Note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below:

Investments in Subsidiaries

Investments in subsidiaries are accounted for at cost in the Parent Company's financial statements.

The Parent Company does not designate any investments in subsidiaries as being subject to the requirements of Australian Accounting Standards specifically applicable to financial instruments. They are held for strategic and not trading purposes.

Investments in subsidiaries and receivables from subsidiaries are tested for impairment in accordance with the accounting policy described in Note 1(p).

Share-based Payments

The grant by the Company of equity-settled share options and performance rights over its ordinary shares to the employees of subsidiary companies in the Group is treated as a capital contribution to that subsidiary company. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity.

(z) New Australian Accounting Standards and Interpretations for Application in Future Financial Years

There are no relevant new Australian Accounting Standards or Interpretations that are not yet effective and that are expected to have a material impact on the Group in the current or future financial years and on foreseeable future transactions.

Note 2. Significant Accounting Estimates, Assumptions and Judgements

Revenues and expenses and the carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In applying the Group's significant accounting policies, the Board of Directors and management evaluate estimates and judgements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group.

Significant estimates, assumptions and/or judgements made by the Board of Directors and management in the preparation of the consolidated financial statements were:

(a) Impairment of oil and gas assets

The Group assesses whether oil and gas assets are impaired at least on a semi-annual basis. This requires review of the indicators of impairment and/or an estimation of the recoverable amount of the cash-generating unit to which the assets belong. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. Current climate change legislation is also considered in relation to the cash-generating unit's useful life and future uncertainty around climate change risks continue to be monitored.

(b) Capitalised Exploration and Evaluation Expenditure

Capitalised exploration and evaluation expenditure is carried forward on the basis that exploration and evaluation operations in the areas of interest have not at the end of the reporting period reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related exploration tenement itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors that could affect the future recoverability include the level of economically recoverable reserves, future technological changes which could impact the cost of development, future legal changes (including changes to environmental and restoration obligations) and changes to commodity prices. To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, the relevant capitalised amount will be impaired in the consolidated statement of profit or loss and other comprehensive income and net assets will be reduced during the financial period in which this determination is made.

Information on the reasonable existence or otherwise of economically recoverable reserves is progressively gained through geological analysis and interpretation, drilling activity and prospect evaluation during a normal exploration tenement term. A reasonable assessment of the existence or otherwise of economically recoverable reserves can generally only be made, therefore, at the conclusion of those exploration and evaluation activities.

(c) Provision for Restoration

Restoration costs are a normal consequence of operating in the oil and gas industry. In determining an appropriate level of provision, consideration is given to the expected future costs to be incurred, the timing of these expected future costs, the estimated future level of inflation and appropriate discount rate. The ultimate costs of restoration are uncertain and costs can vary in response to many factors including changes to the relevant legal and legislative requirements, the emergence of new restoration techniques or experience at other fields. The expected timing of expenditure can also change. Changes to any of the estimates could result in a significant change to the level of provisioning required, which would in turn impact future financial results.

(d) Estimates of reserves quantities

The estimated quantities of Proved plus Probable ("2P") hydrocarbon reserves reported by the Group are integral to the calculation of depletion and depreciation expense and to the assessment of impairment or impairment reversals.

Estimated reserves quantities are based upon management's interpretations of geological and geophysical models, reservoir engineering and production engineering analyses and models, and assessments of the technical feasibility and commercial viability of producing the reserves, taking into consideration reviews by an independent third party. An external reserves assessment is planned to be undertaken at least every 3 years.

Assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The Group prepares its reserves estimates in accordance with the Petroleum Resources Management System (PRMS 2018) published by the Society of Petroleum Engineers and the Australian Securities Exchange Listing rules. All estimates of reserves reported by the Group are prepared by, or under the supervision of a qualified petroleum reserves and resources evaluator.

Estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. These changes may impact depreciation, amortisation, asset carrying values, restoration provisions and deferred tax balances. If proved and probable reserves estimates are revised downwards, earnings could be affected by a higher depreciation and/or amortisation charge or immediate write-down of the assets carrying value.

Note 2. Significant Accounting Estimates, Assumptions and Judgements continued

(e) Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The fair value of the contingent consideration (refer to Note 22) is based on the Group's internal assessment of future oil prices, which considers industry consensus and observable prices, inflation and an appropriate risk-free rate. Changes in assumptions relating to these factors could affect the reported fair value of the financial instrument.

(f) Share-based Payments

Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or performance right, volatility and dividend yield and making assumptions about them at grant date. The fair value of share options is ascertained using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. The fair value of long term performance rights issued during the current financial year are valued using a Monte Carlo simulation approach taking into account the terms and conditions upon which the performance rights were granted. The cumulative share-based payments expense recognised reflects the extent, in the opinion of management, to which the vesting period has expired and the number of share options and performance rights granted that will ultimately vest or be settled in cash. At the end of each reporting period, the unvested share options, performance rights and cash-settled share-based payment liability are adjusted by the number forfeited during the reporting period to reflect the actual number of share options and performance rights outstanding and cash liability to be settled. In addition, the fair value of cash-settled share-based payments are remeasured, up to the date of settlement, to reflect the cash liability at the end of each reporting period with changes in the fair value recognised in the profit or loss.

(g) Income Tax

The Group is subject to income taxes in Australia, Brazil and other jurisdictions where it has foreign operations. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the relevant tax laws. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax balances in the financial period in which such determination is made.

The Group has not recognised deferred tax assets in respect of Peruvian tax losses and temporary tax differences as the future utilisation of these losses and temporary tax differences is not considered probable at this point in time. Assessing the future utilisation of tax losses and temporary tax differences requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future utilisation of these tax losses and temporary tax differences becomes probable, this could result in significant changes to deferred tax assets recognised, which would in turn impact future financial results.

(h) Joint Arrangements

Exploration and evaluation activities of the Group are conducted primarily through arrangements with other participants. Each arrangement has a contractual agreement (joint operating agreement) that provides the participants with rights to the assets and obligations for the liabilities of the arrangement. Under certain agreements, more than one combination of participants can make decisions about the relevant activities and therefore joint control does not exist. Where the arrangement has the same legal form as a joint operation, but is not subject to joint control, the Group accounts for its interest in accordance with the contractual agreement by recognising its share of jointly held assets, liabilities, revenues and expenses of the arrangement.

(i) Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include renewal options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The Group included the renewal periods as part of the lease term for the FPSO right-of-use asset as there will be a significant negative effect on production if a replacement asset is not readily available.

Note 3. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk); commodity price risk; credit risk; and liquidity risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure the different types of financial risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange, interest rates and commodity prices.

The overall financial risk management strategy of the Group is governed by the Board of Directors through the Audit and Risk Committee and is primarily focused on ensuring that the Group is able to finance its business plans, while minimising potential adverse effects on financial performance. The Board of Directors provides written principles for overall financial risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate, commodity price and credit risks, use of derivative financial instruments and investment of excess cash. Financial risk management is carried out by the Company's finance function under policies approved by the Board of Directors. The finance function identifies, evaluates and if necessary, hedges financial risks in close co-operation with the Chief Executive Officer and Managing Director. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group activities.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 1.

The Group's financial instruments consist of cash and cash equivalents, receivables, security deposits, trade and other payables, lease liabilities and embedded derivatives.

The totals for each category of financial instruments in the consolidated statement of financial position are as follows:

		Consolidated	
	Note	2021 US$'000	Restated 2020 US$'000
Financial assets			
Cash and cash equivalents	10	133,209	296,420
Receivables	11	34,162	9,380
Security deposits	13	1,615	5,073
Total financial assets		168,986	310,873
Financial liabilities			
Trade and other payables (refer note (i) below)		79,066	21,167
Other financial liabilities (refer note (ii) below)	22	71,161	–
Lease liabilities	21	312,840	1,516
Total financial liabilities		463,067	22,683

(i) Trade and other payables above exclude amounts relating to annual leave liabilities, which are not considered a financial instrument.

(ii) Other financial liabilities relate to the contingent consideration payable to Petrobras as part of the acquisition of Baúna (refer Note 22).

(a) Market Risk

(i) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the Company's functional currency.

The Group's revenue, significant operating expenditure including the FPSO charter lease and a large component of capital obligations are predominantly denominated in US$.

The Group's remaining foreign exchange risk exposures relate to administrative and business development expenditures incurred at the corporate level in A$; and operating and capital expenditures incurred by the Group in relation to operating the Baúna production asset in Brazil in Brazilian REAL. These items are restated to US$ equivalents at each period end, and the associated gain or loss is taken to the Statement of Profit and Loss and Other Comprehensive Income.

Note 3. Financial Risk Management continued

(a) Market Risk continued

(i) Foreign Exchange Risk continued

The Group manages foreign exchange risk at the corporate level by monitoring forecast cash flows in currencies other than US$ and ensuring that adequate Brazilian REAL and A$ cash balances are maintained.

Foreign currencies are bought on the spot market in excess of immediate requirements. Where currencies are purchased in advance of requirements, these balances do not usually exceed 3 months' requirements. The appropriateness of A$ and Brazilian REAL holdings are reviewed regularly against future commitments and current $A and Brazil REAL market expectations.

Periodically, sensitivity analysis is conducted to evaluate the potential impact of unfavourable exchange rates on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. The Group will hedge when it is deemed the most appropriate risk mitigation tool to be used. Foreign currency hedging transactions were not entered into during the financial year or previous financial year.

The Group is not exposed to material translation exposures at the end of the current financial year as the majority of its financial assets and liabilities are denominated in US$ and as such, no foreign currency sensitivity analysis has been disclosed.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of financial assets and financial liabilities will fluctuate because of changes in market interest rates. Interest rate risk is managed on a Group basis at the corporate level.

As at 30 June 2021 and 30 June 2020, there was no interest rate hedging in place.

The Group's interest rate risk arises from relevant financial assets, primarily cash and cash equivalents deposited at variable rates of interest and security deposits related to Australia and Brazil. As the majority of cash and cash equivalents is in US$ dollars, the primary exposure is to US$ interest rates. At year end, as a result of the Baúna acquisition during the financial year, the Group is also exposed to interest on the deferred consideration payable to Petrobras of $41.4 million ($42.4 million including interest at year end) at 1 month LIBOR plus a 3% margin.

An analysis of the Group's exposure to interest rate risk for financial assets and financial liabilities at the end of the financial year is set out below:

	Consolidated					
2021	Weighted Average Interest Rate % p.a.	Floating Interest Rate US$'000	Fixed Interest Rate US$'000	Non-interest Bearing US$'000	Fair Value US$'000	Carrying Amount US$'000
Financial assets						
Cash and cash equivalents	0.11	71,487	–	61,722	133,209	133,209
Receivables	–	–	–	34,162	34,162	34,162
Security deposits	3.27	1,372	169	73	1,615	1,615
Total financial assets		72,859	169	95,957	168,986	168,986
Financial liabilities						
Trade and other payables	3.10	42,422	–	36,643	79,066	79,066
Other financial liabilities	2.00	–	71,161	–	71,161	71,161
Lease liabilities	–	–	–	312,840	312,840	312,840
Total financial liabilities		42,422	71,161	349,483	463,067	463,067

Restated 2020	Weighted Average Interest Rate % p.a.	Floating Interest Rate US$'000	Fixed Interest Rate US$'000	Non-interest Bearing US$'000	Fair Value US$'000	Carrying Amount US$'000
	Consolidated					
Financial assets						
Cash and cash equivalents	0.06	260,545	20,058	15,817	296,420	296,420
Receivables	–	–	–	9,380	9,380	9,380
Security deposits	1.30	1,134	3,854	85	5,073	5,073
Total financial assets		261,679	23,912	25,282	310,873	310,873
Financial liabilities						
Trade and other payables	–	–	–	21,167	21,167	21,167
Lease liabilities	–	–	–	1,516	1,516	1,516
Total financial liabilities		–	–	22,683	22,683	22,683

Interest Rate Sensitivity Analysis

The following table details the Group's sensitivity to a 1% p.a. increase or decrease in interest rates, with all other variables held constant. The sensitivity analysis is based on the balance of floating interest rate amounts held at the end of the financial year.

The sensitivity analysis is not fully representative of the inherent interest rate risk, as the financial year end exposure does not necessarily reflect the exposure during the course of a financial year. These sensitivities should not be used to forecast the future effect of movements in interest rates on future cash flows.

	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
Change in profit (loss) before income tax		
– Increase of interest rate by 1% p.a.	304	2,617
– Decrease of interest rate by 1% p.a.	(43)	(24)
Change in financial instruments		
– Increase of interest rate by 1% p.a.	304	2,617
– Decrease of interest rate by 1% p.a.	(43)	(24)

(b) Commodity Price Risk

The Group is exposed to commodity price fluctuations associated with the production and sale of oil. Commodity price risk is managed on a Group basis at the corporate level. The Group may enter into crude oil price swap and option contracts to manage its commodity price risk. However, there are no oil price swap nor option contracts in place as at 30 June 2021.

Commodity Price Sensitivity Analysis

As part of the acquisition of Baúna, the Group has agreed to pay Petrobras contingent consideration of up to US$285 million plus interest of 2% per annum accruing from 1 January 2019. The fair value of the contingent consideration has been accounted for as an embedded derivative and was estimated calculating the present value of the future expected cash out flows. The estimates are based on the Group's internal assessment of future oil prices. A discount rate of 0.36% and 2% inflation factor has also been applied. Refer to Note 22 for more details.

Note 3. Financial Risk Management continued

(b) Commodity Price Risk continued

Commodity Price Sensitivity Analysis continued

The following table details the Group's sensitivity to a 10% increase or decrease in its internal assessment of future oil prices on the contingent consideration payable to Petrobras.

	Consolidated	
	2021 US$'000	2020 US$'000
Change in profit (loss) before income tax		
– Increase of oil price by 10%	(77,791)	–
– Decrease of oil price by 10%	54,696	–
Change in financial liabilities		
– Increase of oil price by 10%	77,791	–
– Decrease of oil price by 10%	(54,696)	–

(c) Credit Risk

The maximum exposure to credit risk at the end of the financial year is the carrying amount of the financial assets as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents and security deposits held with banks, financial institutions and joint operators, as well as credit exposures to customers, including outstanding receivables and refundable tax credits.

Credit risk is managed on a Group basis at the corporate level. To minimise credit risk, the Group has adopted a policy of only dealing with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result being the Group's exposure to bad debts is minimised. The Group does not currently hold collateral, nor does it securitise its receivables.

The Group has policies in place to ensure that services are made to customers with an appropriate credit history.

Cash and cash equivalents and security deposit counterparties are limited to credit quality banks and financial institutions. For banks and financial institutions in Australia, only independently rated counterparties with a minimum rating of Aa3/A2 are accepted. For banks and financial institutions in Brazil and Peru, only independently rated counterparties with a minimum rating of Baa1 are accepted. For banks and financial institutions in Brazil and Peru with independently rated counterparty ratings below Baa1, exposure cannot exceed the short-term country specific cash requirements unless they are associated banks of an International Bank with a higher credit rating. Cash and cash equivalents are held offshore by the Group's Brazilian subsidiary out of London with an International Bank with a rating of Aa3. The Group's credit exposure and external credit ratings of its counterparties are monitored on a periodic basis. Where commercially practical, the Group seeks to limit the amount of credit exposure to any one bank or financial institution.

(i) Impairment of Financial Assets

The Group has 2 types of financial assets that are subject to AASB 9's 'expected credit loss' model: receivables and security deposits. The Group has applied the AASB 9 general model approach to measuring expected credit losses for all receivables and security deposits.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was considered not significant given the counterparties and/or the short maturity.

Expected Credit Loss

When required, the carrying amount of the relevant financial asset is reduced through the use of a loss allowance account and the amount of any loss is recognised in the statement of profit or loss and other comprehensive income. When measuring expected credit losses, balances are reviewed based on available external credit ratings, historical loss rates and the days past due.

Security Deposits

The Group's security deposits relating to Australia and Peru are considered to have low credit risk on the basis that there is a low risk of default with the relevant bank counterparty. Management considers 'low credit risk' for security deposits with banks and financial institutions to be an investment grade credit rating with at least 1 major rating agency.

The Group is exposed to credit risk in relation to a security deposit of $1,273k (30 June 2020: $1,130k) held with Itau Unibanco SA in Brazil. The Group provided the ANP (the Brazilian oil and gas regulator) a letter of credit to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The letter of credit is fully funded by way of payment of a security deposit (refer Note 13(b)), which will be released once the work program is met. The credit rating of Itau Unibanco SA is Ba2 (30 June 2020: Ba3), which is a non-investment grade rating that carries substantial credit risk. The credit rating of Itau Unibanco SA in Brazil is monitored on a periodic basis for credit deterioration. In addition, Management continually monitors Brazilian macro-economic factors for any deterioration which directly impacts the credit ratings of Brazilian financial institutions. As there has not been a significant increase in credit risk since initial recognition of this security deposit, which is predominantly impacted by negative macro-economic factors in Brazil, any impairment test uses a 12-month expected credit loss model measure.

As at 30 June 2021, there were $Nil (30 June 2020: $Nil) security deposits past due. The loss allowance recognised during the financial year for security deposits was $Nil. Accordingly, interest income revenue has been calculated on the gross carrying amount during the financial year (30 June 2020: $Nil).

Receivables

The Group's receivables relating to Brazil and Australia are considered to have low credit risk on the basis that there is a low risk of default and the debtor has a strong (robust) capacity to meet its obligations in the short-term. Accordingly, for receivables any impairment test uses a 12-month expected credit loss model measure.

The Group is exposed to credit risk in relation to an interest receivable of $173k (30 June 2020: $164k) predominantly related to the security deposit held with Itau Unibanco SA in Brazil. As there has not been a significant increase in credit risk since initial recognition of the security deposit, which is predominantly impacted by negative macro-economic factors in Brazil, any impairment test uses a 12-month expected credit loss model measure.

As at 30 June 2021, there were $Nil (30 June 2020: $Nil) receivables past due. The loss allowance for receivables recognised during the financial year was considered to be $Nil (30 June 2020: $Nil).

(d) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

At the end of the financial year, the Group held cash and cash equivalents at call of $133,209k (30 June 2020: $296,420k) that are expected to readily generate cash inflows for managing liquidity risk.

The Group manages liquidity risk by ensuring that there are sufficient funds available to meet financial obligations on a day-to-day basis and to meet unexpected liquidity needs in the normal course of business. Emphasis is placed on ensuring there is sufficient funding in place to meet the ongoing operational requirements of the Group's production activities, exploration, evaluation and development expenditure, and other corporate initiatives.

The following mechanisms are utilised to manage liquidity risk:

- preparing and maintaining rolling forecast cash flows in relation to operational, investing and financing activities;
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets;
- managing credit risk related to financial assets;
- when necessary, utilising short-term and long-term loan facilities;
- investing surplus cash only in credit quality banks and financial institutions; and
- maintaining a reputable credit profile.

Note 3. Financial Risk Management continued

(d) Liquidity Risk continued

An analysis of the Group's financial liabilities contractual maturities at the end of the financial year is set out in the tables below. The amounts disclosed in the table are the contractual undiscounted cash flows comprising principal and interest repayments.

	Consolidated					
	Less than 6 Months US$'000	6-12 Months US$'000	1-3 Years US$'000	3-5 Years US$'000	Over 5 Years US$'000	Total US$'000
2021						
Financial liabilities						
Non-derivative financial liabilities						
Trade and other payables	32,382	42,422	4,262	–	–	79,066
Lease liabilities	32,596	29,513	110,269	109,518	94,563	376,459
Derivative financial liabilities						
Contingent consideration – embedded derivative	–	–	37,263	28,414	7,052	72,729
Total financial liabilities	64,978	71,935	151,794	137,932	101,615	528,254
2020						
Financial liabilities						
Non-derivative financial liabilities						
Trade and other payables	20,984	–	183	–	–	21,167
Lease liabilities	101	101	677	636	–	1,515
Total financial liabilities	21,085	101	860	636	–	22,682

(e) Fair Value Estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 30 June 2021 and 30 June 2020 are presented in the table under Note 3(a)(ii) and can be compared to their carrying values as presented in the consolidated statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values estimated for disclosure purposes are based on information that is subject to judgement, where changes in assumptions may have a material impact on the amounts estimated.

The following summarises the significant methods and assumptions used in estimating fair values of financial assets and financial liabilities for disclosure purposes:

Cash and Cash Equivalents

The carrying amount is fair value due to the liquid nature of these assets.

Receivables

The carrying amounts of current receivables are assumed to approximate their fair values due to their short-term nature.

Security Deposits

The carrying amounts of security deposits are assumed to represent their fair values based on their likely realisability profile.

Trade and Other Payables

Due to the nature of these financial liabilities, their carrying amounts are a reasonable approximation of their fair values.

Lease Liabilities

Fair value is calculated based on the present value of the lease payments expected to be paid over the lease term, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Group's estimated incremental borrowing rate.

Other Financial Liabilities – Embedded Derivative

The fair value of the contingent consideration was estimated calculating the present value of the future expected cash outflows. The estimates are based on the Group's internal assessment of future oil prices, which considers industry consensus and observable oil price forecasts. A discount rate of 0.36% and 2% inflation factor has also been applied.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 which are observable for the asset or liability, either directly or indirectly; and
- Level 3: fair value measurements are those derived from valuation techniques which include inputs for the asset or liability that are not based on observable market data.

All of the Group's financial instruments were valued using the Level 2 valuation technique.

Note 4. Revenue and Other Income

	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
(a) Revenue		
Crude oil sales (refer (i) below)	170,809	–
Total revenue from contracts with customers	170,809	–

(i) Sales from Baúna, which was acquired on 6 November 2020.

	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
(b) Other Income		
Interest income	286	2,309
Net foreign currency gains	–	5,389
Services revenue from joint operations	–	365
Net gain on disposal of non-current assets	19	15
Total other income	305	8,078

Note 5. Expenses

	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
(a) Cost of sales		
Operating costs	38,393	–
Royalties	18,972	–
Depreciation and amortisation – oil and gas assets	64,962	–
Change in inventories	(10,952)	–
Total cost of sales	111,375	–
(b) Business development and transition costs		
Baúna transaction costs (refer (i) below)	15,748	13,550
Business development and other project costs	1,816	924
Total Business development and transition costs	17,564	14,474

(i) Represents costs incurred on transition, development initiatives and other project activities associated with Baúna prior to the acquisition. Expenditure includes internal time allocation of employees and consultants and associated office charges, insurance, travel expenses, geotechnical data, success fee, professional fees and external advice relating to due diligence and legal reviews. The current period costs also include standby costs for support vessels and helicopters and FPSO charter costs prior to taking over operatorship of the asset.

Note 5. Expenses continued	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
Exploration and evaluation expenditure expensed	3,326	52,445
Exploration and evaluation expenditure impaired	90	81
Total exploration and evaluation expenditure expensed or impaired	3,416	52,526
(d) Finance costs		
Finance charges on right-of-use assets	12,501	95
Discount unwinding on net present value of provision for restoration	942	–
Bank and interest charges	1,798	2,085
Total finance costs	15,241	2,180
(e) Other Expenses		
Corporate	10,421	9,360
Legal settlement (refer (i) below)	9,600	–
Depreciation and amortisation – non-oil and gas assets	744	704
Share-based payments expense	4,906	2,266
Loss on disposal of non-current assets	9	53
Write-down of inventory to net realisable value (refer (ii) below)	577	12,717
Other expenses	1,449	570
Total other expenses	27,706	25,670

(i) Relates to the Company's wholly owned branch, KEI (Peru Z-38) Pty Ltd, Sucursal del Peru, without any admission of liability, entering into a deed of settlement and release in respect of its dispute with Pitkin Petroleum Peru Z-38 SRL (Pitkin) relating to Block Z-38, offshore Peru. Under the deed of settlement and release, Pitkin has agreed to full and final settlement of all claims of Pitkin and its associates in connection with Block Z-38.

(ii) Prior financial year relates to write-down of the carrying value of inventory holdings in Peru to net realisable value.

Note 6. Income Tax

	Note	Consolidated 2021 US$'000	Restated 2020 US$'000
(a) Income Tax Recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income			
Tax Income (expense) comprises:			
Current income tax		(15,321)	(3,140)
Current income tax under/(over)		(88)	38
Deferred income tax		47,666	3,736
Total income benefit		32,257	634
The prima facie tax on loss before income tax is reconciled to tax income as follows:			
Prima facie tax benefit on loss before income tax, calculated at the Australian tax rate of 30%		8,362	26,032
(Add)/subtract the tax effect of:			
Share-based payments expense (non-cash)		(910)	(709)
Non-deductible legal settlement		(2,880)	–
Other non-deductible items		(3,582)	(2,571)
Tax losses and temporary tax differences not recognised		(961)	(23,649)
Adjustment for current tax of previous financial years		(88)	38
Difference in overseas tax rates		(665)	739
Recognition of temporary differences and tax losses not previously brought to account		20,701	–
Foreign exchange differences		11,952	–
Non-assessable income		328	754
Total income tax benefit		32,257	634
(b) Amounts Recognised Directly in Equity			
Aggregate current and deferred tax arising during the financial year and not recognised in net profit or loss, but directly debited or credited in equity:			
Deferred tax – credited directly in contributed equity	23(b)	143	415

Note 6. Income Tax continued

(c) Deferred Tax Balances

	Consolidated					
(c) Deferred Tax Balances	Restated Balance as at 1 July 2020 US$'000	Recognition of temporary differences and tax losses not previously brought to account US$'000	Charged (Credited) to Profit or Loss US$'000	Charged (Credited) Directly to Equity US$'000	Net foreign currency difference on translation of financial statements to presentation currency US$'000	Balance as at 30 June 2021 US$'000
Temporary differences						
Provisions and accruals	397	250	7,631	–	39	8,317
Equity raising transaction costs	340	–	21	(143)	31	249
Unrealised foreign currency (gains)/losses	(12,570)	–	20,960	–	(1,133)	7,257
Translation adjustment	–	–	(1,387)	–	–	(1,387)
Fair value movement of financial liabilities	–	–	2,255	–	–	2,255
Farm-out expenditures	88	–	–	–	9	97
Right-of-use assets	(222)	(191)	(104,738)	–	(21)	(105,172)
Lease liabilities	242	206	106,237	–	25	106,710
Other	1	–	2	–	–	3
Total temporary differences	(11,724)	265	30,981	(143)	(1,050)	18,329
Unused tax losses						
Tax losses	4	20,434	(4,014)	–	–	16,424
Total unused tax losses	4	20,434	(4,014)	–	–	16,424
Net deferred tax assets/ (liabilities)	(11,720)	20,699	26,967	(143)	(1,050)	34,753
Presented in the consolidated statement of financial position as follows:						
Deferred tax assets	–					36,528
Deferred tax liabilities	(11,720)					(1,775)

(d) Unrecognised Deferred Tax Assets

	Consolidated	
	2021 US$'000	Restated 2020 US$'000
A deferred tax asset has not been recognised in the consolidated statement of financial position as the benefits of which will only be realised if the conditions for deductibility set out in Note 1(f) occur:		
Unrecognised temporary tax differences relating to deferred tax assets at a tax rate of 34%	16,982	49,667
Tax losses: Brazilian operating losses at a tax rate of 34%	–	27,733
Tax losses: Peruvian operating losses at a tax rate of 32%	6,168	5,331
Potential tax income	23,150	82,731

(e) Unrecognised Taxable Temporary Differences

	2021 US$'000	Restated 2020 US$'000
Temporary tax differences relating to deferred tax liabilities	–	(193)
Offset by deferred tax assets relating to operating losses	–	193
Total deferred tax liabilities (unrecognised)	–	–

PRRT

PRRT applies to all the Group's Australian petroleum projects in offshore areas under the *Petroleum Resource Rent Tax Assessment Act 1987*, other than some specific production licences. PRRT is assessed on a project basis or production licence area and will be levied on the taxable profits of a relevant petroleum project at a rate of 40%. Certain specified undeducted expenditures are eligible for compounding. The expenditures can be compounded annually at set rates and the compounded amount can be deducted against assessable receipts in future financial years.

The Group estimates that it has incurred compounded carried forward undeducted PRRT expenditure in excess of accounting carrying values as at 30 June 2021 of $29,143k (2020: $25,353k). The resulting deferred tax asset calculated at an effective tax rate of 28%, that has not been recognised in the consolidated statement of financial position, was $8,160k, (2020: $7,098k).

In order for the Group to utilise undeducted expenditures for PRRT purposes from previous financial years, it will be required to substantiate eligible expenditure in relation to respective Australian offshore permits since the date of their granting to the Group. Any amount that the Group is not able to substantiate will not be able to be utilised against assessable receipts in future financial years. Interests in undeducted PRRT expenditure may be transferred, subject to satisfying certain conditions, between projects within the Group or to other third parties on acquisitions of interests in the Group's Australian offshore permits.

Note 7. Remuneration of External Auditors

	Consolidated	
	2021 US$'000	Restated 2020 US$'000
Remuneration received or due and receivable by the external auditor of the Company for:		
(a) PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	195	127
Other assurance services	–	54
Total remuneration for audit and other assurance services	195	181
(ii) Other services		
Due diligence services	–	25
Taxation services	–	10
All other services	30	2
Total remuneration of PricewaterhouseCoopers Australia	225	218
(b) Related Practices of PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	118	98
Total remuneration for audit and other assurance services of related practices of PricewaterhouseCoopers Australia	118	98
Total remuneration of external auditors	343	316

Note 8. Dividends

There were no ordinary dividends declared or paid during the financial year by the Group (2020: $Nil).

Balance of franking account available for subsequent reporting periods	12,927	9,035

The above amount is calculated from the balance of the Company's franking account as at the end of the financial year. Franking credits are based on the Australian tax rate of 30%.

Note 9. Earnings Per Share

	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
Profit (loss) for the financial year used to calculate basic and diluted earnings per ordinary share:	4,384	(86,138)
(a) Basic profit (loss) per ordinary share	0.0079	(0.1936)
(b) Diluted profit (loss) per ordinary share*	0.0077	(0.1936)
Weighted average number of ordinary shares on issue during the financial year used in calculating basic earnings per ordinary share:	553,552,881	444,985,726
Weighted average number of potential ordinary shares:	13,525,080	8,777,337
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per ordinary share (excluding anti-dilutive share options outstanding):	567,077,961	453,763,063
Weighted average number of anti-dilutive share options:	4,750,911	7,618,174

* Diluted loss per ordinary share equates to basic loss per ordinary share in the current and previous financial year because a loss per ordinary share is not considered dilutive for the purposes of calculating earnings per share pursuant to AASB 133 *'Earnings per Share'*.

Potential ordinary shares

Share options and performance rights over unissued ordinary shares of the Company outstanding at the end of the financial year are considered to be potential ordinary shares and have been included in the determination of diluted earnings per ordinary share to the extent to which they are dilutive. The potential ordinary shares have not been included in the determination of basic earnings per ordinary share.

Note 10. Cash and Cash Equivalents

	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
Cash at bank and on hand (refer note (a) below)	133,209	275,168
Short-term bank deposits (refer note (b) below)	–	21,252
Total cash and cash equivalents	133,209	296,420

(a) Cash and Cash Equivalents of Joint Operations

Cash and cash equivalents include share of joint operation cash and short-term bank deposit balances. Refer to Note 26 for further details.

(b) Short-term Bank Deposits

Short-term bank deposits are made for varying periods, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term bank deposit rates.

Note 11. Receivables

	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
Trade debtors – crude oil sales	33,831	–
Other receivables	331	9,380
Total current receivables	34,162	9,380

(a) Financial Risk Management

Information concerning the Group's exposure to financial risks on receivables is set out in Note 3.

Note 12. Inventories

	Consolidated 2021 US$'000	Restated 2020 US$'000
Current		
Petroleum inventories	10,952	–
Total current inventories	10,952	–
Non-current		
Casing and other drilling inventory	6,536	7,213
Total non-current inventories	6,536	7,213

Note 13. Security Deposits

	2021 US$'000	2020 US$'000
Current		
Karoon Peru Pty Ltd, Sucursal del Peru (refer note (a)(i) below)	62	62
Karoon Energy Ltd (refer note (a)(ii) below)	–	3,700
Karoon Petróleo & Gas Ltda, KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note (d) below)	147	13
Total current security deposits	209	3,775
Non-current		
Karoon Petróleo & Gas Ltda (refer note (b) below)	1,237	1,130
Karoon Energy Ltd (refer note (c) below)	169	158
KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note (d) below)	–	10
Total non-current security deposits	1,406	1,298

(a) Performance Guarantee

(i) Performance guarantee (via a letter of credit) provided to Perupetro SA (the Peruvian oil and gas regulator) for Area 73 by the Group. The performance guarantee was returned and released during July 2021 having met all work commitments and submission of relevant reports to Perupetro SA.

(ii) The performance guarantee (via a letter of credit) provided to Perupetro SA in the previous financial year for Block Z-38 was returned during the financial year.

(b) Guarantee Bond

The Group has provided the ANP a letter of credit (refer Note 27) to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work program is met.

(c) Bank Guarantees

Cash deposits are held as security against bank guarantee facilities for bank guarantees (refer Note 27) given to lessors for the Group's compliance with its obligations in respect of lease rental agreements for office premises.

(d) Bonds

Cash deposits are held as bonds predominately for the Group's compliance with its obligations in respect of agreements for the guarantee (refer Note 27) of payment obligations for various accommodation in Brazil and Peru.

(e) Financial Risk Management

Information concerning the Group's exposure to financial risks on security deposits is set out in Note 3.

Note 14. Other Assets	Note	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
Current			
Prepayments		2,890	1,645
Sundry assets		2,427	–
Total current other assets		5,317	1,645
Non-current			
Deposit paid for production asset		–	34,061
Total non-current other assets		–	34,061

Note 15. Property, Plant and Equipment

	Note	2021 US$'000	Restated 2020 US$'000
Plant and equipment			
At cost		8,722	2,809
Accumulated depreciation		(1,549)	(1,394)
Total plant and equipment		7,173	1,415
Reconciliation			
The reconciliation of the carrying amount for plant and equipment is set out below:			
Balance at beginning of financial year		1,415	556
Additions	25(c)	6,039	1,222
Disposals		(14)	(78)
Depreciation expense		(276)	(222)
Net foreign currency differences		9	(63)
Carrying amount at end of financial year		7,173	1,415
Right-of-use assets – property and other leases			
At cost		1,681	1,725
Accumulated depreciation		(594)	(334)
Total Right-of-use assets – property and other leases		1,087	1,391
Reconciliation			
The reconciliation of the carrying amount for plant and other leases is set out below:			
Balance at beginning of financial period		1,391	–
Additions	25(c)	43	2,257
Disposals		(45)	(572)
Depreciation expense		(362)	(327)
Net foreign currency differences		60	33
Carrying amount at end of financial year		1,087	1,391
Total property, plant and equipment		8,260	2,806

Note 16. Intangible Assets

	Note	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
Computer software			
At cost		1,187	1,604
Accumulated amortisation		(1,085)	(1,393)
Total intangibles		102	211
Reconciliation			
The reconciliation of the carrying amounts for computer software is set out below:			
Balance at beginning of financial year		211	376
Additions	25(c)	34	81
Disposal		(39)	–
Amortisation expense		(106)	(159)
Net foreign currency differences		2	(87)
Carrying amount at end of financial year		102	211

Note 17. Exploration and Evaluation Expenditure Carried Forward

	Note	2021 US$'000	Restated 2020 US$'000
The reconciliation of exploration and evaluation expenditure carried forward is set out below:			
Balance at beginning of financial year		41,204	59,957
Additions	25(c)	1,932	1,173
Transfer to development assets (refer note (a) below)	25(c)	(1,553)	–
Exploration and evaluation expenditure expensed (refer note (b) below)		–	(2,619)
Exploration and evaluation expenditure impaired (refer note (c) below)	5(c)	(90)	(81)
Net foreign currency differences		(640)	(17,226)
Total exploration and evaluation expenditure carried forward		40,853	41,204

(a) Exploration and evaluation expenditure relating to the Patola discovery, which has been transferred to development assets following declaring of a FID during the current financial year.

(b) Exploration and evaluation expenditure expensed relates drilling costs incurred on the Marina 1 exploration well, which was drilled as an unsuccessful well during the prior financial year.

(c) As part of the review of the Group's non-current assets as at 30 June 2021, exploration and evaluation expenditure carried forward has been impaired for continuing appraisal expenditure incurred on the Group's Goiá light oil discovery in Block S-M-1101.

The expenditure is carried forward on the basis that exploration and evaluation activities in the areas of interest have not reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation, to the areas is continuing. The future recoverability of the carrying amount of capitalised exploration and evaluation expenditure is dependent on successful development and commercial exploitation or, alternatively, the sale of the respective areas of interest.

Note 18. Oil and Gas Assets	Note	Consolidated 2021 US$'000	Restated 2020 US$'000
Production asset			
At cost		448,492	–
Accumulated depreciation		(36,827)	–
Total production asset		411,665	–
Reconciliation			
The reconciliation of the carrying amount for production asset is set out below:			
Balance at beginning of financial period		–	–
Acquisition (refer note (a) below)	25(c)	458,973	
Additions	25(c)	1,141	–
Impact of increase in discount rate on provision for restoration at year-end	20(b)	(11,622)	–
Depreciation		(36,827)	–
Carrying amount at end of financial year		411,665	–
Development asset			
At cost		19,020	–
Accumulated depreciation		–	–
Total development asset		19,020	–
Reconciliation			
The reconciliation of the carrying amount for right of use assets is set out below:			
Balance at beginning of financial period		–	–
Additions	25(c)	16,254	–
Capitalised borrowing costs (refer note (b) below)	25(c)	1,213	–
Transfer from exploration and evaluation	25(c)	1,553	–
Carrying amount at end of financial year		19,020	–
Right-of-use assets – FPSO Vessel			
At cost		333,872	–
Accumulated depreciation		(28,135)	–
Total right of use assets – FPSO Vessel		305,737	–
Reconciliation			
The reconciliation of the carrying amount for right of use assets is set out below:			
Balance at beginning of financial period		–	–
Acquisition (refer note (a) below)	25(c)	329,815	
Additions	25(c)	4,057	–
Depreciation expense		(28,135)	–
Carrying amount at end of financial year		305,737	–
Total oil and gas assets		736,422	–

(a) On 6 November 2020, Karoon Petróleo & Gás Ltda, a wholly owned subsidiary of Karoon, successfully completed the acquisition of a 100% operating interest in Baúna from Petrobras for a firm consideration of $380 million plus a tiered contingent consideration payable of up to $285 million (plus interest at 2% per annum). The purchase was accounted for as an asset acquisition, with the purchase consideration allocated against identifiable assets and liabilities acquired, based on their relative fair values determined on the acquisition date.

Pursuant to the SPA $150 million (in addition to $50 million deposit already paid on the signing of the SPA in the prior financial year) was paid at completion of the transaction with a deferred consideration of $41.5 million (plus interest at 1 month LIBOR plus a 3% margin) payable 18 months following completion during May 2022. The deferred consideration represented the firm consideration of $380 million less the $200 million in cash payments and the operating and investing cash flows (attributable to the assets to be transferred to Karoon under the SPA) in the period from the transaction effective date of 1 January 2019 up to the closing date of 6 November 2020. The deferred consideration liability, including interest accrued from 6 November to 30 June 2021, is included in current trade and other payables as at 30 June 2021 (refer Note 19).

The fair value of the contingent consideration was estimated calculating the present value of the future expected cash out flows as at 6 November 2020 and was included as part of the cost of the acquisition (refer Note 22 for further details).

(b) The capitalised borrowing costs relate to legal and external advisor fees incurred in connection with negotiating a Syndicated Facility Agreement for an Underwritten Secured Term Loan Facility (refer Note 28(c)) and the expected funding to be used for Patola development, which represents a qualifying asset. An apportionment of a ticking fee charged at 0.85% per annum of the available facility has also been capitalised.

Note 19. Trade and Other Payables

	Note	Consolidated 2021 US$'000	Restated 2020 US$'000
Current (unsecured)			
Trade payables		30,286	18,698
Petrobras deferred consideration	18(a)	42,422	–
Sundry payables and accruals		2,933	3,165
Cash-settled share-based payments		533	36
Total current trade and other payables		76,174	21,899
Non-current (unsecured)			
Sundry payables and accruals		2,761	–
Cash-settled share-based payments		1,500	183
Total non-current trade and other payables		4,261	183

(a) Financial Risk Management

Information concerning the Group's exposure to financial risks on trade and other payables is set out in Note 3.

Note 20. Provisions

	Consolidated 2021 US$'000	Restated 2020 US$'000
Current		
Provision for long service leave (refer note (a) below)	457	409
Total current provision	457	409
Non-current		
Provision for long service leave (refer note (a) below)	82	83
Provision for restoration (refer note (b) below)	158,703	–
Total non-current provisions	158,785	83

(a) Provision for Long Service Leave

A provision was recognised for employee entitlements relating to long service leave. The measurement and recognition criteria relating to long service leave entitlements are as described in Note 1(t).

The current portion of this provision includes all the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

(b) Reconciliation of provision for restoration

	2021	2020
Balance at beginning of financial period	–	–
Additions (refer note (i) below)	169,384	–
Discount unwinding on provision for restoration	942	–
Impact of increase in discount rate at year-end	(11,623)	–
Total provision for restoration	158,703	–

(i) A provision was recognised for a Brazilian restoration obligation relating to the producing oil and gas asset acquired during the period (refer Note 18). The measurement and recognition criteria relating to restoration obligations are as described in Note 1(t).

Note 21. Leases

	Consolidated 2021 US$'000	Restated 2020 US$'000
Current	45,393	203
Non-current	267,447	1,313
Total lease liabilities	312,840	1,516
Reconciliation		
Balance at beginning of financial year	1,516	741
Acquisitions (refer note (i) below)	329,815	–
Additions	4,109	1,031
Disposals	(45)	–
Adjustment to fixed lease payments	(1,107)	–
Accretion of interest	12,501	95
Payments	(34,090)	(351)
Net foreign currency differences	141	–
Total lease liabilities	312,840	1,516

(i) A right-of-use asset was recognised as part of the oil and gas assets acquired during the period in relation to an FPSO Charter agreement (refer Note 18).

Note 22. Other financial liabilities

	Consolidated 2021 US$'000	Restated 2020 US$'000
Non-Current		–
Embedded derivative – contingent consideration payable (refer note (a) below)	71,161	–
Total non-current other financial liabilities	71,161	–

(a) reconciliation of contingent consideration payable

	2021 US$'000	2020 US$'000
Balance at beginning of financial year	–	–
Additions	64,529	–
Unrealised fair value changes recognised in profit or loss during the period	6,632	–
Total contingent consideration payable at fair value	71,161	–

As part of the acquisition of Baúna (refer Note 18), Karoon's wholly owned subsidiary, Karoon Petróleo & Gás Ltda., has agreed to pay Petrobras contingent consideration of up to $285 million (plus interest of 2% per annum). The fair value of the contingent consideration was estimated calculating the present value of the future expected cash out flows. The estimates are based on Group's internal assessment of future oil prices, which considers industry consensus and observable oil price forecasts. A discount rate of 0.36% and 2% inflation factor has also been applied.

The contingent consideration accrues interest at 2% per annum from 1 January 2019 with any amounts payable by 31 January after the completion of the relevant testing period. The relevant testing periods are each calendar year from (and including) 2022 to (and including) 2026 and are based on the achievement of annual average Platts Dated Brent oil prices thresholds commencing at ≥US$50 and ending at ≥US$70 a barrel.

After the testing of each year, any amount deemed not payable is cancelled and not carried forward. The amount payable each calendar year excluding interest depending on achievement of certain oil prices is disclosed below:

Average Brent Price (in US$ units)	CY2022	CY2023	CY2024	CY2025	CY2026	Total
B < 50	–	–	–	–	–	–
50 <= B < 55	3	3	3	2	2	13
55 <= B < 60	17	17	17	8	4	63
60 <= B < 65	34	34	34	15	6	123
65 <= B < 70	53	53	53	24	10	193
B >= 70	78	78	78	36	15	285

Note 23. Contributed Equity and Reserves Within Equity

(a) Contributed Equity

	Consolidated		Consolidated	
	2021 Number	2020 Number	2021 US$'000	Restated 2020 US$'000
Ordinary shares, fully paid	553,770,529	552,984,693	905,138	905,281
Total contributed equity	553,770,529	552,984,693	905,138	905,281

Ordinary shares have no par value, and the Company does not have a limited amount of authorised capital.

Voting rights of shareholders are governed by the Company's Constitution. In summary, on a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each such attending shareholder is entitled to one vote for every fully paid ordinary share held.

Ordinary shares participate in dividends as declared from time to time and the proceeds on winding up of the Company in proportion to the number of fully paid ordinary shares held.

(b) Movement in Ordinary Shares

Date	Details	Note	Number of Ordinary Shares	US$'000
1 July 2019	Opening balance in previous financial year		246,216,477	716,502
	Deferred tax credit recognised directly in equity		–	415
	Performance rights conversion	30(c)	1,261,747	–
30 June 2020	Balance at end of financial year		552,984,693	905,281
	Deferred tax credit recognised directly in equity		–	(143)
	Performance rights conversion	30(c)	785,836	–
30 June 2021	Balance at end of financial year		553,770,529	905,138

(c) Capital Management

The Board of Directors controls the capital of the Company in order to ensure that the Group can fund its operations and continue as a going concern. The aim is to maintain a capital structure that ensures the lowest cost of capital to the Company.

The Chief Executive Officer and Managing Director manages the Company's capital by monitoring future rolling cash flows and adjusting its capital structure, as required, in consultation with the Board of Directors to meet Group business objectives. As required, the Group will balance its overall capital structure through the issue of new ordinary shares, share buy-backs and utilising short-term and long-term loan facilities when necessary.

There were no externally imposed capital management restrictions on the Group during the financial year.

(d) Reserves Within Equity

(i) Share-based Payments Reserve

The share-based payments reserve is used to recognise the grant date fair value of equity-settled share-based payments to Executive Directors, other key management personnel and employees as part of their remuneration, as described in Note 1(s).

(ii) Foreign Currency Translation Reserve

The foreign currency translation reserve is used to recognise exchange differences arising from the translation of financial statements into the presentation currency as described in Note 1(e). The relevant amounts included in the foreign currency translation reserve will be recognised in the consolidated statement of profit or loss and other comprehensive income when each relevant investment in the entity is disposed.

Note 24. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

Name	Country of Incorporation or Registration	Business Activities Carried on in	Percentage of Equity and Voting Interests Held by the Group 2021 %	2020 %
Parent Company:				
Karoon Energy Ltd	Australia	Australia		
Unlisted subsidiaries of Karoon Energy Ltd:				
Karoon Energy International Pty Ltd	Australia	Australia	100	100
Karoon Gas Browse Basin Pty Ltd	Australia	Australia	100	100
Karoon Gas (FPSO) Pty Ltd	Australia	Australia	100	100
Unlisted subsidiaries of Karoon Energy International Pty Ltd:				
KEI (Brazil Santos) Pty Ltd	Australia	Australia	100	100
Karoon Peru Pty Ltd	Australia	Australia	100	100
KEI (Peru Z38) Pty Ltd	Australia	Australia	100	100
Unlisted subsidiary of KEI (Brazil Santos) Pty Ltd:				
Karoon Petróleo & Gas Ltda	Brazil	Brazil	100	100
Branch of KEI Peru Pty Ltd:				
Karoon Peru Pty Ltd, Sucursal del Peru	Peru	Peru	100	100
Branch of KEI (Peru Z38) Pty Ltd:				
KEI (Peru Z38) Pty Ltd, Sucursal del Peru	Peru	Peru	100	100

Note 25. Segment Information

(a) Description of Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and Managing Director (identified as the 'chief operating decision maker') in assessing performance and in determining the allocation of resources.

The operating segments are based on the Group's geographical location of its operations.

The Group has identified operating segments based on the following three geographic locations:

- Australia – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in an offshore exploration permit area: WA-482-P.
- Brazil – in which the Group is currently involved in the exploration, development and production of hydrocarbons in four offshore blocks: Block BM-S-40, Block S-M-1037, Block S-M-1101, and Block S-M-1537; and
- Peru – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in offshore exploration Block Z-38 and Area 73.

All other segments include amounts not specifically attributable to an operating segment.

The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

Segment revenues and results do not include transfers between segments as intercompany balances are eliminated on consolidation.

Employee benefits expense and other expenses, that are associated with exploration and evaluation activities and specifically relate to an area of interest, are allocated to the area of interest and are either expensed or capitalised using the successful efforts method of accounting.

Employee benefits expense and other expenses, that are directly attributable to the production of goods are allocated to operating costs as part of cost of sales.

The amounts provided to the chief operating decision maker with respect to total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements. Reportable segment assets and segment liabilities are equal to consolidated total assets and total liabilities respectively. These assets and liabilities are allocated in accordance with the operations of the segment.

(b) Operating Segments

Segment Performance	Australia US$'000	Brazil US$'000	Peru US$'000	All Other Segments US$'000	Consolidated US$'000
Result for financial year ended 30 June 2021					
Revenue	–	170,809	–	–	170,809
Other income	93	206	6	–	305
Total segment revenue	93	171,015	6	–	171,114
Expenses					
Business development and transition costs	(81)	(17,386)	(97)	–	(17,564)
Cost of sales	–	(111,375)	–	–	(111,375)
Depreciation and amortisation expense					
– non-oil and gas assets	(287)	(271)	(186)	–	(744)
Exploration expenses	254	(2,580)	(1,090)	–	(3,416)
Finance costs	(102)	(15,131)	(8)	–	(15,241)
Inventory write-down	–	(577)	–	–	(577)
Net foreign currency losses	(16,839)	154	(368)	–	(17,053)
Change in fair value of contingent consideration	–	(6,632)	–	–	(6,632)
Legal settlement	–	–	(9,600)	–	(9,600)
Share-based payments expense	(2,873)	(2,033)	–	–	(4,906)
Other	(7,483)	(3,065)	(1,331)	–	(11,879)
Profit/ (loss) before income tax	(27,318)	12,119	(12,674)	–	(27,873)
Income tax benefit	7,816	24,442	–	–	32,257
Profit/ (loss) for financial year	(19,502)	36,560	(12,674)	–	4,384

Segment Performance	Australia US$'000	Brazil US$'000	Peru US$'000	All Other Segments US$'000	Consolidated US$'000
Restated result for financial year ended 30 June 2020					
Revenue	–	–	–	–	–
Other income	7,754	336	(12)	–	8,078
Total segment revenue	7,754	336	(12)	–	8,078
Expenses					
Business development and transition costs	–	(14,474)	–	–	(14,474)
Cost of sales	–	–	–	–	–
Depreciation and amortisation expense					
– non-oil and gas assets	(173)	(362)	(169)	–	(704)
Exploration expenses	(629)	(788)	(51,006)	(103)	(52,526)
Finance costs	(49)	(2,109)	(22)	–	(2,180)
Inventory write-down	–	–	(12,717)	–	(12,717)
Net foreign currency losses	–	–	–	–	–
Share-based payments expense	(1,707)	(559)	–	–	(2,266)
Other	(6,553)	(2,258)	(1,172)	–	(9,983)
(Loss) before income tax	(1,357)	(20,214)	(65,098)	(103)	(86,772)
Income tax benefit	608	–	–	26	634
(Loss) for financial year	(749)	(20,214)	(65,098)	(77)	(86,138)

Note 25. Segment Information continued

(b) Operating Segments continued

Segment Performance	Australia US$'000	Brazil US$'000	Peru US$'000	All Other Segments US$'000	Consolidated US$'000
Total Segment Assets					
As at 30 June 2021	64,560	947,806	1,590	–	1,013,956
As at 30 June 2020 (restated)	282,594	89,414	26,005	–	398,013
Total Segment liabilities					
As at 30 June 2021	6,267	617,632	9,807	–	633,706
As at 30 June 2020 (restated)	17,752	5,045	15,734	–	38,531

(c) Other Segment Information

Additions to non-current assets, other than financial assets (refer Note 3), during the reporting periods were:

	Australia US$'000	Brazil US$'000	Peru US$'000	All Other Segments US$'000	Consolidated US$'000
Financial year ended 30 June 2021					
Property, plant and equipment^	43	6,039	–	–	6,082
Oil and gas assets^	–	813,006	–	–	813,006
Intangible assets	34	–	–	–	34
Exploration and evaluation expenditure carried forward	–	379	–	–	379
Restated financial year ended 30 June 2020					
Property, plant and equipment^	1,189	2,078	212	–	3,479
Intangible assets	9	71	1	–	81
Exploration and evaluation expenditure carried forward	–	1,173	–	–	1,173

^ Includes right-of-use assets.

Note 26. Joint Operations

The Group has an equity interest in the following joint operations as at 30 June 2021 as follows:

Petroleum Tenement	Business Activities Carried on in	Unincorporated Equity Interest (%) 2021	2020	Principal Activities	Operator of Joint Operation
WA-482-P	Northern Carnarvon Basin, Australia	50	50	Exploration and evaluation	Santos WA Energy Limited
Block Z-38	Tumbes Basin, Peru	75	40	Exploration and evaluation	KEI (Peru Z38) Pty Ltd, Sucursal del Peru

The following amounts represented the Group's share of assets, liabilities, revenues and expenses employed in joint operations. The amounts are included in the consolidated financial statements, in accordance with the accounting policy described in Note 1(v), under the following classifications:

	Consolidated 2021 US$'000	Restated 2020 US$'000
Cash and cash equivalents	303	13,806
Receivables (current)	–	4,782
Inventory	135	135
Trade and other payables (current)	(233)	(15,710)
Share of net assets employed in joint operations	205	3,013
Interest income from unrelated entities	–	1
Other income	–	365
Other expenses	(1)	(360)
Exploration and evaluation expenditure expensed or impaired	(1,133)	(51,515)
Write-down of inventory to net realisable value	–	(2,508)

There are no contingent liabilities in respect of joint operations as at year end.

During the period the Parent Company guarantee provided to Tullow guaranteeing KEI (Peru Z38) Pty Ltd, Sucursal del Peru's performance under the joint operating agreement covering Block Z-38 was effectively released following Tullow's withdrawal from the licence agreement.

Note 27. Contingent Liabilities and Contingent Assets

	Consolidated 2021 US$'000	Consolidated Restated 2020 US$'000
(a) Contingent Liabilities		
The Group has contingent liabilities as at 30 June 2021 that may become payable in respect of:		
(i) A Parent Company guarantee totalling BRL117.7 million provided to the ANP in respect of existing decommissioning obligations relating to the Baúna field.	20,866	–
(ii) Performance guarantee (via a letter of credit) provided to Perupetro SA for Area 73 by the Group (refer Note 13). The performance guarantee was returned and released during July 2021 having met all work commitments and submission of relevant reports to Perupetro SA.	62	62
(iii Performance guarantee (via a letter of credit) provided to Perupetro SA for Block Z-38 by the Group for its share of third period work commitments was released during the year with the commitments being met.	–	3,700
(iv) The Group has provided the ANP a letter of credit (refer Note 13) to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The Directors are of the opinion that the work program commitments will be satisfied. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work program is met.	1,237	1,130
(v) Bank guarantees were provided in respect of rental agreements for office premises of the Group. These guarantees may give rise to liabilities in the Group if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	304	158
(vi) Cash deposits (refer Note 13) are held as bonds for the Group's compliance with its obligations in respect of agreements for the guarantee of payment obligations for various accommodation in Brazil and Peru.	–	23

(vii) Block Acquisition
As part of the acquisition of Pacific Exploration and Production Corp's equity interest of Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 during the 2017 financial year, the Group agreed to pay Pacific Exploration and Production Corp. a deferred contingent consideration of $5.0 million payable upon first production reaching a minimum of 1 million barrels of oil equivalent from the Blocks. The deferred contingent obligation has not been provided for as at 30 June 2021, as it is dependent upon uncertain future events.

(viii) Brazilian Local Content
The Concession Contracts for Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1537 and S-M-1166 require Karoon Petróleo & Gas Ltda to acquire a minimum proportion of goods and services from Brazilian suppliers, with the objective to stimulate industrial development, promote and diversify the Brazilian economy, encourage advanced technology and develop local capabilities. The minimum Brazilian local content requirement under the Concession Contracts during the exploration and appraisal phase is up to 55%. If Karoon Petróleo & Gas Ltda fails to comply with this minimum requirement, Karoon Petróleo & Gas Ltda may be subject to a fine by the ANP.

It is not practical to estimate a potential shortfall in meeting the local content requirement as at 30 June 2021, nor the financial effect of any potential fine by the ANP.

(ix) Joint Operations
In accordance with normal industry practice, the Group has entered into joint operations with other parties for the purpose of exploring and evaluating its exploration tenements. If a participant to a joint operation defaults and does not contribute its share of joint operation obligations, then the remaining joint operation participants are jointly and severally liable to meet the obligations of the defaulting participant. In this event, the equity interest in the exploration tenements held by the defaulting participant may be redistributed to the remaining joint operation participants.

In the event of a default, a contingent liability exists in respect of expenditure commitments due to be met by the Group in respect of the defaulting joint operation participant.

(x) Other Matters
There are also legal claims and exposures, which arise from the Group's ordinary course of business. No material loss to the Group is expected to result.

(b) Contingent Assets

The Group has no contingent assets as at 30 June 2021 (30 June 2020: $Nil).

Note 28. Commitments

	Consolidated	
	2021 US$'000	Restated 2020 US$'000
(a) Capital and Service Expenditure Commitments		
Contracts for capital and service expenditure in relation to assets not provided for in the consolidated financial statements and payable. Note the service commitments as at 30 June 2021 include the provision of services related to the charter of the FPSO acquired as part of the Baúna acquisition.		
Capital commitments for Baúna workovers and Patola Development		
Not later than one year	79,269	–
Later than one year but not later than five years	26,691	–
Total capital commitments	105,960	–
Service commitments		
Not later than one year	11,990	286
Later than one year but not later than five years	42,504	–
Total service commitments	54,494	286
Total capital and service expenditure commitments	160,454	286
(b) Exploration Expenditure Commitments		
The Group has guaranteed commitments for exploration expenditure arising from obligations to governments to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration tenements WA-482-P and Block S-M-1537 (30 June 2020: WA-482-P, Block S-M-1537 and Block Z-38) not provided for in the consolidated financial statements and payable.		
Not later than one year	102	178
Later than one year but not later than five years	3,500	417
Later than five years	–	1,125
Total guaranteed exploration expenditure commitments	3,602	1,720
In addition to the guaranteed exploration expenditure commitments shown above, the Group has non-guaranteed government work commitments in relation to these exploration tenements due later than one year but not later than five years of $15,224k (30 June 2020: $80,048k). These commitments will become firm commitments if the Group elects to retain the tenements by proceeding into the unguaranteed work periods.		
Exploration expenditure commitments, including farm-in, obligations in respect of joint operations are set-out below:		
Not later than one year	102	178
Later than one year but not later than five years	–	80,464
Total joint operation guaranteed exploration expenditure commitments	102	80,642

Note 28. Commitments continued

(b) Exploration Expenditure Commitments continued

Note, the figures above do not include any commitments in relation to Exploration Blocks S-M-1037 and S-M-1101 relating to the Neon and Goiá light oil discoveries. In accordance with Brazilian regulatory requirements, during January 2019 Karoon submitted a Final Discovery Evaluation Report and Declaration of Commerciality for the discoveries. This transitioned the Blocks for Brazilian regulatory requirements only, from the exploration phase to the development phase, akin to receiving a Retention Licence over the oil discoveries. However, it does not mean that Karoon has reached, nor is compelled to reach, a FID to proceed into a development of the discoveries. Prior to a FID being reached, Karoon anticipates drilling a 'control well' to assist with delineating the southern region of the field, confirming reservoir quality and assisting with the planning and design of both development wells and infrastructure. Karoon is evaluating options to drill the control well on the Neon discovery during the planned Baúna intervention campaign and Patola development which is dependent on ongoing evaluation work. As at 30 June 2021, Karoon had not entered into a firm commitment to drill the control well.

Estimates for future exploration expenditure commitments to government are based on estimated well and seismic costs, which will change as actual drilling locations and seismic surveys are completed and are calculated in current dollars on an undiscounted basis. The exploration and evaluation obligations may vary significantly as a result of renegotiations with relevant parties. The commitments may also be reduced by the Group entering into farm-out agreements, which are typical of the normal operating activities of the Group, or by relinquishing exploration tenements.

Where exploration and evaluation expenditure included in this category relates to an existing contract for expenditure and/or signed Authorities for Expenditure, the amount will be included in both categories (a) and (b) above.

(c) Syndicated Facility Agreement for an Underwritten Secured Term Loan Facility for Baúna

On 1 June 2021 Karoon Energy Ltd's wholly owned subsidiary Karoon Petróleo e Gás Ltda signed a secured term loan facility (the 'syndicated facility') of up to $160 million, including an option to potentially establish an additional $50 million accordion facility. The syndicated facility will be used as part of the funding of the Patola field development, intervention campaign in relation the Baúna and Piracaba fields or deferred consideration payable to Petrobras under the SPA.

The syndicated facility agreement has been fully underwritten by Deutsche Bank AG, Sydney Branch, ING Belguim SA/NV, Macquarie Bank Limited and Shell Western Supply and Trading Limited. The syndicated facility is priced at a 4.25% margin over LIBOR over the term of the loan until the final maturity date (being the earlier of 31 March 2025 or the quarter where the remaining reserves are forecast to be ≤ 25% of the initial approved reserves). A ticking fee of 0.85% per annum is payable on the $160 million available commitment from 1 June 2021 until closing date or the facility is otherwise cancelled. At Closing Date an up-front fee of $3.5 million is also payable. Closing Date is the date on which the first drawdown is made. Except for the ticking fee, no fees are payable unless the closing date occurs. As at 30 June 2021 the first drawdown remained subject to the satisfaction of a number of conditions precedent.

Note 29. Reconciliation to the Consolidated Statement of Cash Flows

(a) Reconciliation of Loss for Financial Year to Net Cash Flows Used in Operating Activities

	Consolidated	
	2021 US$'000	Restated 2020 US$'000
Profit (loss) for financial year	4,384	(86,138)
Add (subtract)		
Non-cash items included in loss for financial year:		
Depreciation and amortisation	65,706	704
Change in fair value of contingent consideration	6,632	–
Discount unwinding on provision for restoration and deferred consideration	1,797	–
Share-based payments expense	3,034	2,362
Gain on disposal of right-of-use asset	(1)	(38)
Net foreign currency losses (gains)	17,092	(6,433)
Items classified as investing/ financing activities:		
Net (gain) loss on disposal of non-current assets	(10)	75
Exploration and evaluation expenditure impaired or written-off	90	2,700
Net foreign currency gains (losses)	(151)	(900)
Write-down of inventory to net realisable value	577	12,717
Change in operating assets and liabilities:		
(Increase) decrease in assets		
Receivables – current	(24,783)	(8,061)
Oil Inventories	(10,952)	–
Deferred tax assets	(36,528)	–
Other assets	(3,673)	(793)
Increase (decrease) in liabilities		
Trade and other payables – current	7,003	18,592
Trade and other payables – non-current	4,078	(200)
Provisions – current	48	4
Provisions – non-current	(1)	–
Current tax liabilities	5,532	2,721
Deferred tax liabilities	(10,088)	(4,428)
Net cash flows provided by (used in) operating activities	29,786	(67,116)

Non-cash financing activities disclosed in other notes is the acquisition of right-of-use assets (refer to Note 15 and 18).

Note 30. Share-based Payments

The share-based payment plans are described below. There has been no cancellation to a plan during the financial year.

(a) Employee Share Option Plan ('ESOP')

The Company currently only has the 2016 ESOP in place. ESOP options expire up to 4 years after they are granted. The exercise price of ESOP options is based on the volume weighted average price at which the Company's ordinary shares are traded on the ASX during the 20 days of trading before the ESOP options were offered plus a premium to the market price.

Each ESOP option provides eligible employees with the right to acquire one fully paid ordinary share of the Company at the exercise price determined upon grant, or its equivalent value, subject to the achievement of the relevant performance conditions.

Share options granted under the ESOP carry no dividend or voting rights.

If there is a change of control of the Company, for all unexercised ESOP options, a percentage amount of unvested ESOP options may vest on the basis of the pro-rata achievement of pre-determined performance conditions.

During the financial year, the Group did not grant any ESOP options (2020: $Nil) over unissued ordinary shares in the Company to Executive Directors.

The following summary reconciles the outstanding ESOP options over unissued ordinary shares in the Company at the beginning and end of the financial year:

	Consolidated			
	2021		2020	
	Number	Weighted Average Exercise Price A$	Number	Weighted Average Exercise Price A$
Balance at beginning of financial year	7,230,019	$1.54	9,995,521	$1.61
Granted during financial year	–	–	–	–
Exercised during financial year	–	–	–	–
Cancelled during financial year	–	–	–	–
Expired during financial year	–	–	–	–
Forfeited during financial year	(3,163,896)	$1.73	(2,765,502)	$1.79
Balance at end of financial year	4,066,123	$1.40	7,230,019	$1.54
Exercisable at end of financial year	–	–	–	–

ESOP options outstanding as at 30 June 2021 had an exercise price of A$1.40 (30 June 2020: range of exercise prices from A$1.40 to A$1.77) with a weighted average remaining contractual life of 365 days (30 June 2020: 573 days).

Details of ESOP options outstanding at the end of the financial year are:

Grant Date	Date of Expiry	Exercise Price Per ESOP Option	Number
21 September 2018	30 June 2022	$1.40	2,996,437
31 December 2018	30 June 2022	$1.40	1,069,686
Total ESOP options			4,066,123

(b) Fair Value of Share Options

The fair value of each share option issued during previous financial years was estimated on grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model takes into account the exercise price, the term of the share option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share option. The last grant of share options was during the year ended 30 June 2019.

(c) Performance Rights Plan ('PRP')

The Company currently has two PRPs in place, the 2016 PRP and 2019 PRP. The 2019 PRP was approved by shareholders at the 2019 Annual General Meeting.

Under the PRP, eligible employees are given performance rights to be issued and allotted fully paid ordinary shares in the Company, or equivalent cash value, for no consideration provided certain conditions have been met. Vesting of performance rights is conditional on the achievement of performance measures, over a one-year performance period, and provided the employee remains employed by the Company for an additional year. In each case, the People, Culture and Governance Committee will be responsible for assessing whether the performance measures have been achieved. When vested, each performance right is convertible into one ordinary share of the Company.

Performance rights granted carry no dividend or voting rights.

If there is a change of control of the Company, for all unexercised performance rights issued pursuant to the Company's PRP, a percentage amount of unvested performance rights may vest on the basis of the pro-rata achievement of pre-determined performance conditions.

During the financial year, the Group granted 502,989 performance rights (2020: 1,332,646) over unissued ordinary shares in the Company to Executive Directors. The performance rights were provided to the Chief Executive Officer and Managing Director but remain subject to approval by shareholders at the 2021 Annual General Meeting. Performance rights issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

The following summary reconciles the outstanding performance rights over unissued ordinary shares in the Company at the beginning and end of the financial year:

	Consolidated	
	2021 Number	2020 Number
Balance at beginning of financial year	10,935,950	7,762,137
Granted during financial year	8,847,523	7,630,152
Vested and converted during financial year	(785,836)	(1,261,747)
Cancelled during financial year	–	–
Cash-settled during financial year	(96,741)	(297,317)
Forfeited during financial year	(4,039,410)	(2,897,275)
Balance at end of financial year	14,861,486	10,935,950

Performance rights issued during the financial year were issued under the 2019 PRP.

The weighted average fair value of performance rights granted during the financial year was A$0.69 (2020: A$1.08). Fair values of STI performance rights were based on the Company's closing share price at grant date whereas LTI performance rights were based on a Monte Carlo simulation valuation at grant date. Refer to details at Note 30(d) below.

Performance rights outstanding as at 30 June 2021 had a weighted average remaining contractual life of 789 days (30 June 2020: 784 days).

Details of performance rights outstanding at the end of the financial year are:

Grant Date	Date of Expiry	Number
21 September 2018	30 June 2022	785,178
31 December 2018	30 June 2022	280,298
12 November 2019	30 June 2022	143,980
12 November 2019	30 June 2023	685,621
18 October 2019	30 June 2022	1,034,946
18 October 2019	30 June 2023	2,367,643
29 November 2019	30 June 2022	49,974
29 November 2019	30 June 2023	666,323
25 September 2020	30 June 2023	4,172,267
25 September 2020	30 June 2024	4,172,267
30 June 2021^	30 June 2024	502,989
Total performance rights		14,861,486

^ The performance rights were provided to the Chief Executive Officer and Managing Director during the financial year but remain subject to approval by shareholders at the 2021 Annual General meeting.

Note 30. Share-based Payments continued

(d) Fair Value of Performance Rights

The fair value of each LTI performance right issued during the financial year was estimated on grant date using the Monte Carlo valuation methodology. The Monte Carlo valuation methodology takes into account the exercise price, the term of the performance right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right. The fair value of STI performance rights issued during the financial year was based on the Company's closing share price at grant date. The fair value of all performance rights issued prior to the current financial year were based on the Company's closing share price at grant date.

The Group applied the following assumptions and inputs in estimating the weighted average fair value for LTI performance rights:

	2021	2020
Weighted average exercise price	$A Nil	–
Weighted average life of performance rights	1,383 days	–
Weighted average share price	A$0.80	–
Expected share price volatility	60.00%	–
Risk free interest rate	0.17%	–
Weighted average performance rights value	A$0.65	–

Historical volatility was the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate.

(e) Share-based Payments Expense

Total expenses arising from share-based payment transactions recognised during the financial year, included as part of other expenses in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	Consolidated	
	2021 US$'000	Restated 2020 US$'000
Share options issued under ESOP	190	388
Performance rights issued under PRP	2,844	1,946
Share-based payments expense (non-cash)	3,034	2,334
Share-based payments expense (cash-settled)	1,872	(68)
Total share-based payments expense	4,906	2,266

Note 31. Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties, unless otherwise stated.

(a) Subsidiaries

Interests in subsidiaries are set out in Note 24.

During the financial year, the Parent provided accounting, administrative and technical services to subsidiaries at cost or at cost plus a mark-up where required under relevant tax transfer pricing legislation. This allocation was based on costs recharged on a relevant time allocation of employees and consultants and associated office charges.

Other transactions that occurred were provision of funding by the Parent Company to its overseas subsidiaries via an increase in contributed equity and intercompany loans to the Australian subsidiaries. The intercompany loans provided are at a Nil% interest rate (2020: Nil%) and no fixed term for repayment and therefore will not be repaid within 12 months. Loans are unsecured and are repayable in cash.

Where equity-settled share options and performance rights are issued to employees of subsidiaries within the Group, the transaction is recognised as an investment in the subsidiary by the Parent Company and in the subsidiary, a share-based payments expense and an equity contribution by the Parent Company.

The above transactions are eliminated on consolidation.

(b) Remuneration of Key Management Personnel

Directors and other key management personnel remuneration is summarised as follows:

	Consolidated	
	2021 US$'000	Restated 2020 US$'000
Short-term employee benefits	2,390	2,193
Post-employment benefits	175	137
Long-term employee benefits (non-cash)	18	16
Termination benefits	470	–
Share-based payments expense	2,764	643
Total key management personnel remuneration	5,817	2,989

Detailed remuneration disclosures for the Directors and other key management personnel are provided in Sections 5 of the audited Remuneration Report on pages 65 to 74.

In addition to the above, the Group is committed to pay other key management personnel up to $897k (2020: $1,657k, which also included the former Managing director) in the event their role is fundamentally reduced upon a change in control of the Group. Termination of the Executive Director's and other key management personnel's employment is subject to a minimum notice period as disclosed in Section 5 of the audited Remuneration Report.

Apart from the details disclosed in this note, no Director or other key management personnel has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' or other key management personnel interests subsisting as at 30 June 2021.

(c) Other Related Party Transactions Within the Group

During the financial year, Mr José Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda that provided business and geology consulting services to the Group. The value of these transactions from 1 July 2020 to the date of his retirement of 27 November 2020 was $103,927 (2020: $254,562). Given Karoon's size relative to other operators in Brazil, the consulting services provided by Net Pay Óleo & Gás Consultoria Ltda were required for Karoon to operate effectively within the Brazilian oil industry. The Consultancy Agreement under which such services were provided was terminated with effect on and from 28 February 2021.

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director (who retired on 27 November 2020), was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration (including share-based payments expense) from 1 July 2020 to 27 November 2020 was $112,724 (2020: $151,048). Ms Barbosa has been an employee of the Company since 2011 and has a comprehensive understanding of the Brazilian legal and regulatory framework.

During the financial year, Ms Marina Sayão, the wife of Mr Tim Hosking (a KMP until 31 March 2021), received a payment relating to 2019 STIs during the financial year of $8,110 (2020: $122,531). The prior financial year included remuneration Ms Sayão received as the Sustainability and Communications Manager, South America until the position was made redundant during the 2020 financial year and she ceased as an employee.

(d) Related Party Payables

As part of his 'At Risk' remuneration Mr Scott Hosking was issued cash-settled share-based payments for which a liability is recognised based on fair value earned by the end of the reporting period. The balance outstanding included in current trade and other payables is $250,397 (2020: $35,661) and in non-current trade and other payables $435,781 (2020: $154,730). The previous year also included amounts for Mr Tim Hosking and Ms Flavia Barbosa.

Note 32. Parent Company Financial Information

(a) Summary Financial Information

The individual financial statements for the Parent Company show the following aggregate amounts:

	Company	
	2021 US$'000	Restated 2020 US$'000
Statement of financial position		
Current assets	63,387	281,225
Non-current assets	253,939	32,361
Total assets	317,326	313,586
Current liabilities	3,234	3,997
Non-current liabilities	3,111	12,743
Total liabilities	6,345	16,740
Net assets	310,981	296,846
Contributed equity	905,138	905,281
Accumulated losses	(574,852)	(557,870)
Share-based payments reserve	50,190	47,156
Foreign currency translation reserve	(69,495)	(97,721)
Total equity	310,981	296,846
Loss for financial year	(16,982)	(123,051)
Total comprehensive loss for financial year	11,244	(128,452)

(b) Contingent Liabilities of Parent Company

	2021 US$'000	Restated 2020 US$'000
(i) Bank guarantees were provided in respect of operating lease rental agreements. These guarantees may give rise to liabilities in the Parent Company if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	169	158
(ii) During the period, the Performance Guarantee (via a letter of credit) as at 30 June 2020, provided to Perupetro SA for Block Z-38 for Karoon's share of third period work commitments, was released with the respective commitments being satisfied.	–	3,700
(iii) The Company's present intention is to provide the necessary financial support for all Australian incorporated subsidiaries, whilst they remain wholly owned subsidiaries, as is necessary for each company to pay all debts as and when they become due.		

(c) Guarantees Entered into by Parent Company

A Parent Company guarantee was provided to Petrobras for payment of all amounts that may become payable under the SPA (Note 27(a)).

A Parent Company guarantee totalling Brazilian REALS 117.7 million (US$20.9 million equivalent as at 30 June 2021) was provided to the ANP in respect of existing decommissioning obligations relating to the Baúna field. In addition, the Parent has provided deeds of guarantee to, respectively, OOG-TKP FPSO GMBH & CO KG (the FPSO operator) and OOG-TKP Produção de Petróleo Ltda (the FPSO service provider) in relation to satisfying Karoon Petróleo & Gás Ltda's payment obligations in respect of the charter of an FPSO for Baúna and the provision of related services.

During the year a Parent Company guarantee provided to Perupetro SA guaranteeing KEI (Peru Z 38) Pty Ltd, Sucursal del Peru obligations under a licence agreement covering Tumbes Basin Block Z-38 in Peru was released with the respective commitments being satisfied. In addition, a Parent Company guarantee with respect Block Z-38 provided to Tullow guaranteeing KEI (Peru Z 38) Pty Ltd, Sucursal del Peru's performance under the joint operating agreement was effectively released during the year with the assignment of Tullow's interest in the joint operating agreement to KEI (Peru Z 38) Pty Ltd, Sucursal del Peru.

Parent Company guarantees have been provided to the ANP guaranteeing a subsidiary's obligations under Concession Agreements covering Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1537 in Brazil.

Note 33. Subsequent Events

This Annual Report was authorised for issue by the Board of Directors on 20 September 2021. The Board of Directors has the power to amend and reissue the consolidated financial statements and notes.

Since 30 June 2021, the following material event has occurred. As announced on 16 September 2021, and as reflected in the consolidated financial statements, Karoon's wholly owned branch, KEI (Peru Z-38) Pty Ltd, Sucursal del Peru, has entered into a deed of settlement and release in respect of its dispute with Pitkin Petroleum Peru Z-38 SRL in respect of Block Z-38, offshore Peru. Under the deed of settlement and release, without any admission of liability, Karoon has agreed to pay US$9.6 million to Pitkin in full and final settlement of all claims of Pitkin and its associates in connection with Block Z-38.

Directors' Declaration

The Directors' declare that:

(a) in the Directors' opinion, the consolidated financial statements and notes, set out on pages 77 to 125, are in accordance with the *Corporations Act 2001*, including:

   (i) complying with relevant Australian Accounting Standards and the *Corporations Regulations 200*1; and

   (ii) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and

(b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Managing Director, and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This Directors' Declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors:

Mr Bruce Phillips
Independent Non-Executive Chairman

Dr Julian Fowles
Chief Executive Officer and Managing Director

20 September 2021

Independent auditor's report

To the members of Karoon Energy Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Karoon Energy Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2021
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit we used overall Group materiality of US$10.1 million, which represents approximately 1% of the Group's total assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose the Group's total assets as it is an appropriate benchmark that reflects the Group's interests in oil and gas assets.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group has three operating segments in Australia, Brazil and Peru. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, and by component auditors under our instruction.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	***How our audit addressed the key audit matter***
Accounting for the acquisition of the Bauna production asset ***(Refer to note 18)*** The Group acquired the Bauna production asset during the year for total consideration consisting of firm consideration of US$380 million plus a tiered contingent consideration payable of up to US$285 million (plus interest at 2% per annum) as described in note 18 of the financial report. The accounting for the acquisition was a key audit matter because it was a significant transaction for the year given the financial and operational impacts on the Group. The Group made complex determinations when accounting for the acquisition, including whether the acquisition met the criteria for an asset acquisition or should be accounted for under the requirements of Australian Accounting Standard AASB 3 *Business Combinations* and in calculating the contingent consideration. The Group also recognised a number of new material balances and adopted new accounting policies for items it had not previously had to account for.	To assess the accounting for the acquisition of the Bauna production asset, we performed the following procedures, amongst others: • Evaluated the Group's accounting against the requirements of Australian Accounting Standards, key transaction agreements, our understanding of the asset acquired and its industry, and other selected transaction related documentation. • Evaluated the Group's assessment that the purchase of the Bauna production asset met the criteria for an asset acquisition. • Assessed the appropriateness of methods, assumptions and inputs to the calculation of the fair value of the contingent consideration. • Assessed the recognition and measurement of material assets and liabilities related to the purchase in light of the requirements Australian Accounting Standards. This included the provision for restoration, right-of-use assets, lease liabilities and deferred tax assets and liabilities. • Evaluated the new accounting policies adopted as a result of the acquisition in light of the requirements of Australian Accounting Standards.
Assessing the carrying value of the production asset ***(Refer to note 18)*** As at 30 June 2021 the Group's consolidated statement of financial position includes a production asset of US$411.7 million.	To assess the carrying value of the production asset we performed the following procedures, amongst others: • Evaluated the Group's assessment of whether there were any indicators of production asset impairment, including consideration of movement in oil prices, reserves and resources and asset performance over the period.

Group policy is to assess for indicators of impairment annually or more frequently if indicators of impairment exist. Assessing the carrying value of the production asset was a key audit matter because of the judgement involved in the Group assessing impairment indicators and the financial significance of the production asset.	• Compared the value of the net assets of the Group at year end to the market capitalisation.
Assessing the impact of the change in presentation currency ***(Refer to note 1)*** As outlined within Note 1, during the financial year the Group changed its presentation currency from Australian Dollars (AUD) to United States Dollars (USD). This change in accounting policy requires retrospective restatement, therefore comparative information is restated to show the impacts of this change. The change in presentation currency was a key audit matter given the adoption adjustments are pervasive to the financial report.	To assess the impact of the change in presentation we performed the following procedures, amongst others: • Compared underlying financial information converted for the current and previous years to the trial balance and audited financial statements. • Compared rates used to convert financial information to external sources and assessed that the basis of rates used were consistent with the guidance of Australian Accounting Standard AASB 121 *The Effects of Changes in Foreign Exchange Rates*. • Tested the mathematical accuracy of the translation calculations. • Assessed the impact of the retrospective application of the successful efforts method to the calculation of retained earnings and the foreign currency translation reserve.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 51 to 74 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Karoon Energy Ltd for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Anthony Hodge
Partner

Melbourne
20 September 2021

Additional Securities Exchange Information

Additional information required by the ASX Listing Rules and not disclosed elsewhere in the Annual Report is set out below. The information was applicable for the Company as at 13 September 2021.

Distribution of Shareholding

The number of shareholders ranked by size of holding is set out below:

Size of Holding	Number of Holders	Number of Ordinary Shares on Issue
Less than 1,000	2,618	1,237,003
1,001 to 5,000	3,386	9,566,223
5,001 to 10,000	1,599	12,444,999
10,001 to 100,000	2,451	77,284,986
More than 100,000	308	453,902,814
Total	10,362	554,436,025

There were 1,183 shareholders holding less than a marketable parcel of ordinary shares to the value of A$500.

Substantial Shareholders

The number of ordinary shares held by substantial shareholders and their associates (who held 5% or more of total fully paid ordinary shares on issue), as disclosed in substantial holder notices given to the Company, is set out below:

	Fully Paid Ordinary Shares	
Shareholder	Number Held	% of Issued Ordinary Shares
Yarra Management Nominees Pty Ltd and related entities	48,002,822	8.66
L1 Capital Pty Ltd	31,221,457	5.63
Total	79,224,279	14.29

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company’s ordinary shares are listed below:

		Fully Paid Ordinary Shares	
Shareholder		Number Held	% of Issued Ordinary Shares
1	HSBC Custody Nominees (Australia) Limited	109,974,764	19.84
2	J P Morgan Nominees Australia Pty Limited	72,353,098	13.05
3	Citicorp Nominees Pty Limited	56,052,904	10.11
4	National Nominees Limited	48,028,015	8.66
5	CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>	23,125,731	4.17
6	BNP Paribas Noms Pty Ltd <DRP>	15,389,627	2.78
7	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	11,290,775	2.04
8	Ropat Nominees Pty Ltd	7,492,637	1.35
9	HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	7,344,028	1.32
10	Mr Kenneth Rudy Kamon	4,300,000	0.78
11	BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	2,849,756	0.51
12	HSBC Custody Nominees (Australia) Limited - A/C 2	2,441,052	0.44
13	Mr Kenneth Joseph Hall <Hall Park A/C>	2,050,000	0.37
14	One Managed Invt Funds Ltd <Sandon Capital Inv Ltd A/C>	1,786,596	0.32
15	Mr Leendert Hoeksema + Mrs Aaltje Hoeksema	1,720,000	0.31
16	National Nominees Limited <DB A/C>	1,551,121	0.28
17	Greenhill Road Investments Pty Ltd	1,536,224	0.28
18	HSBC Custody Nominees (Australia) Limited	1,444,006	0.26
19	UBS Nominees Pty Ltd	1,357,042	0.24
20	Mr Steven Mark Sinclair	1,288,583	0.23
Total		373,375,959	67.34

Additional Securities Exchange Information Continued

Unlisted Equity Securities: Share Options and Performance Rights

The following share options and performance rights over unissued ordinary shares of the Company are not quoted:

	Number of Holders	Number of Unlisted Share Options and Performance Rights on Issue
Share options issued pursuant to Company's Employee Share Option Plan	25	4,066,123
Performance rights issued pursuant to Company's Performance Rights Plans	35	12,385,073
Total	60	16,451,196

Voting Rights

(a) Ordinary Shares, Fully Paid

Voting rights of shareholders are governed by the Company's Constitution. In summary, on a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each such attending shareholder is entitled to one vote for every fully paid ordinary share held.

(b) Unlisted Share Options and Performance Rights

No voting rights.

Other Information

The Company was incorporated as a public company on 11 November 2003.

On 30 November 2018 the Company changed its name from Karoon Gas Australia Ltd to Karoon Energy Ltd.

The Company was admitted to the ASX official list during June 2004 and quotation of its ordinary shares commenced on 8 June 2004.

The register of securities is held at Computershare Investor Services Pty Limited, GPO Box 2975 Melbourne VIC 3001 Australia. Investor enquiries can be made via telephone on 1300 850 505 (within Australia).

Schedule of Interests in Petroleum Tenements

Exploration Permit/Block	Basin	Operator	% Equity Interest Held
EPP46	Ceduna Sub-basin, Australia	Karoon	100#
WA-482-P	Northern Carnarvon, Australia	Santos	50^
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
Block Z-38	Tumbes, Peru	Karoon	75

A formal request to withdraw from the permit was submitted to the regulatory authorities during the year. The Joint Authority has issued a notice of intention to cancel EPP46.

^ Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and an overriding royalty in the event of production. Phoenix Oil and Gas Limited is entitled to an overriding royalty in the event of production.

Glossary of Terms

Term	Definition
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
A$ or **AUD**	Australian Dollars.
AASB	Australian Accounting Standards Board.
ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
API	American Petroleum Institute's inverted scale for denoting the 'lightness' or 'heaviness' of crude oils and other liquid hydrocarbons.
appraisal well	A well drilled to confirm the size or quality of a hydrocarbon discovery.
ASX	ASX Limited (ACN 008 624 691), trading as Australian Securities Exchange.
ATO	Australian Taxation Office.
AVO	Amplitude versus offset.
barrel or **bbl**	Barrel of oil, inclusive of condensate. A quantity of 42 United States gallons; equivalent to approximately 159 litres.
basin	A natural depression on the earth's surface in which sediments, eroded from higher surrounding ground levels, accumulated and were preserved.
Baúna	Concession BM-S-40 containing the producing Baúna light oil field and the undeveloped Patola oil discovery, Brazil.
block	A licence or concession area. It may be almost any size or shape, although usually part of a grid pattern.
bopd	Barrels of oil per day.
Company or **Parent Company**	Karoon Energy Ltd.
contingent resources	Those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable (as evaluation of the accumulation is insufficient to clearly assess commerciality). 1C- Denotes low estimate scenario of contingent resources. 2C- Denotes best estimate scenario of contingent resources. 3C- Denotes high estimate scenario of contingent resources.
CO_2e	Carbon dioxide equivalent.
Director	A Director of the Karoon Energy Ltd.
discovery well	The first successful well on a new prospect.
economically recoverable reserves	The estimated quantity of hydrocarbons in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions.
EIA	Environmental Impact Assessment. A report on the study of the effect of proposed works on the local people and environment.
E&P	Exploration and production.
ESG	Environmental, social and governance.
ESOP	Karoon Gas Australia 2016 Employee Share Option Plan.

Glossary of Terms Continued

Term	Definition
ESP	Electric submersible pump (downhole equipment).
exploration	The process of identifying, discovering and testing prospective hydrocarbon regions and structures, mainly by interpreting regional and specific geochemical, geological, geophysical survey data and drilling.
farm-in and **farm-out**	A commercial agreement in which an incoming joint operation participant (the 'farmee') earns an interest in an exploration tenement by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the exploration tenement (the 'farmor') pays a reduced contribution. The interest received by a farmee is a farm-in while the interest transferred by the farmor is a farm-out.
FBT	Fringe Benefits Tax in Australia.
FEED	Front End Engineering and Design.
FID	Final Investment Decision.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area although it may refer to both the surface and underground productive formation.
financial year	Financial year ended 30 June 2021.
FPSO	Floating production, storage and off-loading facility.
GAB	Great Australian Bight.
G&G	Geological and geophysical.
GHG	Greenhouse Gas.
GST	Goods and Services Tax in Australia.
HSSE	Health, safety, security and environment.
hydrocarbon	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
IBAMA	e Brazilian environmental agency, the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis.
IOR	Improved Oil Recovery.
Karoon or **Group**	Karoon Energy Ltd and its subsidiaries.
km	Kilometres.
lead	A potential hydrocarbon target which has been identified, but requires further evaluation before it is drill ready, at which point it becomes a prospect.
LIBOR	London interbank offered rate.
LTI	Long-term incentive.
market capitalisation	The product of a company's share price multiplied by the total number of ordinary shares issued by the company.
m	Million.
MMbbl	Millions of barrels (1,000,000 barrels).
NOPTA	National Offshore Petroleum Titles Administrator.
OMS	Operating Management System.

Term	Definition
Operator	One joint operation participant that has been appointed to carry out all operations on behalf of all the joint operation participants.
ordinary shares	The ordinary shares in the capital of the Karoon Energy Ltd.
p.a.	Per annum.
performance rights	Performance rights issued under the PRP.
permit	A hydrocarbon tenement, lease, licence, concession or block.
PEN	Peruvian Sol, being currency of Peru.
Petrobras	Petróleo Brasileiro SA.
play	A trend within a prospective basin that has common geologic elements containing one or more fields, prospects or leads with common characteristics.
ppm	Parts per million.
previous financial year	Financial year ended 30 June 2020.
PRP	Karoon Gas Australia 2016 and Karoon Energy Ltd 2019 Performance Rights Plans.
prospect	A geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.
prospectivity	Referring to the likelihood of finding commercial hydrocarbons.
PRRT	Petroleum Resource Rent Tax in Australia.
REAL	Brazilian currency.
reserves	Those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. 1P denotes low estimate of Reserves (proved Reserves) 2P denotes best estimate of Reserves (the sum of Proved plus Probable Reserves) 3P denotes high estimate of Reserves (the sum of Proved plus Probable plus Possible) Note, definition reflects the revised 2018 Petroleum Resources Management System.
reservoir	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
rig	The equipment needed for drilling a well. It includes the onshore and offshore vehicles, mobile platforms or vessel on which the equipment is stored.
risk	Prospect risk or geologic risk is the assessed chance that the drilling of the prospect will be successful in finding significant volumes of hydrocarbons. The risk is calculated by multiplying the chance of success of each of the petroleum system elements involved in the prospect.
seismic survey	A type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near vertical plane back to the surface from subsurface boundaries. This data is typically used to determine the depths and form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
sq km	Square kilometres.
SPA	Sale and Purchase Agreement.

Glossary of Terms Continued

Term	Definition
STI	Short-term incentive.
t	Tonne.
TRIR	Total Recordable Incident Rate.
TSR	Total shareholder return.
Tullow	Tullow Peru Limited Sucursal del Peru or Tullow Oil plc.
UN	United Nations.
unrisked	A risk value has not been applied to an estimate of hydrocarbon volume either in place or recoverable.
$, US$ or **USD**	United States dollars.

Corporate Directory

Board of Directors

Mr Bruce Phillips – Independent Non-Executive Chairman

Dr Julian Fowles – Chief Executive Officer and Managing Director

Mr Peter Turnbull – Independent Non-Executive Director

Ms Luciana Rachid – Independent Non-Executive Director

Mr Clark Davey – Independent Non-Executive Director

Mr Peter Botten – Independent Non-Executive Director

Company Secretary

Mr Nick Kennedy

Audit and Risk Committee Members

Mr Clark Davey (Chairman of Committee)

Mr Peter Botten

Mr Peter Turnbull

People, Culture and Governance Committee Members

Mr Peter Turnbull (Chairman of Committee)

Mr Bruce Phillips

Mr Geoff Atkins

Mr Clark Davey

Sustainability and Operational Risk Committee Members

Ms Luciana Rachid (Chair of Committee)

Mr Peter Botten

Mr Peter Turnbull

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External Legal Adviser

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+ 61 3 9415 4062 (outside Australia)

Website **www.computershare.com.au**

Securities Exchange Listing

The Company's ordinary shares are listed on the ASX.

The home exchange is Melbourne VIC.

ASX code KAR

Karoon Energy