Half-Year Financial Report

Incorporating Appendix 4D

31 December 2022

Building Momentum

MOMENTUM

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ASX code: KAR
ABN: 53 107 001 338

FORWARD-LOOKING STATEMENTS

This Half-Year Financial 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 report. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Investors 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 Half-Year Financial Report necessarily involve uncertainties, assumptions, contingencies and other factors, and unknown risks may arise, 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 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.

APPENDIX 4D

ABN: 53 107 001 338

Current reporting period:	Half-year ended 31 December 2022
Previous corresponding period:	Half-year ended 31 December 2021

Results for announcement to the market

	CHANGE %	HALF-YEAR ENDED 31 DECEMBER 2022 US$ MILLION	HALF-YEAR ENDED 31 DECEMBER 2021 US$ MILLION
Revenue from ordinary activities	61%	**299.4**	186.5
Net profit/(loss) from ordinary activities after tax (NPAT) attributable to members	179%	**77.6**	(97.7)
NPAT for the period attributable to members	179%	**77.6**	(97.7)
Underlying net profit after tax[1]	275%	**82.4**	22.0

1. Underlying net profit after tax is a non-IFRS measure that is unaudited but derived from financial statements which have been subject to review by the Company's auditor. This measure has been presented to provide further insight into Karoon's performance.

Net tangible asset backing

	HALF-YEAR ENDED 31 DECEMBER 2022	HALF-YEAR ENDED 31 DECEMBER 2021
Net tangible asset backing per ordinary share	**$0.45**	$0.35

Controlled entities acquired or disposed of

No controlled entities were acquired or disposed of during the current or previous corresponding period.

Dividends

There were no ordinary dividends declared or paid by the Company during the current or previous corresponding period.

Karoon Energy Ltd (Karoon) is a globally-focused energy company, with oil production and exploration assets in Brazil. It is headquartered in Melbourne, Australia and is an ASX listed company (ASX code: KAR).

The Board of Directors submits its Directors' Report on Karoon Energy Ltd (the 'Company') and its subsidiaries (the 'Group') for the half-year ended 31 December 2022 (the 'financial half-year').

The Directors' Report is presented in US dollars, unless otherwise indicated.

Financial Summary

	HALF-YEAR ENDED 31 DECEMBER 2022	HALF-YEAR ENDED 31 DECEMBER 2021*
Production volume (MMbbl)	**3.37**	2.50
Oil sales volume (MMbbl)	**3.41**	2.57
Unit production costs[1] ($/bbl)	**17.3**	23.5
Weighted average net realised price ($/bbl)	**87.86**	72.43
	US$ M	**US$ M**
Sales revenue	**299.4**	186.5
Underlying EBITDA[2,3,5]	**175.9**	89.5
EBITDA[2,3]	**166.8**	(91.8)
Net interest and other finance costs	**2.5**	2.3
Depreciation and amortisation[4]	**48.0**	29.8
Underlying net profit before income tax[2,5]	**125.4**	57.4
Underlying net profit after income tax[2,5]	**82.4**	22.0
Net profit/(loss) after income tax	**77.6**	(97.7)
Operating cash flows	**167.1**	83.9
Net assets	**379.1**	280.4
Investment Expenditure:		
– Baúna intervention and Patola CAPEX[6]	**138.6**	14.3
– Exploration and evaluation expenditure and new ventures[7]	**3.6**	2.7
– Other plant and equipment[8]	**2.4**	2.0

* 1H FY22 underlying NPAT has been restated from $21.1 million to $22.0 million, to include the tax effect of all underlying adjustments.

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

	HALF-YEAR ENDED 31 DECEMBER 2022 US$ M	HALF-YEAR ENDED 31 DECEMBER 2021 US$ M
Change in fair value of contingent consideration	**0.4**	183.8
Realised losses on cash flow hedges	**7.2**	–
Foreign exchange losses/(gains)	**(0.3)**	(3.4)
Social investments/sponsorships	**1.8**	–
Employee restructure cost	**–**	0.9
Total adjustments to EBITDA and NPBT	**9.1**	181.3
Impact of tax on change on adjusting items	**(4.3)**	(61.6)
Total adjustments to NPAT	**4.8**	119.7

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

Results

During the financial half-year, Karoon produced 3.37 MMbbl of oil from the 100% owned and operated Baúna field in BM-S-40 in Brazil, produced at an average rate of 18,322 bopd. This compares to total production of 2.50 MMbbl in the first half of FY2022 (13,614 bopd). The 35% production increase included the first contributions from the successful Baúna intervention campaign.

Seven cargoes were lifted during the period, up from five cargoes in the previous corresponding period, which were sold to customers in Europe, Asia, and North and South America. The Company realised an average oil price of US$87.86/bbl, 21% higher than the price realised in the first half of FY2022, reflecting stronger global oil prices, which resulted in sales revenue of $299.4 million (1H FY22: $186.5 million) for the financial half-year.

Unit production costs for the period were $17.3/bbl, representing a 26% decrease from unit production costs of $23.5/bbl in the previous corresponding period. Cost of sales for the period was $148.3 million (1H FY22: $104.4 million) and gross profit was $151.1 million (1H FY22: $82.1 million). The cost of sales includes depreciation associated with the right-of-use asset (the FPSO lease) but does not include finance charges on the FPSO right-of-use lease of $8.0 million (1H FY22: $8.7 million), which are disclosed as part of finance costs.

The Company recognised an underlying net profit after income tax of $82.4 million (1H FY22: $22.0 million) for the financial half-year with a statutory profit after income tax of $77.6 million (1H FY22: loss of $97.7 million). Other key items impacting the result during the financial half-year were as follows:

- Corporate costs of $9.2 million (1H FY22: $7.8 million) which include net employee benefits expense, insurance and director fees;
- Finance costs of $11.7 million (1H FY22: $11.0 million) including finance charges on right-of-use assets of $8.0 million (1H FY22: $8.7 million) relating predominantly to the FPSO right-of-use asset in relation to the Baúna operations and discount unwinding on net present value of the provision for restoration of $2.1 million (1H FY22: $1.2 million);
- Realised losses on out of the money oil hedges and amortisation of hedge premiums of $7.2 million (1H FY22: $Nil)
- Share-based payments expenses of $2.1 million (1H FY22: $3.8 million);
- Social investment/sponsorships of $1.8 million (1H FY22: Nil). This is a scheme which under Brazilian tax law permits a company when paying tax to direct a portion of this payment to specific government approved projects. There is no net cost to the company as this amount replaces tax payable. It is classified as an expense in the financial statements rather than within income tax; and
- Exploration and evaluation expenditure expensed of $1.7 million (1H FY22: $1.7 million).

Cash Flows

Net cash inflows from operations for the financial half-year were $167.1 million compared to cash inflows of $83.9 million in the previous financial half-year. The positive operating cash flows are attributable to receipts from oil sales of $276.7 million (1H FY22: $184.5 million). Significant operating cash payments for the financial half-year included payments to suppliers and employees, including production costs of $66.8 million (1H FY22: $57.8 million), payment of income tax of $20.9 million (1H FY22: $11.7 million), including social investments/sponsorships in lieu of tax of $1.8 million (1H FY22: $Nil), payments for cash flow hedges of $12.7 million (1H FY22: $9.8 million) and interest and other costs of finance paid, predominantly relating to finance charges on the FPSO lease, of $9.3 million (1H FY22: $9.6 million).

Cash outflows from investing activities for the financial half-year were $142.4 million (1H FY22: $18.3 million), which included CAPEX relating to the Baúna intervention, Patola development and ongoing field maintenance of $137.1 million (1H FY22: $11.9 million) and $1.7 million (1H FY22: $4.2 million) of capitalised borrowing costs for qualifying assets associated with the loan facility.

Cash outflows from financing activities for the financial half-year were $19.7 million, representing the principal elements of right-of-use lease payments (1H FY22: $23.3 million).

Progress through COMMITMENT

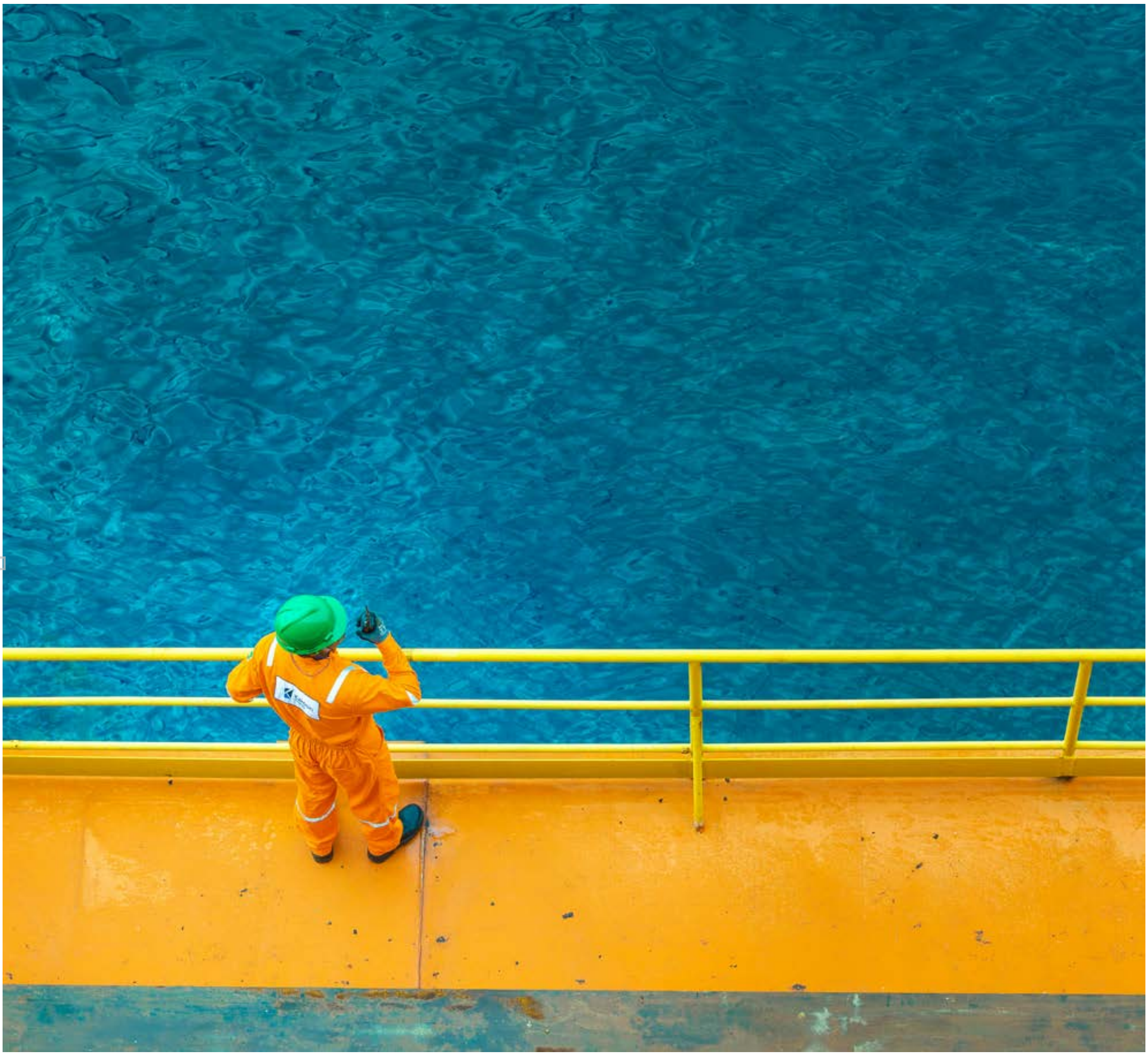
Financial Position

At the end of December 2022, the Group had a cash and cash equivalents balance of $163.2 million (30 June 2022: $157.7 million) and total liquidity (cash and undrawn debt facilities) of $343.2 million.

The Group's current assets increased by $19.0 million to $264.6 million, largely due to improved cash and cash equivalent balances and an increase in trade receivables, due to the lifting of two cargoes in December 2022. Current liabilities increased by $9.1m to $256.5 million, primarily driven by an increase in current tax liabilities, which have increased by $35.2 million to $44.8 million as at 31 December 2022. This increase has been offset by a $29.3 million reduction in the current liability for hedges.

During the financial half-year, total assets increased from $1,164.2 million to $1,256.8 million, total liabilities decreased from $888.0 million to $877.7 million and total equity increased by $102.9 million to $379.1 million. The major changes in the consolidated statement of financial position included:

- Working capital movements discussed above;
- An increase in oil and gas assets during the financial half-year resulting from CAPEX on the Baúna intervention campaign and Patola development;
- A reduction of lease liabilities in relation to payments for the charter of the FPSO;
- A reduction in hedge liabilities resulting from fair value movements; and
- Positive cash flows generated from strong oil sales and profits.



Review of Operations

Brazil

Concession BM-S-40 Baúna Oil Field and the Patola Development

(KAR 100%)

Baúna is located in concession BM-S-40 in the southern Santos Basin offshore Brazil and comprises the Baúna and Piracaba light oil fields and the Patola development. Oil within Baúna and Piracaba is produced via six oil production wells, supported by three water injection wells and one gas injection well. The wells are tied back via subsea completions to a leased FPSO, Cidade de Itajaí.

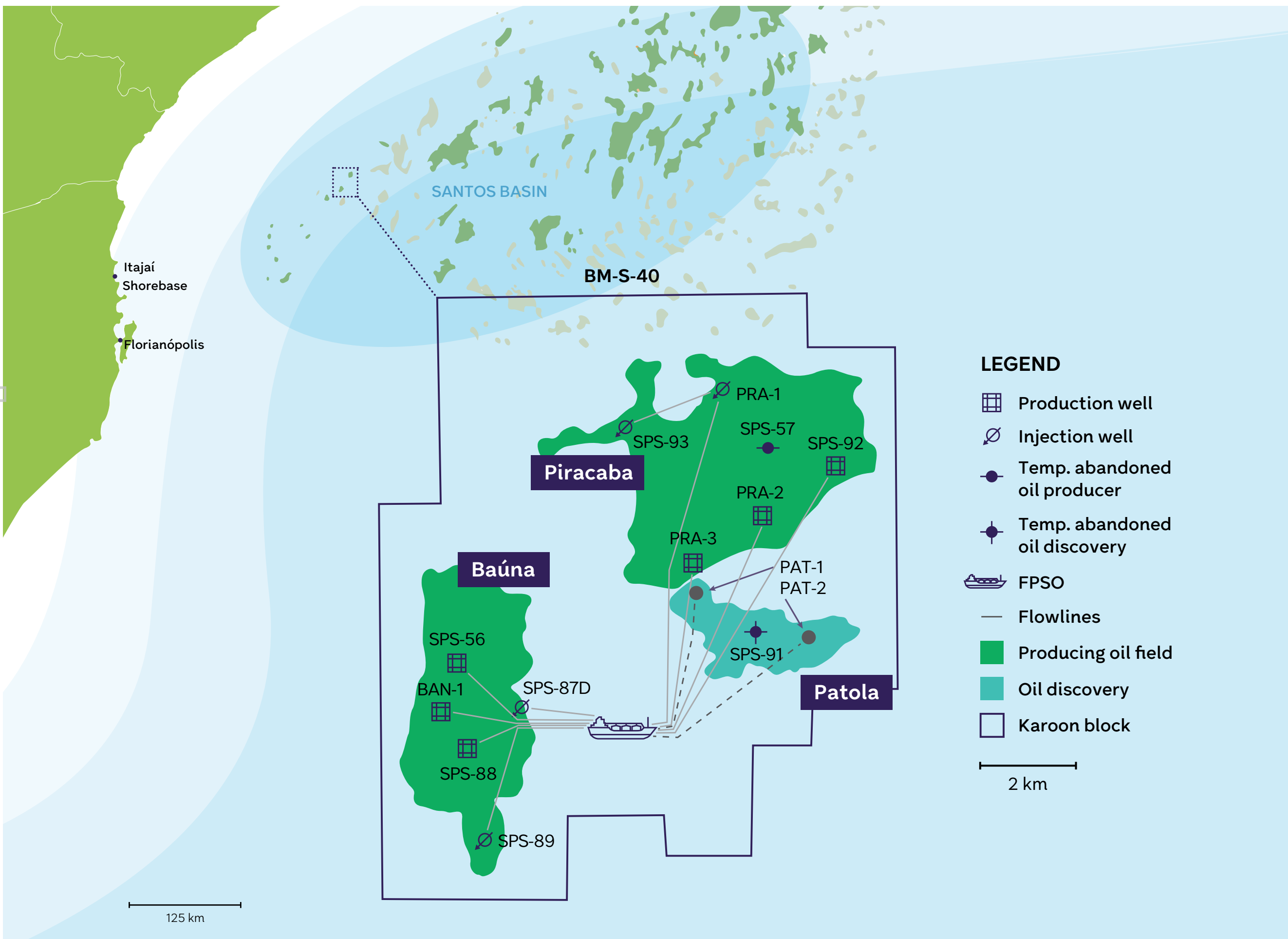
Two additional production wells were drilled on the Patola field, located adjacent to Baúna and Piracaba, during the financial half-year, which are expected to commence production by the end of the first quarter of CY2023.

Health, Safety and the Environment

Safety and safe outcomes continued to be emphasised as a priority in all operations during the financial half-year. One lost time injury occurred in October 2022, when a contractor incurred a finger injury requiring surgery while on the FPSO. In addition, one Restricted Work Case occurred, when a worker onboard the Noble Developer drilling rig injured their ankle and was temporarily reassigned to desk duty, and two Medical Treatment Injuries, comprising a minor back strain and a tripping incident that resulted in a cut requiring stitches, were reported. All of these were recordable incidents which were investigated and Karoon is working with staff and contractors to improve the safety culture in all its activities, as well as identify and act on lessons learned. Together with the Pontifical Catholic University of Rio Grande do Sul, Karoon undertook a Safety Culture Project onboard the Noble Developer rig during the period, focused on behaviour and culture to improve safety outcomes.

HSSE STATISTICS	31 DEC 2022	31 DEC 2021
Lost time injury rate (incidents/200,000 hours)	**0.19**	0.47
Total recordable incident rate (incidents/200,000 hours)	**0.77**	0.47

BM-S-40, Santos Basin Offshore Brazil



Production

Total oil production during the financial half-year was 3.37 MMbbl, produced at an average rate of 18,322 bopd. This was 35% higher than in the previous financial half-year, reflecting the successful Baúna intervention campaign. The intervention campaign, undertaken utilising the Noble Developer drilling rig (formerly known as the Maersk Developer), comprised the installation of Electric Submersible Pumps in two wells, PRA-2 and SPS-92, and gas lift equipment in SPS-56. As a result of the interventions, total production increased from approximately 12,600 bopd prior to the program to a peak of more than 25,000 bopd in early October, before natural decline resumed. Due to the better-than-expected results from the first three interventions, the final intervention, to re-open a lower zone in the BAN-1 well that had previously been in production, was deferred and will be undertaken at a later date.

Despite increased activity levels from the intervention program, uptime at the FPSO averaged 97.5% (excluding scheduled downtime). During the half year, ongoing routine maintenance work took place on the FPSO, including an overhaul of the water injection and sulphur recovery unit systems.

Sales

Seven cargoes were lifted during the financial half year, totalling 3.41 MMbbl. This included two cargoes lifted in December 2022, the first time Karoon has had multiple liftings in one month. The cargoes were sold to refineries in North America, South America, Asia and Europe, highlighting the global demand for Karoon's Baúna light sweet crude. The average realised oil price, net of selling expenses, was US$87.86/bbl, 21% higher than in the prior financial half-year. Total revenue generated from the cargoes shipped during the period was US$299.4 million, while oil receipts were US$276.7 million, lower than revenue due to the timing of shipments.

Development

The Patola field development comprises the drilling, completion and tie-back of two new oil production wells in the Patola field, installing sub-sea infrastructure and tying the wells into spare riser slots on the Cidade de Itajaí FPSO.

In late September 2022, Karoon received the final environmental approvals required to progress the Patola development and the Noble Developer rig was mobilised to the Patola site. The first of two new development wells, PAT-1, commenced drilling in October 2022 and encountered top reservoir within one metre of the prognosed depth. Preliminary log analysis indicated that the reservoir thickness was as expected, while reservoir quality was better. The second Patola well, PAT-2, commenced drilling in November. Like PAT-1, PAT-2 encountered the target sandstones and net pay thickness in line with pre-drill expectations, with better than predicted reservoir quality.

The fabrication of the Patola subsea Christmas trees by the manufacturer, TechnipFMC, was completed and mobilised to site in October 2022. Completion activities on both wells, including the installation of wellheads and subsea Christmas trees, were finalised in January 2023.

The installation of the remaining sub-sea infrastructure, including a pipeline and umbilicals from the Patola wells to the FPSO, and other work required to tie the wells into the main production stream, is ongoing. Commissioning of the new facilities and first production from Patola, at a forecast initial rate of more than 10,000 bopd, is targeted before the end of the first quarter of CY2023. The commencement of production from Patola is expected to take total BM-S-40 production to more than 30,000 bopd, prior to natural decline resuming. With drilling of the Patola wells occuring during the period, a decommissioning obligation was created. Consequently, an increase in the restoration provision was recognised (refer to Note 7 of the Half-Year Financial Report).

The Baúna intervention program and Patola development together are expected to add between 18,000 - 22,000 bopd to overall BM-S-40 production, prior to natural decline.

DIRECTORS' REPORT
CONTINUED

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

(KAR 100%)

During the financial half-year, detailed planning and preparations for the Neon control well drilling program took place. The primary objectives of the control well drilling campaign are to confirm the reservoir quality, continuity and extent of the Neon discovery (formerly known as Echidna) and to delineate field oil:water contacts. This information is expected to assist in reducing uncertainty on the Neon resource estimate and to help to delineate pathways of potential future production wells.

The drilling program will comprise up to two control wells, 9-Neo-1-SPS (informally Neon-1) and, contingent on Neon-1 meeting minimum success criteria, 9-Neo-2D-SPS (informally Neon-2). In January 2023, required regulatory approvals for the planned program were received, the Noble Developer drilling rig was mobilised to site, and Neon-1 was spudded and drilled to a total depth of 2,382 metres and wireline logging commenced. Neon 1 has confirmed the presence of oil in the primary reservoir targets. The well has met the minimum criteria and, once all operations are complete, the rig will move to the Neon-2 location and spud the well by end-February 2023.

In addition, studies integrating potential subsurface exploitation plans with several alternative surface development concepts and facilities designs were undertaken. Potential Neon commercialisation options include the Neon standalone, Neon Hub and Baúna tie-back concepts.

A revised resource assessment will take place once the results from both Neon control wells are known and, together with development engineering studies, will contribute to an updated integrated asset evaluation, which could potentially enable a decision to enter a Neon concept select phase. Following selection of a preferred concept, the project would then require front-end engineering and design studies, prior to a potential Neon Final Investment Decision.

Santos Basin Exploration Block
S-M-1537

(KAR 100%)

In-house geological and geophysical studies and mapping work continued during the financial half-year.

The Block contains one main prospect, Clorita, with the primary reservoir target expected to comprise Oligocene turbidite sands with high porosity and permeability as seen in the nearby producing Baúna and Piracaba fields.

Australia

Northern Carnarvon Basin Exploration Permit
WA-482-P

(KAR 50%)

Regulatory consent to surrender Petroleum Exploration Permit WA-482-P was granted during the financial half-year. The surrender of all blocks under the title took effect on 12 September 2022.

Corporate and Commercial

Reserves and Resources

In January 2023, Karoon released an updated assessment of reserves and resources as at 31 December 2022 for its 100% owned Santos Basin concession, BM-S-40, in Brazil. This followed a review of all available subsurface and production data, including a reprocessed seismic dataset, newly acquired data from the Baúna well interventions and Patola drilling, and updated reservoir modelling. Karoon's internal assessment of reserves has been reviewed and certified by an independent third party, AGR Energy Services.

Proved (1P), Proved and Probable (2P) and Proved, Probable and Possible (3P) reserves at 31 December 2022 increased by 17%, 23% and 7%, to 42.8 MMbbl, 55.0 MMbbl and 65.5 MMbbl, respectively, compared to 30 June 2022, despite production of 3.4 MMbbl during the period.

Baúna contingent resources relating to the potential hook-up of the SPS-57 well were also reassessed. Given the current uncertainty in resource potential and possible timing of this intervention, 1C, 2C and 3C contingent resources of 1.9 MMbbl, 4.2 MMbbl and 8.3 MMbbl, respectively, have been removed from the contingent resource estimates. No other changes to contingent resources were made. The resource estimates for the Neon field (May 2018) are 1C, 2C and 3C contingent resources of 30 MMbbl, 55 MMbbl and 92 MMbbl[1].

See page 14, Reserves and Resources, for full details.

Reduction in Baúna royalty rate and commencement of Special Participation and R&D Levies

In October 2022, the Brazilian Government oil and gas regulator, the Brazilian National Agency for Petroleum, Natural Gas and Biofuels (ANP), approved Karoon's updated Baúna Area Development Plan, including the intervention campaign and Patola development, and agreed a reduction in the royalty rate on the incremental production from the BM-S-40 license. This is in line with the reduction of royalty rates by ANP on several late life fields onshore and offshore Brazil, designed to encourage the ongoing development of mature oil and gas fields. The revised royalty rates took effect from November 2022.

In line with the Brazilian oil and gas taxation regime, Special Participation and Research and Development levies became applicable during the December quarter.

Special Participation levy is payable on large volume fields. Rates are progressive and vary from 10% to 40% depending on the production per quarter, with an initial quarterly threshold of 300,000 cubic metres of production (approximately 1.89 MMboe). The levy is payable on notional revenue (production x the published ANP reference price) less allowable deductions (royalties, investments in exploration, operational costs, depreciation and taxes). Based on Baúna's production profile, the maximum rate it will attract is 10%.

Once the Special Participation levy is payable in a quarter, the obligation for the Research and Development investment is triggered. The intent of this obligation is to foster the technological research and development of new technologies, products and processes for the Oil & Gas industry, as well as to encourage the creation of centres of excellence and development of national R&D institutions. This obligation is calculated as 1% of the gross notional revenue (production x the published ANP reference price) for the full quarter that Special Participation is payable.

Appointment of Mr. Tadeu Fraga as a Non-Executive Director

Mr Carlos Tadeu da Costa Fraga was appointed as a Non-Executive Director, effective from 26 August 2022. Mr Fraga has 40 years of experience in the oil and gas sector, including 23 years as an executive at Petrobras, and has received recognition from many institutions, globally and in Brazil, for his contribution to the oil and gas industry. His deep knowledge of Brazil's oil and gas sector and the country's political and economic environment, complements and expands the depth of experience on the Karoon Energy Board.

Change in ASX Classification

In December 2022, the Australian Securities Exchange (ASX) confirmed that Karoon's ASX classification had been changed from an 'oil and gas exploration entity' to an 'oil and gas producing entity' as defined in Listing Rule 19.12. Consequently, Karoon is no longer required to lodge Appendix 5B quarterly cashflow reports with the ASX and is now required to lodge preliminary final reports in the form of Appendix 4E and half yearly reports in the form of Appendix 4D within two months of the end of the relevant accounting period. Karoon is still required to continue to lodge quarterly oil and gas activity reports.

Sustainability

In August 2022, Karoon released its first stand alone Sustainability Report. The 2022 Sustainability Report provides information on Karoon's performance during FY2022 in each of the Company's five sustainability pillars. Karoon's Sustainability team was expanded during the financial half-year, with two new members joining the team in Brazil, to assist in achieving the Company's sustainability targets.

Karoon's FY2022 Scope 1 emissions were 82,805 tCO_2e, an increase compared to FY2021 reflecting Karoon's first full year of operations and the start of the Baúna intervention campaign, but significantly lower than originally forecast due primarily to efficiencies in operations reducing the emissions and to changes in the previously forecast scheduling of the intervention program. The final emissions were within the amount of verified emission reduction units (VERs) committed for purchase under Karoon's VER Agreement with Shell Western Supply and Trading. Consequently, Karoon's FY2022 Scope 1 and 2 GHG emissions will be fully offset by this agreement and no further spot purchases of carbon credits were required in the financial half-year. Karoon's operational emissions intensity increased over FY2022 and in the financial half-year due to higher levels of activity related to the intervention program and Patola development. Emissions intensity is expected to reduce in the second half of CY2023, reflecting a reduction in activity as the Patola development is completed, and higher production.

In December 2022, Karoon released its second Modern Slavery Statement, in respect of CY22. In addition, Karoon sponsored 16 social projects, all of which take advantage of government incentives to sponsor institutions that provide support for children and the elderly, primarily through cultural and sporting initiatives. The projects vary depending on the incentive program and include providing access to sporting programs for vulnerable children, young adults and people living with a disability and training for their carers; the provision of equipment in local hospitals treating cancer patients; providing education and training for young adults entering the music industry; and educational opportunities for children and young people through music and theatre education.

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

The Directors’ Report sets out information on the business strategies and prospects for future financial years and refers to likely developments in operations and the expected results of those operations. Information in the Directors’ Report is provided to enable shareholders to make an informed assessment about 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, information about other likely developments in the Group’s operations and the expected results of those operations have not been included.

Board of Directors

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

- Mr Bruce Phillips – Independent Non-Executive Chairman.
- Dr Julian Fowles – Chief Executive Officer and Managing Director.
- Mr Peter Turnbull AM – Independent Non-Executive Director.
- Ms Luciana Rachid – Independent Non-Executive Director.
- Mr Clark Davey – Independent Non-Executive Director.
- Mr Peter Botten AC, CBE – Independent Non-Executive Director.
- Mr Tadeu Fraga – Independent Non-Executive Director *(Appointed 26 August 2022).*

External Auditor’s Independence Declaration

A copy of the external Auditor’s Independence Declaration for the financial half-year, as required under Section 307C of the *Corporations Act 2001*, is set out on page 18.

This Directors’ 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

22 February 2023
Melbourne

RESERVES AND RESOURCES

RESERVES AND RESOURCES

Karoon has completed an updated assessment of reserves and resources as at 31 December 2022 for its 100% owned Santos Basin concession, BM-S-40, in Brazil. This follows a review of all available subsurface and production data, including a reprocessed seismic dataset, newly acquired data from the recently completed Baúna well interventions and Patola drilling, and updated reservoir modelling. Karoon's internal assessment of reserves has been reviewed and certified by an independent third party, AGR Energy Services.

BM-S-40 contains the Baúna and Piracaba producing fields and the Patola field, which is currently under development. Proved (1P), Proved and Probable (2P) and Proved, Probable and Possible (3P) reserves at 31 December 2022 have increased by 17%, 23% and 7%, to 42.8 MMbbl, 55.0 MMbbl and 65.5 MMbbl, respectively, compared to 30 June 2022, despite production of 3.4 MMbbl during the period.

The revised reserves assessment takes into account the following:

- Recent production data confirming better than expected performance from the existing producing wells. This follows the successful interventions in SPS-92, PRA-3 and SPS-56.
- Revised subsurface modelling of Patola, capturing reservoir properties at the PAT-1 and PAT-2 wells which were better than pre-drill predictions.
- An extension of the assessed economic field life, with reserves now including production up to 2032. Production beyond this date has not been classified as reserves, due to the greater uncertainty on the FPSO maintenance requirements after this date.
- A long term oil price assumption of US$65/bbl.
- Production between 30 June 2022 and 31 December 2022 of 3.4 MMbbl.

Based on these revisions, the conversion of the Patola Project contingent resources into reserves and total production of 11.2 MMbbl between taking over operatorship of Baúna in November 2020 and 31 December 2022, Karoon has achieved a 2P reserves replacement of 259%[1].

Baúna contingent resources relating to the potential hook-up of the SPS-57 well have also been reassessed. Given the current uncertainty in resource potential and possible timing of this intervention, 1C, 2C and 3C contingent resources of 1.9 MMbbl, 4.2 MMbbl and 8.3 MMbbl, respectively, have been removed from the contingent resource estimates. No other changes to contingent resources have been made, with the Neon and Goiá contingent resources assessment unchanged from the 2022 Annual Report statement.

"The material increase in Baúna reserves announced today follows extensive reprocessing of seismic, reservoir modelling and dynamic simulation work undertaken by our technical teams in Brazil and Australia.

The resolution of the reprocessed seismic is significantly better than legacy datasets, decreasing the uncertainty on field volumes. The results from the three Baúna well interventions recently completed have been very positive and, together with information from the two Patola wells, have provided valuable additional data points, which have also assisted in the reserves definition announced today.

The expectation of extended field life brings greater longevity to Karoon's existing production base that should bring further opportunities to maximise asset value."

Dr Julian Fowles, Karoon's CEO and Managing Director

1. Reserves replacement is defined as 2P reserves additions during the period from November 2020 to 31 December 2022 divided by production over the same period. The reserves replacement includes the conversion of the Patola and associated Baúna additional contingent resource into reserves, announced at Patola FID on 3 June 2021.

Oil Reserves at 31 December 2022 (MMbbl)
BM-S-40 (Baúna, Piracaba and Patola)

	1P	2P	3P
Developed[1]	30.9	38.6	45.3
Undeveloped[2]	11.9	16.4	20.2
Total	**42.8**	**55.0**	**65.5**

1. Baúna & Piracaba.
2. Patola under development.

Movement in Oil Reserves (MMbbl)
BM-S-40 (Baúna, Piracaba and Patola)

	1P	2P	3P
Reserves at 30 June 2022[1]	36.5	44.8	61.5
Production 30 June 2022 to 31 December 2022	-3.4	-3.4	-3.4
Revisions[2]	9.7	13.6	7.4
Reserves at 31 December 2022	**42.8**	**55.0**	**65.5**

1. Disclosed in Karoon's 2022 Annual Report.
2. Baúna, Piracaba & Patola.

Contingent Oil Resources at 31 December 2022 (MMbbl)
BM-S-40 (Baúna, Piracaba and Patola)

	1C	2C	3C
BM-S-40 (Baúna)	0.0	0.0	0.0
S-M-1037 (Neon)[3]	30.0	55.0	92.0
S-M-1101 (Goiá)[3]	16.0	27.0	46.0
Total	**46.0**	**82.0**	**138.0**

Movement in Contingent Oil Resources (MMbbl)
BM-S-40 (Baúna, Piracaba and Patola)

	1C	2C	3C
Contingent Resources at 30 June 2022[1]	47.9	86.2	146.3
Revisions[2]	-1.9	-4.2	-8.3
Contingent Resources at 31 December 2022	**46.0**	**82.0**	**138.0**

1. Disclosed in Karoon's 2022 Annual Report.
2. Baúna & Piracaba.
3. Contingent resource volume estimates presented for Neon and Goiá were disclosed in the 8 May 2018 ASX announcement "Resources Update" and published in the 2022 Annual Report. Karoon is not aware of any new information or data that materially affects these resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

Notes to the Reserves Statements

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), American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE).

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 become 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.

In respect of the reserves estimates:

- All statements are net to Karoon's interests as of 31 December 2022 and use a combination of deterministic and probabilistic methods.
- The contingent resource estimates are un-risked and have a risk of development.
- Karoon has a 100% operated interest in BM-S-40, S-M-1037 and S-M-1101.
- The reference point for reserves estimates is at the fiscal meter situated on the FPSO Cidade de Itajaí.
- All estimates use arithmetic summation method of aggregation for Low, Mid and High estimates.
- Resource estimates remain unchanged for S-M-1037 (Neon) and S-M-1101 (Goiá) from 30 June 2022 on the basis that no new data or information that impacts the estimates has become available up to 31 December 2022.

Material Reserves Changes

Karoon has previously disclosed to the market in accordance with its continuous disclosure obligations:

- **Increase to Baúna Reserves** (refer to ASX Announcement – 23 January 2023).

Governance and Competent Person's Statement

All reserves statements in this report are based on, and fairly represent, information and supporting documents prepared by, or under the supervision of Martin Austgulen, VP Subsurface and New Business, Karoon Energy Limited. Martin Austgulen is qualified in accordance with ASX listing rule 5.41 being a member of the Society of Petroleum Engineers (SPE) and has consented in writing to the inclusion of reserves and resources in the format and context in which they appear.

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the review of Karoon Energy Ltd for the half-year ended 31 December 2022, 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 review; and

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

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

Graeme McKenna

Graeme McKenna
Partner
PricewaterhouseCoopers

Melbourne
22 February 2023

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	CONSOLIDATED 31 DEC 2022 US$M	CONSOLIDATED 31 DEC 2021 US$M
Revenue	3(a)	**299.4**	186.5
Cost of sales	4(a)	**(148.3)**	(104.4)
Gross profit		**151.1**	82.1
Other income	3(b)	**1.1**	0.1
Business development and other project costs	4(b)	**(1.5)**	(0.9)
Exploration expenses	4(c)	**(1.7)**	(1.7)
Finance costs	4(d)	**(11.7)**	(11.0)
Other expenses	4(e)	**(20.8)**	(12.2)
Net foreign currency gains		**0.3**	3.4
Change in fair value of contingent consideration		**(0.4)**	(183.8)
Profit/(loss) before income tax		**116.4**	(124.0)
Income tax (expense)/benefit	5	**(38.8)**	26.3
Profit/(loss) for the period attributable to equity holders of the Company		**77.6**	(97.7)
Other comprehensive income (loss), 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		**(0.8)**	(1.9)
Net change in cost of hedging		**24.5**	(3.5)
Other comprehensive income (loss) for the period, net of income tax		**23.7**	(5.4)
Total comprehensive income (loss) for the period attributable to equity holders of the Company, net of income tax		**101.3**	(103.1)
Earnings/(loss) per share attributable to equity holders of the Company:			
Basic earnings/(loss) per ordinary share (cents per share)		**13.82**	(17.62)
Diluted earnings/(loss) per ordinary share (cents per share)		**13.64**	(17.62)

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	NOTE	CONSOLIDATED 31 DEC 2022 US$M	30 JUNE 2022 US$M
Current assets			
Cash and cash equivalents		**163.2**	157.7
Receivables		**79.3**	56.4
Inventories		**14.8**	19.4
Security deposits		**–**	0.3
Other assets		**7.3**	11.8
Total current assets		**264.6**	245.6
Non-current assets			
Deferred tax assets	5	**125.3**	123.0
Inventories		**4.5**	5.8
Oil and gas assets	7	**813.2**	733.0
Property, plant and equipment	8	**2.9**	13.3
Exploration and evaluation assets		**41.3**	40.9
Security deposits		**2.4**	1.3
Other financial assets	10	**1.4**	–
Other assets		**1.2**	1.3
Total non-current assets		**992.2**	918.6
Total assets		**1,256.8**	1,164.2
Current liabilities			
Trade and other payables		**70.2**	68.3
Current tax liabilities		**44.8**	9.6
Other financial liabilities	10	**96.1**	125.4
Lease liabilities		**45.2**	43.7
Provisions		**0.2**	0.4
Total current liabilities		**256.5**	247.4
Non-current liabilities			
Trade and other payables		**5.6**	6.8
Borrowings	9	**27.6**	27.1
Other financial liabilities	10	**214.1**	222.0
Lease liabilities		**222.0**	245.2
Provisions		**151.9**	139.5
Total non-current liabilities		**621.2**	640.6
Total liabilities		**877.7**	888.0
Net assets		**379.1**	276.2
Equity			
Contributed equity	11	**907.5**	907.5
Accumulated losses		**(401.2)**	(478.8)
Reserves		**(127.2)**	(152.5)
Total equity		**379.1**	276.2

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED	CONTRIBUTED EQUITY US$M	ACCUMULATED LOSSES US$M	SHARE-BASED PAYMENTS RESERVE US$M	FOREIGN CURRENCY TRANSLATION RESERVE US$M	HEDGING RESERVES US$M	TOTAL EQUITY US$M
Balance as at 1 July 2021	905.1	(414.4)	50.2	(160.7)	–	380.2
Loss for the period	–	(97.7)	–	–	–	(97.7)
Other comprehensive loss	–	–	–	(1.9)	(3.5)	(5.4)
Total comprehensive loss for the period	–	(97.7)	–	(1.9)	(3.5)	(103.1)
Transactions with owners in their capacity as owners:						
Exercise of options	0.9	–	–	–	–	0.9
Share-based payments expense	–	–	2.4	–	–	2.4
	0.9	–	2.4	–	–	3.3
Balance as at 31 December 2021	906.0	(512.1)	52.6	(162.6)	(3.5)	280.4
Balance as at 1 July 2022	**907.5**	**(478.8)**	**53.8**	**(165.0)**	**(41.3)**	**276.2**
Profit for the period	**–**	**77.6**	**–**	**–**	**–**	**77.6**
Other comprehensive income/(loss)	**–**	**–**	**–**	**(0.8)**	**24.5**	**23.7**
Total comprehensive income/(loss) for the period	**–**	**77.6**	**–**	**(0.8)**	**24.5**	**101.3**
Transactions with owners in their capacity as owners:						
Share-based payments expense	**–**	**–**	**1.6**	**–**	**–**	**1.6**
	–	**–**	**1.6**	**–**	**–**	**1.6**
Balance as at 31 December 2022	**907.5**	**(401.2)**	**55.4**	**(165.8)**	**(16.8)**	**379.1**

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	CONSOLIDATED	
	31 DEC 2022 US$M	31 DEC 2021 US$M
Cash flows from operating activities		
Receipts from customers	**276.7**	184.5
Payments to suppliers and employees	**(66.8)**	(57.8)
Payments for exploration and evaluation expenditure expensed	**(1.3)**	(2.1)
Payments for legal settlement	**–**	(9.6)
Payments for cash flow hedges	**(12.7)**	(9.8)
Interest received	**1.4**	–
Borrowing and other costs of finance paid	**(9.3)**	(9.6)
Income taxes paid	**(20.9)**	(11.7)
Net cash flows provided by operating activities	**167.1**	83.9
Cash flows from investing activities		
Purchase of plant and equipment and computer software	**(2.3)**	(2.2)
Payments for oil and gas assets	**(137.1)**	(11.9)
Borrowing costs paid for qualifying assets	**(1.7)**	(4.2)
Payments for exploration and evaluation expenditure capitalised	**(0.5)**	–
Release/refund (payment) of security deposits	**(0.8)**	–
Net cash flows used in investing activities	**(142.4)**	(18.3)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	**–**	0.9
Proceeds from borrowings	**–**	30.0
Debt facility establishment costs	**–**	(2.2)
Principal elements of lease payments	**(19.7)**	(23.3)
Net cash flows provided by/(used in) financing activities	**(19.7)**	5.4
Net increase in cash and cash equivalents	**5.0**	71.0
Cash and cash equivalents at beginning of the half-year	**157.7**	133.2
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**0.5**	(0.1)
Cash and cash equivalents at end of the half-year	**163.2**	204.1

The accompanying notes form an integral part of these condensed consolidated financial statements.

Note 1. Basis of Preparation of the Condensed Consolidated Financial Statements

(a) Basis of Preparation

This Half-Year Financial Report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standard AASB 134 '*Interim Financial Reporting*' and the *Corporations Act 2001*. Compliance with AASB 134 '*Interim Financial Reporting*' ensures compliance with International Financial Reporting Standard IAS 134 '*Interim Financial Reporting*'.

The condensed consolidated financial statements are for the consolidated entity comprising Karoon Energy Ltd (the 'Company') and its subsidiaries (the 'Group') for the half-year period ended 31 December 2022. The Company is a for-profit entity limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX:KAR).

The condensed consolidated financial statements do not include all the notes of the type normally included in an Annual Report and should be read in conjunction with the Company's Annual Report for the financial year ended 30 June 2022 and any public announcements made by Karoon Energy Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act 2001*.

The condensed consolidated financial statements have been prepared using the going concern assumption which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

The condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as disclosed in the Company's Annual Report for the financial year ended 30 June 2022.

(b) Rounding

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

(c) New and amended standards adopted by the Group

A number of amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

Note 2. Significant Accounting Estimates, Assumptions and Judgements

The preparation of the half-year financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant accounting judgements, estimates and assumptions adopted in this half-year financial report are consistent with those disclosed in the Company's Annual Report for the financial year ended 30 June 2022.

Note 3. Revenue and Other Income

	CONSOLIDATED HALF-YEAR ENDED	
	31 DEC 2022 US$M	31 DEC 2021 US$M
(a) Revenue		
Crude oil sales	**299.4**	186.5
Total revenue from contracts with customers	**299.4**	186.5
(b) Other income		
Interest income	**1.1**	0.1
Total other income	**1.1**	0.1

Note 4. Expenses

	CONSOLIDATED HALF-YEAR ENDED	
	31 DEC 2022 US$M	31 DEC 2021 US$M
(a) Cost of sales		
Operating costs	**(30.3)**	(26.8)
Royalties and government take	**(30.3)**	(19.1)
Depreciation and amortisation – oil and gas assets	**(81.7)**	(53.2)
Change in inventories	**(6.0)**	(5.3)
Total cost of sales	**(148.3)**	(104.4)
(b) Business development and other project costs		
Business development and other project costs	**(1.5)**	(0.9)
Total business development and other project costs	**(1.5)**	(0.9)
(c) Exploration expense		
Exploration and evaluation expenditure expensed	**(1.7)**	(1.7)
Total exploration and evaluation expenditure expensed	**(1.7)**	(1.7)
(d) Finance costs		
Finance charges on lease liabilities	**(8.0)**	(8.7)
Discount unwinding on net present value of provision for restoration	**(2.1)**	(1.2)
Interest expense	**(0.4)**	(0.8)
Other finance costs	**(1.2)**	(0.3)
Total finance costs	**(11.7)**	(11.0)
(e) Other expenses		
Corporate	**(9.2)**	(7.8)
Realised losses on cash flow hedges	**(7.2)**	–
Share-based payments expense	**(2.1)**	(3.8)
Social investments/sponsorships	**(1.8)**	–
Depreciation and amortisation – non-oil and gas assets	**(0.4)**	(0.3)
Loss on disposal of non-current assets	**(0.1)**	–
Other expenses	**–**	(0.3)
Total other expenses	**(20.8)**	(12.2)

Note 5. Income Tax

(a) Income Tax (Expense)/Benefit Recognised in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	CONSOLIDATED HALF-YEAR ENDED 31 DEC 2022 US$M	CONSOLIDATED HALF-YEAR ENDED 31 DEC 2021 US$M
Income tax (expense)/benefit comprises		
Current income tax	**(52.8)**	(21.1)
Deferred income tax	**14.0**	47.4
Total income tax (expense)/benefit	**(38.8)**	26.3
The prima facie tax on profit/(loss) before income tax is reconciled to tax (expense)/benefit as follows:		
Prima facie tax (expense)/benefit on profit/(loss) before income tax, calculated at the Australian tax rate of 30%	**(34.9)**	37.2
(Add)/subtract the tax effect of:		
Share-based payments expense (non-cash)	**(0.4)**	(0.7)
Other non-deductible items	**(0.9)**	(1.4)
Social investments/sponsorships[a]	**1.1**	–
Tax losses and temporary tax differences not recognised	**–**	(0.1)
Difference in overseas tax rates	**(5.0)**	4.6
Foreign exchange differences	**1.3**	(13.3)
Total income tax (expense)/benefit	**(38.8)**	26.3

(a) This is a scheme which under Brazilian tax law permits a company when paying tax to direct a portion of this payment to specific government approved projects. There is no net cost to the Company as this amount replaces tax payable. It is classified as an expense in the financial statements rather than within income tax.

(b) Deferred Tax Balances

	BALANCE AS AT 1 JULY 2022 US$M	CHARGED (CREDITED) TO PROFIT OR LOSS US$M	CHARGED (CREDITED) DIRECTLY TO EQUITY US$M	BALANCE AS AT 31 DECEMBER 2022 US$M
Temporary differences				
Provisions and accruals	19.6	7.2	–	**26.8**
Equity raising transaction costs	0.2	(0.1)	–	**0.1**
Unrealised foreign currency losses/(gains)/translation adjustment	1.5	0.9	–	**2.4**
Fair value movement of financial liabilities	79.6	0.1	–	**79.7**
Farm-out expenditures	0.1	–	–	**0.1**
Right-of-use assets	(95.4)	12.5	–	**(82.9)**
Lease liabilities	98.2	(6.2)	–	**92.0**
Hedge premium	(4.5)	(0.3)	–	**(4.8)**
Net changes of cash flow hedges	21.2	–	(12.8)	**8.4**
Other	0.3	(0.1)	–	**0.2**
Total temporary differences	120.8	14.0	(12.8)	**122.0**
Unused tax losses				
Tax losses	2.2	1.1	–	**3.3**
Total unused tax losses	2.2	1.1	–	**3.3**
Net deferred tax assets/(liabilities)	123.0	15.1	(12.8)	**125.3**
Presented in the condensed consolidated statement of financial position as follows:				
Deferred tax assets	123.0			**125.3**

Note 6. 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 Group's Executive Management Team (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 two geographic locations:

- Australia – in which the Group was involved in the exploration and evaluation of hydrocarbons in an offshore exploration permit area: WA-482-P. This permit was surrendered in September 2022; and
- 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.

'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment. The comparative period included costs associated with closure of the Group's Peruvian Branches.

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, which 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.

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.

Note 6. Segment Information continued

(a) Operating Segments

SEGMENT PERFORMANCE	AUSTRALIA US$M	BRAZIL US$M	ALL OTHER SEGMENTS US$M	CONSOLIDATED US$M
Result for half-year ended 31 December 2022				
Revenue	**–**	**299.4**	**–**	**299.4**
Other income	**0.1**	**1.0**	**–**	**1.1**
Total segment revenue and other income	**0.1**	**300.4**	**–**	**300.5**
Expenses				
Business development and other project costs	**(0.5)**	**(1.0)**	**–**	**(1.5)**
Cost of sales	**–**	**(148.3)**	**–**	**(148.3)**
Depreciation and amortisation expense – non-oil and gas assets	**(0.1)**	**(0.3)**	**–**	**(0.4)**
Exploration expenses	**–**	**(1.7)**	**–**	**(1.7)**
Finance costs	**–**	**(11.7)**	**–**	**(11.7)**
Realised losses on cash flow hedges	**–**	**(7.2)**	**–**	**(7.2)**
Corporate expenses	**(5.4)**	**(3.8)**	**–**	**(9.2)**
Social investments/sponsorships	**–**	**(1.8)**	**–**	**(1.8)**
Other	**–**	**(0.1)**	**–**	**(0.1)**
Net foreign currency gains/(losses)	**0.8**	**(0.5)**	**–**	**0.3**
Change in fair value of contingent consideration	**–**	**(0.4)**	**–**	**(0.4)**
Share-based payments expense	**(1.6)**	**(0.5)**	**–**	**(2.1)**
Profit/(loss) before income tax	**(6.7)**	**123.1**	**–**	**116.4**
Income tax (expense)/benefit	**1.5**	**(40.3)**	**–**	**(38.8)**
Profit/(loss) for the period	**(5.2)**	**82.8**	**–**	**77.6**
Result for half-year ended 31 December 2021				
Revenue	–	186.5	–	186.5
Other income	–	0.1	–	0.1
Total segment revenue and other income	–	186.6	–	186.6
Expenses				
Business development and other project costs	(0.2)	(0.7)	–	(0.9)
Cost of sales	–	(104.4)	–	(104.4)
Depreciation and amortisation expense – non-oil and gas assets	(0.2)	(0.1)	–	(0.3)
Exploration expenses	(0.2)	(1.4)	(0.1)	(1.7)
Finance costs	–	(11.0)	–	(11.0)
Corporate expenses	(5.8)	(1.6)	(0.5)	(7.9)
Other	–	(0.1)	(0.1)	(0.2)
Net foreign currency gains/(losses)	2.1	1.7	(0.4)	3.4
Change in fair value of contingent consideration	–	(183.8)	–	(183.8)
Share-based payments expense	(3.3)	(0.5)	–	(3.8)
Profit/(loss) before income tax	(7.6)	(115.3)	(1.1)	(124.0)
Income tax benefit	1.7	24.6	–	26.3
Profit/(loss) for the period	(5.9)	(90.7)	(1.1)	(97.7)
Total segment assets				
As at 31 December 2022	40.4	1,216.3	0.1	1,256.8
As at 30 June 2022	49.3	1,114.7	0.2	1,164.2
Total segment liabilities				
As at 31 December 2022	3.5	874.2	0.0	877.7
As at 30 June 2022	4.8	883.1	0.1	888.0

Note 7. Oil and Gas Assets

	PRODUCTION ASSET US$M	DEVELOPMENT ASSET US$M	RIGHT OF USE ASSETS – FPSO VESSEL US$M	CONSOLIDATED TOTAL US$M
At 30 June 2022				
At cost	496.2	46.5	354.7	897.4
Accumulated depreciation	(91.8)	–	(72.6)	(164.4)
Carrying amount at end of financial year	404.4	46.5	282.1	733.0
Half-year ended 31 December 2022				
Balance at beginning of financial period	404.4	46.5	282.1	733.0
Additions	53.4	85.2	–	138.6
Transfers from property, plant and equipment	12.1	–	–	12.1
Remeasurement of lease arrangements	–	–	(0.8)	(0.8)
Depreciation expense	(47.5)	–	(34.2)	(81.7)
Borrowing costs capitalised(i)	–	1.7	–	1.7
Increase in provision for restoration(ii)	10.3	–	–	10.3
Carrying amount at end of half-year	432.7	133.4	247.1	813.2
At 31 December 2022				
At cost	**572.0**	**133.4**	**353.9**	**1,059.3**
Accumulated depreciation	**(139.3)**	**–**	**(106.8)**	**(246.1)**
Carrying amount at end of half-year	**432.7**	**133.4**	**247.1**	**813.2**

(i) The capitalised borrowing costs relate to an apportionment of the interest and fees incurred in connection with the syndicated loan facility (refer to Note 9) relating to the Patola development, which meets the definition of a qualifying asset.

(ii) Includes the addition of restoration obligations relating to the Patola wells, offset by an increase in the discount rate on total restoration provisions.

Note 8. Property, Plant and Equipment

	PLANT & EQUIPMENT US$M	RIGHT OF USE ASSETS US$M	CONSOLIDATED TOTAL US$M
At 30 June 2022			
At cost	13.7	2.4	16.1
Accumulated depreciation	(1.8)	(1.0)	(2.8)
Carrying amount at end of financial year	11.9	1.4	13.3
Half-year ended 31 December 2022			
Balance at beginning of financial period	**11.9**	**1.4**	**13.3**
Additions	**2.4**	**–**	**2.4**
Disposals	**(0.3)**	**–**	**(0.3)**
Transfers to oil and gas assets	**(12.1)**	**–**	**(12.1)**
Depreciation expense	**(0.1)**	**(0.3)**	**(0.4)**
Carrying amount at end of half-year	**1.8**	**1.1**	**2.9**
At 31 December 2022			
At cost	**3.7**	**2.4**	**6.1**
Accumulated depreciation	**(1.9)**	**(1.3)**	**(3.2)**
Carrying amount at end of half-year	**1.8**	**1.1**	**2.9**

Note 9. Borrowings

	CONSOLIDATED	
	31 DEC 2022 US$M	30 JUNE 2022 US$M
Non-Current		
Syndicated loan facility – secured	**30.0**	30.0
Less transaction costs[i]	**(2.4)**	(2.9)
Total non-current borrowings	**27.6**	27.1

(i) Includes remaining unamortised transaction costs associated with the syndicated loan facility and excludes costs that have been capitalised as part of Oil and Gas Assets in relation to qualifying assets.

During November 2021, Karoon Energy Ltd's wholly owned subsidiary, Karoon Petróleo & Gás Ltda, reached financial close on a reserve-based, non-recourse, syndicated loan facility with Deutsche Bank AG, ING Belgium SA/NV, Macquarie Bank Limited and Shell Western Supply and Trading Limited. In April 2022, an additional accordion facility, contemplated by the syndicated loan facility, was established.

The facility is secured over the shares in and assets of Karoon Petróleo & Gás Ltda, including its interest in the Baúna BM-S-40 concession.

The total available amount under the facility, including the accordion, is $210 million. At 31 December 2022, $30 million has been drawn down, with $180m remaining undrawn.

Interest on drawn amounts is charged at SOFR, including a credit adjustment spread of 0.26%, plus a margin of 4.25% p.a. A commitment fee is charged on undrawn available amounts at 1.7% p.a. The facility has a final maturity date of the earlier of 31 March 2025 or the quarter where the remaining reserves are forecast to be ≤ 25% of the initial approved reserves. The availability period is anticipated to continue into the September quarter, but not longer than 30 September 2023, after which the unutilised commitments shall be cancelled. Repayments will be based on the total outstanding reduction schedule with the facility amortising semi-annually on a straight-line basis from 30 September 2023 to maturity.

Karoon is also required to enter into oil hedging to ensure forecasted oil production is within a minimum and maximum hedge ratio.

The Group has complied with all loan covenants throughout the reporting period.

Note 10. Other Financial Assets and Liabilities

	CONSOLIDATED	
	31 DEC 2022 US$M	30 JUNE 2022 US$M
Assets		
Non-Current		
Derivative financial instruments – cash flow hedges[i]	**1.4**	–
Total assets	**1.4**	–
Liabilities		
Current		
Derivative financial instruments – cash flow hedges[i]	**11.5**	40.8
Embedded derivative – contingent consideration payable[ii]	**84.6**	84.6
Non-Current		
Derivative financial instruments – cash flow hedges[i]	**–**	8.3
Embedded derivative – contingent consideration payable[ii]	**214.1**	213.7
Total liabilities	**310.2**	347.4

(i) During the prior period, the Group entered into Brent oil price derivative hedges, via a collar structure consisting of bought put and sold call options covering the period from December 2021 to March 2024. The purpose of the hedges is to protect operating cash flows from a portion of crude oil sales against the risk of lower oil prices while retaining significant exposure to oil price upside. The hedges are also a requirement of the syndicated loan facility (refer to Note 9).

The bought put and sold call options have been designated as cash flow hedges, and in the current period, changes in the fair value of the options of $37.3m pre-tax ($24.5 net of tax) have been recognised in the cost of hedging reserve within equity, of which $1.3m pre-tax ($0.8m net of tax) has been reclassified to profit or loss. As at 31 December 2022, no losses were recognised in profit or loss for hedge ineffectiveness. The fair value of derivative financial assets and liabilities was determined based on valuation techniques which employ the use of market observable inputs representing a Level 2: fair value measurement.

At 31 December 2022, the Group had the following outstanding hedges:

FINANCIAL YEAR	BOUGHT PUT STRIKE (US$/BBL)	PUT VOLUME ('000 BBL)	SOLD CALL AVERAGE STRIKE (US$/BBL)	CALL VOLUME ('000 BBL)
2023	65	1,470	84.1	1,401
2024	65	2,040	91.8	1,578
		3,510		2,979

	CONSOLIDATED	
	31 DEC 2022 US$M	30 JUNE 2022 US$M
(ii) Reconciliation of contingent consideration payable		
Balance at the beginning of the financial period	**298.3**	71.2
Unrealised fair value changes recognised in profit or loss during the period	**0.4**	227.1
Total contingent consideration payable at fair value	**298.7**	298.3

(a) The contingent consideration arrangement for the acquisition of Baúna requires Karoon's wholly owned subsidiary, Karoon Petróleo & Gás Ltda., to pay Petrobras contingent consideration of up to US$285 million.

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 2022 to 2026 inclusive 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.

Note 10. Other Financial Assets and Liabilities continued

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

As at 30 June 2022, based on the Group's internal assessment of future oil prices and industry consensus, the Brent oil forecast was revised and it was assessed that the amount payable under the contingent consideration arrangement would be the maximum amount payable of $285m plus interest.

At 31 December 2022, based on the Group's internal assessment of future oil prices and industry consensus, the amount payable continues to accrue at the maximum amount of $285m plus interest. $84.6m, the amount payable in respect of the 2022 calendar year, has been recognised a current liability, and has subsequently been paid in January 2023. The fair value of the total amount payable has been revised upwards by $0.4m due to a revision in the discount rate. A discount rate of 3.49% and 2% interest per annum has been applied in the calculation of the present value at 31 December 2022.

Note 11. Contributed Equity

(a) Contributed Equity

	CONSOLIDATED	
	31 DEC 2022 US$M	30 JUNE 2022 US$'M
Ordinary shares, fully paid	**907.5**	907.5
Total contributed equity	**907.5**	907.5

(b) Movement in Ordinary Shares

DATE	DETAILS	NUMBER OF ORDINARY SHARES	US$M
1 July 2021	Opening balance in previous financial year	553,770,529	905.1
	Exercise of options	2,383,899	2.4
	Performance rights conversion	1,930,924	–
30 June 2022	Balance at end of previous financial year	558,085,352	907.5
	Performance rights conversion	4,598,004	–
31 December 2022	Balance at end of half-year	562,683,356	907.5

Note 12. Dividends

There were no ordinary dividends declared or paid during the financial half-year by the Company (31 December 2021: $Nil).

Note 13. Commitments

	CONSOLIDATED	
	31 DEC 2022 US$M	30 JUNE 2022 US$M
(a) Capital and Service Expenditure Commitments		
Contracts for capital and service expenditure in relation to assets not provided for in the condensed consolidated financial statements and payable. Note, the service commitments as at 31 December 2022 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	**20.3**	75.9
Total capital commitments	**20.3**	75.9
Service commitments		
Not later than one year	**13.0**	11.5
Later than one year but not later than five years	**26.5**	31.9
Total service commitments	**39.5**	43.4
Total capital and service expenditure commitments	**59.8**	119.3
(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 tenement Block S-M-1537 (30 June 2022: Block S-M-1537) not provided for in the consolidated financial statements and payable.		
Later than one year but not later than five years	**3.5**	3.5
Total guaranteed exploration expenditure commitments	**3.5**	3.5

Note, the figures above do not include any commitments in relation to 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 both a Final Discovery Evaluation Report and Declaration of Commerciality for the discoveries. This transitioned the Blocks for Brazilian regulatory requirements, from the exploration phase to the development phase. However, it does not mean that Karoon has reached, nor is compelled to reach, a final investment decision ('FID') to proceed into a Development of the discoveries. Prior to a FID being reached, Karoon anticipates drilling 'control wells' to assist with delineating the Neon discovery, confirming reservoir quality and assisting with the planning and design of development wells and infrastructure. Drilling of the first control well was completed on 23 January 2023 and wireline logs were acquired. The current expectation is that the second control well will spud by end-February 2023.

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 and by relinquishing exploration tenements.

Note 14. Contingent Liabilities

There has been no material change to the contingent liabilities since 30 June 2022.

Note 15. Subsequent Events

The Half-Year Financial Report was authorised for issue by the Board of Directors on 22 February 2023. The Board of Directors has the power to amend and reissue the condensed consolidated financial statements and notes.

Since 31 December 2022, there have been no material events that have occurred.

DIRECTORS' DECLARATION

The Directors declare that:

(a) in the Directors' opinion, the condensed consolidated financial statements and notes, set out on pages 18 to 32, are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Australian Accounting Standard AASB 134 '*Interim Financial Reporting*' and the *Corporations Regulations 2001*; and

   (ii) giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the financial half-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.

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

22 February 2023
Melbourne

pwc

Independent auditor's review report to the members of Karoon Energy Ltd

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Karoon Energy Ltd (the Company) and the entities it controlled during the half-year (together the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2022, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Karoon Energy Ltd does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

PricewaterhouseCoopers

Graeme McKenna

Graeme McKenna
Partner

Melbourne
22 February 2023

GLOSSARY

TERM	DEFINITION
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
AUD	Units of Australian currency.
AASB	Australian Accounting Standards Board.
ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
ASX	ASX Limited (ACN 008 624 691), trading as Australian Securities Exchange.
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 oil field and the undeveloped Patola oil discovery.
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	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 Karoon Energy Ltd.
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.
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.
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 half-year	Financial half-year ended 31 December 2022.
FPSO	Floating production, storage and off-loading facility.
G&G	Geological and geophysical.
GHG	Greenhouse Gas.
HSSE	Health, safety, security and environment.
hydrocarbon	A chemical compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
Karoon or Group	Karoon Energy Ltd and its subsidiaries.

GLOSSARY
CONTINUED

TERM	DEFINITION
kbbl	One thousand barrels (1,000) barrels.
km	Kilometres.
LIBOR	London interbank offered rate.
M	Million.
MMbbl	Millions of barrels (1,000,000 barrels).
NOPTA	National Offshore Petroleum Titles Administrator
ordinary shares	The ordinary shares in the capital of Karoon Energy Ltd.
permit	A hydrocarbon tenement, lease, licence, concession or block.
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.
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.
prospective resource	The estimated quantities of petroleum that may potentially be recoverable by the application of a future development project related to undiscovered accumulations. Low estimate (P90): P90 refers to a 90% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Best estimate (P50): P50 refers to a 50% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. High estimate (P10): P10 refers to a 10% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Mean estimate (Mean): Mean is the expected value, equal to the sum of the values in that distribution divided by the number of values.
prospectivity	Referring to the likelihood of finding commercial hydrocarbons.
REAL	Brazilian currency.
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.
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 to form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
SOFR	Secured Overnight Financing Rate.
SPA	Sale and Purchase Agreement.
TRIR	Total Recordable Incident Rate.
US$	United States dollars.

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