



MARCH 2023 QUARTERLY ACTIVITIES REPORT

27 April 2023 | ASX: KAR

HIGHLIGHTS

- Oil production in the 2023 March quarter from the Baúna and Patola Fields in the Santos Basin, Brazil was 1.98 million barrels (MMbbl), produced at an average rate of 22,024 barrels of oil per day (bopd). This was 5% lower than in the December quarter and takes total production for FY2023 year to date to 5.35 MMbbl.
- All production was suspended on 28 March 2023 due to a loss of gas containment incident in the high-pressure flare system on the Baúna FPSO, Cidade de Itajaí¹. Production from Baúna and Patola remains suspended and is expected to resume during May, following final regulatory inspection requirements.
- During March, the Patola development was successfully brought onstream, with flush production rates significantly above expectations, lifting total production from BM-S-40 to more than 40,000 bopd prior to the suspension of production.
- Oil sales for the quarter were 1.98 MMbbl, up from 1.95 MMbbl in the December 2022 quarter, with four cargoes lifted during the period, in line with the prior quarter. The average net realised oil price of US\$72.93/bbl was 11% lower than in the prior quarter, reflecting the decline in global oil prices.
- Oil sales revenue during the quarter was US\$144.4 million, while cash receipts were US\$154.9 million.
- No recordable personal safety or Lost Time Injury incidents occurred during the quarter.
- Two control wells were safely drilled in the Neon oil field, both with encouraging results. The wells confirmed the presence of oil-bearing sands with reservoir quality in line with, or better than, expectations.
- In March, the Brazilian Government announced that a temporary 9.2% tax will be levied on oil exports (sales volumes) from 1 March 2023 until 30 June 2023. The tax is expected to add US\$18 – 24 million pre-tax to Karoon’s cost base, subject to the timing of the restart of BM-S-40 production.
- Karoon has updated FY23 guidance following the suspension of production and a review of costs and capex. Production is now expected to be 7.0 – 7.7 MMbbl and unit production costs US\$15 – 17/bbl (refer page 8 for details).
- Karoon’s executive management team was strengthened by the appointment of Mr Roland Hamp as Executive Vice President of Technical.
- Cash and cash equivalents at 31 March 2023 were US\$66.9 million and total liquidity (including US\$180.0 million of undrawn and available debt) was US\$246.9 million. Capital expenditures on the Baúna intervention campaign, Patola development and Neon control wells were funded from cash and cash flow, with no drawdowns made

¹ Refer ASX Releases dated 3.4.23 titled “Shut-in of Baúna production” and 14.4.23 titled “Extension of Baúna production suspension”.

from Karoon's debt facility during the quarter.

Karoon Chief Executive Officer and Managing Director, Dr Julian Fowles, said:

"Karoon made significant progress during the March 2023 quarter on delivering its key strategic objectives, safely and efficiently. The Patola field was brought onstream and two control wells were drilled in the Neon oil field, completing 11 months of continuous activity offshore Brazil. The Baúna intervention program, Patola development and Neon drilling activities were all delivered broadly on time and within budget and, most importantly, with no major safety or environmental incidents. This is due to the skills, experience and quality of our Brazilian and Australian operational, technical and commercial teams, as well as our key contractors and service providers, whom I would like to thank sincerely. Completing these projects is a major milestone for Karoon and was achieved in just a little over two years since we acquired the Baúna asset.

Production during the March 2023 quarter was nearly two million barrels, reflecting the impact of the Baúna intervention campaign for the full quarter and initial production from the two Patola wells, which were brought onstream consecutively in mid/late March. Initial flush production from the Patola wells was significantly above our expectations, increasing total production to more than 40,000 bopd and total liquids (oil and water) throughput to over 75,000 bpd before production was suspended on 28 March due to the loss of gas containment incident. While the source of the gas leak and repairs were made within two days, in the interests of safety and ensuring the future long-term reliability of the FPSO, operations have remained shut-in pending the completion of essential and proactive maintenance. Some of this work was planned to be undertaken in the scheduled July shutdown, which is still planned to take place, but with a revised workscope. We are working closely with the FPSO Operator, Altera&Ocyan (A&O) to complete the current scope of works and expect production to resume during May, following final inspections by Brazil's national petroleum regulator, ANP. Once we have more certainty on the exact restart date, we shall inform the market.

We intend to take a measured approach to restarting operations, building production back gradually to pre-shut in levels. Reservoir modelling suggests that pressure build-up in the Baúna and Patola wells could result in a period of flush production above 40,000 bopd prior to stabilising at ~33,000 – 35,000 bopd and then entering a more normal natural decline phase through FY2024 and beyond.

In light of the shut-in, guidance for FY2023 has been reviewed. Production has been revised down and is now expected to be in the range 7.0 to 7.7 MMbbl, depending on when in May production resumes. Unit production costs have been revised to US\$15 – 17/bbl, reflecting a relatively fixed cost base spread over lower production. With the Baúna intervention, Patola and Neon control drilling projects now complete and total costs well constrained, expected capital expenditure has been revised downwards from US\$265 – 295 million to US\$245 – 265 million.

Data gathered from the two Neon control wells drilled in the quarter are currently being integrated into our models, to help us better understand the resources in the Neon field. The revised resource estimates will help us assess the viability of current development concepts and potentially progress to a Concept Select decision in the first quarter of CY2024.

The review of potential acquisition opportunities in Brazil and North America continued during the quarter, with a focus on assets that can provide material returns to shareholders."

For further information on this release, please contact:

INVESTORS

SVP Communications
and Investor Relations

Ann Diamant
M: +61 407 483 128
E: Ann.diamant@karoonenergy.com

MEDIA – AUSTRALIA

P&L Corporate
Communications

Ian Pemberton
M: + 61 402 256 576
E: ian.pemberton@plcorporate.com.au

SHAREHOLDING ENQUIRIES

Computershare
Tel: 1300 850 505

MEDIA – BRAZIL

InPress Porter
Novelli

Andrea Blum
M: + 55 21 98105-9338

Patricia Odenbreit
M: + 55 21 96674-6403
E: karoon@inpresspni.com.br

PRODUCTION SUMMARY

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

KEY DATA	Mar Quarter 2023	Dec Quarter 2022	% change	Year to date FY2023
Production rate ('000 bopd)	22.02	22.64	-3	19.54
Production volume (MMbbl)	1.98	2.08	-5	5.35
Sales volume (MMbbl)	1.98	1.95	+2	5.39
Weighted average net realised price (US\$/bbl)	72.93	81.74	-11	82.34
Oil sales revenue (US\$ million)	144.4	159.2	-9	443.8
Oil sales cash proceeds (US\$ million)	154.9	121.4	28	431.6
Capital expenditure (US\$ million)	87.1	80.0	+9	228.3
Closing cash and cash equivalents (US\$ million)	66.9	163.2	-59	66.9
Closing debt (US\$ million)	30.0	30.0	-	30.0
Closing net cash and cash equivalents (US\$ million) ¹	36.9	133.2	-72	36.9
Undrawn debt (US\$ million)	180.0	180.0	-	180.0
Lost time injury rate (incidents/200,000 hours)	0.00	0.38	na	0.12
Total recordable incident rate (Incidents/200,000 hours)	0.00	1.14	na	0.48

1. Net of drawn debt.

Total Baúna and Patola oil production during the March 2023 quarter was 1.98 MMbbl, produced at an average rate of 22,024 bopd. Volumes were 5% lower than the prior quarter, with production impacted by minor downtime related to the tie-in of the new Patola production wells into the production system, and the full suspension of operations on 28 March 2023. The suspension related to a loss of gas containment incident associated with the high pressure flare on the FPSO. Shortly after the end of the quarter, Karoon and the FPSO operator, Altera&Ocyan (A&O), decided to undertake a full inspection and testing of the production and associated systems, and to bring forward some of the planned July maintenance program, including essential and proactive maintenance. Production operations are expected to recommence during May. Facilities uptime for the quarter was 91.2%, lower than the 97.5% uptime achieved in the first half of FY2023.

Four cargoes were lifted during the period (the same as in the December 2022 quarter), totalling 1.98 MMbbl, with the cargoes sold to refineries in North America, South America and Europe. The average realised oil price, net of selling expenses, was US\$72.93/bbl, 11% lower than in the prior period. Oil revenue generated from the cargoes shipped was US\$144.4 million, while oil receipts for the quarter were US\$154.9 million.

The loss of containment incident on 28 March 2023 was reported to the regulator (ANP), which is being updated regularly on the progress of the essential and proactive maintenance now underway. There were no recordable or lost time incidents reported during the period.

Production data relating to Baúna can be found in monthly newsletters produced (in Portuguese) by the ANP and on the ANP's dynamic panel of oil and gas production, both of which can be accessed via the ANP's website at <http://www.anp.gov.br>.

PATOLA DEVELOPMENT

The Patola field commenced production during the March quarter, following the installation of the subsea flowlines and umbilical connections from the two Patola development wells (PAT-1 and PAT-2) to the Baúna FPSO and completion of well and infrastructure commissioning activities. PAT-2 came onstream on 15 March 2023 at an initial flush production rate of 12,000 – 14,000 bopd, while PAT-1 commenced production on 27 March 2023 at rate of more than 12,000 bopd. Production was suspended on 28 March 2023 due to a loss of gas containment associated with the high pressure gas flare on the FPSO.

Karoon expects Baúna production, including the Patola field, to resume in May. The Company anticipates a short period of flush production from Patola due to pressure build-up during the shut-in, prior to rates stabilising in the range of 12 -15,000 bopd before the onset of natural decline.

CORPORATE AND COMMERCIAL SUMMARY

CASH FLOWS AND LIQUIDITY

During the March 2023 quarter, Karoon received cash proceeds of US\$154.9 million from the December, January and February cargoes. Proceeds from the two March cargoes were received in April 2023.

During the quarter, major cash expenditures included the following:

- The payment of US\$84.5 million to Petrobras in January 2023, relating to the contingent payment for the Baúna asset.
- A true-up payment of Brazilian income tax for the 2022 tax year of US\$43.8 million and US\$9.7 million of Brazilian income tax instalments for this quarter.
- US\$39.1 million related to Baúna production costs, including US\$11.5 million in royalty payments and US\$14.5 million spent on FPSO lease charter payments.
- US\$64.7 million spent on property, plant and equipment, comprising the Baúna interventions, Patola development and the Neon drilling campaign.

At 31 March 2023, Karoon's total liquidity was US\$246.9 million, comprising US\$66.9 million in cash and cash equivalents and US\$180 million in undrawn available debt.

DEBT FACILITY

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

HEDGING

During the quarter, 690,000 bought Asian put options and 670,320 sold Asian call options expired. Karoon paid US\$0.36 million on the expiring sold call options during the quarter.

Approximately 35% of the quarter's production was hedged (based on bought put options), with 65% unhedged.

Due to Karoon's low level of drawn debt and modest debt service requirements, the minimum hedge volume obligation under the debt facility was temporarily waived and no additional oil hedges were entered into during the March quarter. Hedge volumes will be revisited during the September 2023 quarter as part of the semi-annual redetermination process required under the debt facility.

MANAGEMENT APPOINTMENT – MR ROLAND HAMP, EVP TECHNICAL

On 1 March 2023, Mr Roland Hamp was appointed as Executive Vice President of Technical, with corporate responsibility for Petroleum Engineering and Subsurface Exploitation, as well as HSSE, Sustainability and major project disciplines, processes and delivery.

Mr Hamp has more than 35 years' experience in the oil and gas sector, holding various technical and management positions in the UK and Australia, primarily with Enterprise Oil plc and Woodside Energy Ltd. Most recently he was a technical and operations advisor to the Department of Industry, Science and Resources, the Commonwealth Government of Australia, on a range of offshore matters. He is a fellow of the Institution of Engineers Australia and has been a member of the Society of Petroleum Engineers since 1983.

Mr Hamp holds a Master of Engineering degree from Imperial College, London (with 1st class honours). He has also attended executive training programs at Thunderbird International Business School, the University of Western Australia and the Australian Institute of Company Directors.

TEMPORARY BRAZILIAN CRUDE EXPORT TAX

During the quarter, the Brazilian Government announced that a 9.2% tax that will be levied on oil exports (sales volumes) for a term of four months, from 1 March 2023 until 30 June 2023. The event which triggers the tax liability is declaration of export, which only occurred in March for one of the cargoes. The impact of the tax for the quarter was US\$3.2 million. Karoon estimates the crude export tax will result in the potential expense of US\$18 – 24 million², on a pre-tax basis, depending on when and at what rate production resumes and the oil price realised over the period.

SUSTAINABILITY

Karoon's Scope 1 emissions during the quarter included those generated from the operations of the Noble Developer drilling rig and associated support vessels. During the Baúna intervention campaign, Patola development and Neon drilling activities, approximately 6,000t CO₂e per month has been added to Karoon's total Scope 1 emissions. With the departure of the Noble Developer rig in March 2023, Karoon's monthly Scope 1 emissions are expected to decrease significantly. Karoon's Scope 1 and 2 GHG emissions from FY2022 will be fully offset by the purchase under Karoon's VER Agreement with Shell Western Supply and Trading and we anticipate being carbon neutral for FY2023.

In line with [Karoon's Carbon Management Action Plan](#) of reducing or avoiding emissions as the first priority, Karoon has appointed an expert consultant to assist in identifying opportunities for further emissions reductions within the existing operations following the completion of the Baúna intervention campaign and Patola development. This is an important step on our journey toward achieving our Scope 1 and 2 emissions targets.

During the quarter Karoon formally adopted new Community Investment Guidelines, which will guide Karoon's voluntary social and environmental project investments. The guidelines reflect the Company's core values (of Safety, Integrity, Collaboration, Commitment and Respect) which govern everything we do. A successful project should provide opportunities that empower people and communities to achieve lasting and sustainable benefits. This is closely aligned to the UN Sustainable Development Goals 4 – Quality Education, and 8 – Decent Work and Economic Growth.

EXPLORATION, APPRAISAL AND POTENTIAL DEVELOPMENT UPDATE, BRAZIL

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

During the quarter, regulatory approvals were received, and two control wells were drilled in the Neon oil field.

Neon-1 (officially named 9-NEO-1-SPS), which was drilled 2.1 kilometres south of Echidna-1 to de-risk the southern and down-flank regions of the field, spudded on 23 January 2023 and reached a final total depth of

² Based on an indicative realised oil price of US\$79.40/bbl. Note that this is not oil price guidance.

2,382 metres MD on 10 February 2023³. Drilling and wireline logging data confirmed that Palaeocene intervals were present over a gross 113 metre MD interval, representing an extension of reservoirs tested at Echidna-1. Preliminary analysis confirmed net pay thickness of 25 metres and formation pressure measurements indicate that the oil in this section lies on the same pressure gradient as the oil at Echidna-1, suggesting that the two wells are most likely in communication.

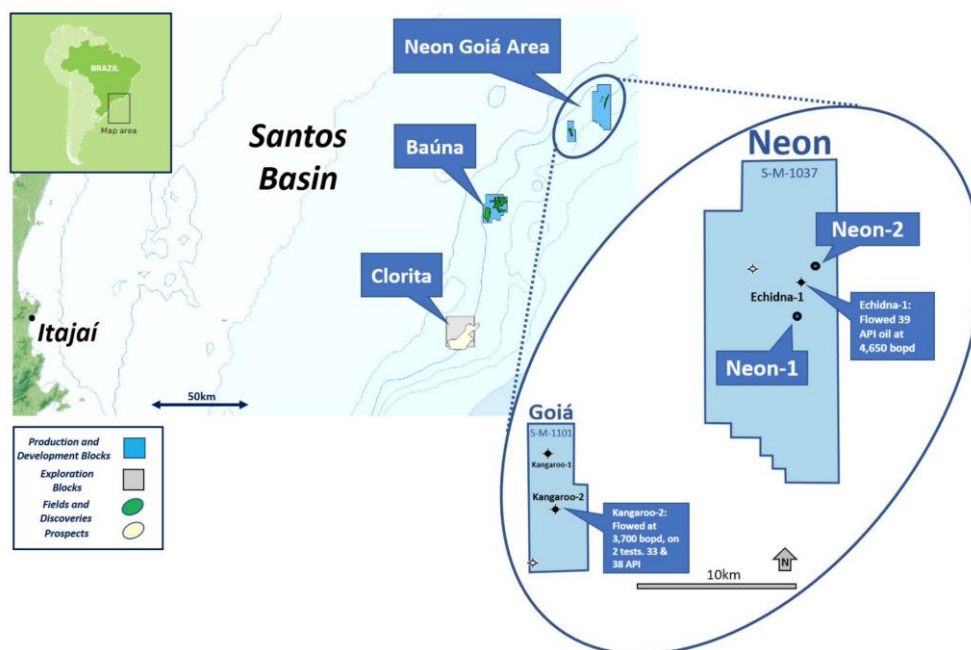
The deeper secondary target Maastrichtian sandstone section was confirmed to be water-bearing.

Neon-2 (9-NEO-2D-SPS) was spudded on 24 February 2023 and reached a final total depth of 2,357 metres MD on 7 March 2023⁴. Located 1.3 kilometres north northeast of Echidna-1, the objective of Neon-2 was to de-risk northern and cross-fault regions of the field. The Palaeocene intervals were found to be present over a gross 244 metres MD interval (172 metres true vertical thickness), with the net pay thickness in this section estimated to be 148 metres MD (105 metres true vertical thickness). Preliminary analysis of formation pressure measurement through the Palaeocene section suggests that the Neon-2 oil zones lie on similar pressure gradients to the oil at Echidna-1 and Neon-1.

Following the completion of wireline logging activities, Neon-1 and Neon-2 were plugged and abandoned and the Noble Developer drilling rig was released, as planned.

Detailed studies and analysis of all the information gathered from the Neon-1 and Neon-2 wells, including of 57 metres of core acquired from Neon-1, are currently underway. This data will be integrated with larger scale seismic datasets and interpretive products, potentially leading to an updated resource estimate for the Neon field. Current estimates for the Neon field remain unchanged at this time, at 30.0 MMbbl, 55.0 MMbbl and 92.0 MMbbl for 1C, 2C and 3C Contingent Resources, respectively⁵ (Karoon – 100%).

Preliminary development engineering studies and planning were undertaken during the quarter. Following the encouraging results from the control wells, a more comprehensive engineering work program is planned, which will be optimised to align with the updated subsurface modelling and resource assessment. This will contribute to an evaluation of technical and commercial feasibility of a Neon development, which could enable a Concept Select decision in the first quarter of CY2024.



³ Refer ASX release dated 16.2.23 titled “Neon drilling update”.

⁴ Refer ASX release dated 14.3.23 titled “Successful Neon-2 control well”.

⁵ Refer FY22 Annual Report Karoon is not aware of any new information or data that materially affects these resource estimates, and all material assumptions and parameters are unchanged.

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

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

SCHEDULE OF INTERESTS IN PETROLEUM TENEMENTS

Held by Karoon Energy Ltd Group at 31 March 2023

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

GUIDANCE FOR FY2023

FY2023 production guidance has been revised to 7.0 - 7.7 MMbbl, lower than the previous guidance range due to the suspension of Baúna and Patola production in late March to complete essential and proactive works on the production systems on the FPSO.

The revised forecast production means full year Unit Operating Costs are expected to be at the upper end of previous guidance, due to largely fixed costs spread over a smaller production base. Karoon does not expect to incur any material direct costs associated with resuming production on the FPSO. Business Development, share-based payments & Neon studies are expected to be slightly lower than previously advised, at US\$10 – 12 million. Finance cost guidance (including facility fees and interest) of US\$9 – 10.5 million is unchanged.

Full year Unit DD&A guidance has been lowered due to lower capex spend for the Intervention and Patola projects, as well as the delay in Patola production and the related depreciation.

Baúna intervention, Patola Project and Neon control well costs for FY2023 are expected to be between US\$245 - 265 million, lower than previously forecast.

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

Full Year FY2023 Guidance	FY2022 Actual	FY2023 Guidance at 22/2/23	FY2023 Guidance at 27/4/23
PRODUCTION (MMBBL)	4.64	7.5 - 9.0	7.0 - 7.7
COSTS			
Unit Production Costs (US\$/bbl) ²	25.36	13 - 17	15 - 17
Other Operating Costs (US\$ million) ³	16.0	19 - 23	19 - 23
Business Development, share-based payments & Neon studies (US\$ million)	12.4	12 - 14	10 - 12
Finance costs and interest (US\$ million) ⁴	5.8	9 - 10.5	9 - 10.5
Unit DD&A (US\$/bbl) ⁵	12.0	12 - 14	11 - 13
Temporary export tax ⁷	-	-	18 - 24
INVESTMENT EXPENDITURE (US\$ MILLION)			
Intervention and Patola Projects	92.0	200 - 220	195 - 205
Neon evaluation	-	65 - 75	50 - 60
Petrobras contingent consideration ⁶	-	85	85
Other Plant and Equipment	5.0	4 - 8	2 - 4

1. Guidance is subject to various risks (including those “Key Risks” set out in Karoon’s 2022 Annual Report).
2. Unit Production Costs: based on daily operating costs associated with Baúna Production, excluding government royalties.
3. Other Operating costs: includes staff costs, IT, corporate costs and non-oil and gas related depreciation, excludes government royalties, social investments in lieu of tax and foreign exchange gains/losses.
4. Finance costs and interest include fees and debt interest.
5. Excludes depreciation on FPSO right-of-use asset capitalised under AASB 16 ‘Leases’, which is included as part of Unit Production Costs.
6. Relates to contingent consideration paid to Petrobras in January 2023.
7. This is on a pre-tax basis. It is based on an indicative realised oil price of US\$79.40/bbl. Note that this is not oil price guidance.

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

Forward-looking statements

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

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

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

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

ABOUT KAROON ENERGY LTD

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

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