23 February 2022

Company Announcements Office
ASX Limited

Dear Sir / Madam

Interim Financial Report – 2022 Financial Year

Attached is Karoon Energy Ltd's interim financial report for the financial half-year ended 31 December 2021.

This announcement has been authorised by the Board of Directors.

Yours faithfully

Nick Kennedy
Company Secretary

Karoon Energy Ltd
ABN 53 107 001 338
Level 3/6 Riverside Quay
Southbank Vic 3006 I Australia
+ 613 9616 7500

INTERIM FINANCIAL REPORT

For the Financial Half-Year Ended 31 December 2021

Karoon Energy

Contents

For further information please see the Karoon website or contact:

Ann Diamant: Investor Relations

T +61 407 483 128

E adiamant@karoonenergy.com.au

www.karoonenergy.com

ASX code: KAR

ABN: 53 107 001 338

Forward-looking Statements

This Interim 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 Interim 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.

Directors' Report

For the Financial Half-Year ended 31 December 2021

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

The Board of Directors submits its Directors' Report on Karoon Energy Ltd (the 'Company') and its subsidiaries (the 'Group') for the financial half-year ended 31 December 2021 (the 'financial half-year').

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

Financial Summary

	Financial half-year 31 December 2021	**Financial half-year 31 December 2020^**
Production volume (MMbbl)	**2.50**	0.82
Oil sales volume (MMbbl)	**2.57**	0.50
Unit production costs[1] ($/bbl)	**23.50**	22.18
Weighted average net realised price ($/bbl)	**72.43**	47.31
	US$ million	**US$ million**
Sales revenue	**186.5**	23.8
Underlying EBITDA[2,3,5]	**89.5**	3.7
EBITDA[2,3]	**(91.8)**	(27.9)
Interest and other finance costs	**2.3**	0.4
Depreciation and amortisation[4]	**29.8**	10.7
Underlying net profit/(loss) after income tax[2,5]	**21.1**	9.4
Net profit/(loss) after income tax	**(97.7)**	(1.5)
Operating cash flows	**83.9**	(42.4)
Net assets	**280.4**	373.6
Investment Expenditure:		
– Baúna intervention and Patola CAPEX[6]	**14.3**	-
– Exploration and evaluation expenditure and new ventures[7]	**2.7**	3.3
– Other plant and equipment[8]	**2.0**	2.3

^ *Reflects Baúna operations from 7 November to 31 December 2020 and is therefore not directly comparable*.

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 accounting expense related to the FPSO charter lease.
2. EBITDA (earnings before interest, tax, depreciation, depletion, and amortisation), underlying EBITDA and underlying net profit after 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 2 above.
4. Excludes depreciation on FPSO charter lease right-of-use asset refer Note 2 above.
5. Underlying EBITDA and underlying net profit after tax ('NPAT') have been adjusted for the following items:

	Financial half-year 31 December 2021 US$ million	**Financial half-year 31 December 2020 US$ million**
Change in fair value of contingent consideration	**183.8**	-
Foreign exchange losses/(gains)	**(3.4)**	17.0
Employee restructure cost	**0.9**	-
Baúna transition costs	**-**	14.6
Total adjustments to EBITDA	**181.3**	31.6
Initial recognition of historical Brazilian tax losses and temporary differences	**-**	(20.7)
Impact of tax on change in fair value of contingent consideration	**(62.5)**	-
Total adjustments to NPAT	**118.8**	10.9

6. Excludes Baúna acquisition costs and 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.

Directors' Report
For the Financial Half-Year ended 31 December 2021 *(continued)*

Results

During the financial half-year, Karoon passed the significant milestone of its first full year of operatorship of Baúna since taking over ownership on 7 November 2020. From this date, 5.6 MMbbl of oil have been produced, with total oil production for the financial half-year of 2.50 MMbbl, produced at an average rate of 13,614 bopd.

Five cargoes were lifted during the financial half-year, which were ultimately sold to customers in Europe and North and South America. Strong bids were received for the cargoes, demonstrating recognition in the market of the high quality of Baúna crude. The Company realised an average oil price of $72.43/bbl, 53% higher than the inaugural cargo sold in the 2020 half-year due to stronger global oil prices, which resulted in revenue of $186.5 million for the financial half-year.

Unit production costs for the period were $23.5/bbl, representing a 6% increase on the period from 7 November to 31 December 2020, but a 6% decrease from unit production costs of $25.11/bbl for the 2021 financial year.

The consolidated result for the financial half-year was an underlying net profit after income tax of $21.1 million (2020: $9.4 million) with a statutory loss after income tax of $97.7 million (2020: loss of $1.5 million). The statutory loss for the period included a significant expense of $183.8 million ($121.3 million net of deferred tax) relating to the fair value movement of the contingent consideration payable to Petrobras. The material fair value movement, which adversely impacted the result for the financial half-year, is due to an increase in Karoon's current and forecast oil prices. The contingent consideration is dependent on future oil prices each calendar year from 2022 to 2026 inclusive. The impact of this item has been excluded from underlying net profit after income tax items as it is not considered to be reflective of the Company's performance during the period, but rather the additional amount the Company expects to pay as consideration for Baúna in accordance with the sale and purchase agreement with Petrobras.

Partly as a result of the contingent consideration expense, the financial half-year includes a significant income tax benefit of $26.3 million (2020: $37.6 million) including a deferred tax benefit of $62.5 million (2020: Nil) relating to the contingent consideration expense; offset by utilisation of Brazilian tax losses and temporary differences arising from foreign exchange movements in the US$ / Brazilian Real exchange rate, resulting in a decrease in the accounting carrying value of non-monetary assets denominated in US$ compared to their taxable carrying values denominated in Brazilian Real as at 31 December 2021. The income tax benefit was further offset by current income tax expense incurred predominantly in Brazil totalling $21.1 million (2020: $5.1 million).

The result for the financial half-year included crude oil sales revenue of $186.5 million (2020: $23.8 million) at a weighted average net realised price of $72.43 per barrel (2020: $47.31 per barrel). During the financial half-year 2.50 mmbbls of oil were produced, with 2.57 mmbbls sold, resulting in a gross profit of $82.1 million (2020: $6.8 million), which includes a cost of sales of $104.4 million (2020: $17.1 million). The cost of sales includes depreciation associated with the right-of-use asset being the FPSO lease but does not include finance charges on the FPSO right-of-use lease of $8.7 million (2020: $3.1 million), which are disclosed as part of finance costs.

Other key items impacting the result during the financial half-year were as follows:

- corporate costs of $7.8 million (2020: $5.6 million) which include net employee benefits expense and employee restructure costs, insurance and director fees;
- finance costs of $11 million (2020: $3.6 million) including finance charges on right-of-use assets of $8.7 million (2020: $3.2 million) relating predominantly to the FPSO right-of-use asset in relation to the Baúna operations of $8.7 million and discount unwinding on net present value of the provision for restoration of $1.2 million (2020: $0.2 million);
- share-based payments expenses of $3.8 million (2020: $1.6 million); and
- exploration and evaluation expenditure expensed or impaired of $1.7 million (2020: $2.5 million).

Cash Flows

Net cash inflows from operations for the financial half-year were $83.9 million compared to cash outflows of ($42.4 million) in the previous financial half-year. The positive operating cash flows are attributable to receipts from customers of $184.5 million (2020: $0.3 million) including oil sales proceeds of $183.6 million. Significant operating cash payments for the financial half-year included payments to suppliers and employees, including production costs of $57.8 million (2020: $8.2 million), payment of income tax of $11.7 million (2020: $3.1 million), payment of commodity hedge premiums $9.8 million (2020: nil), payment for the legal settlement with Pitkin Petroleum Peru Z-38 SRL $9.6 million (2020: nil) and interest and other costs of finance paid, predominantly relating to finance charges on the FPSO lease, of $9.6 million (2020: $4.1 million).

Cash outflows from investing activities for the financial half-year were $18.3 million (2020: $148.6 million), which included CAPEX relating to the planned Baúna intervention campaign, Patola development and ongoing field maintenance of $11.9 million (2020: $150 million for the Baúna completion payment) and $4.2 million (2020: nil) of capitalised borrowing costs for qualifying assets associated with the loan facility.

Cash inflows from financing activities for the financial year were $5.3 million (2020: $2 million outflow) which resulted from proceeds associated with the drawdown of the loan facility of $30 million (2020: nil) and proceeds from the conversion of employee options $0.9 million; offset by principal elements of right-of-use lease payments $23.3 million (2020: $2 million) and debt facility establishment costs of $2.2 million not able to be capitalised to oil and gas assets as part of qualifying assets.

Directors' Report

For the Financial Half-Year ended 31 December 2021 *(continued)*

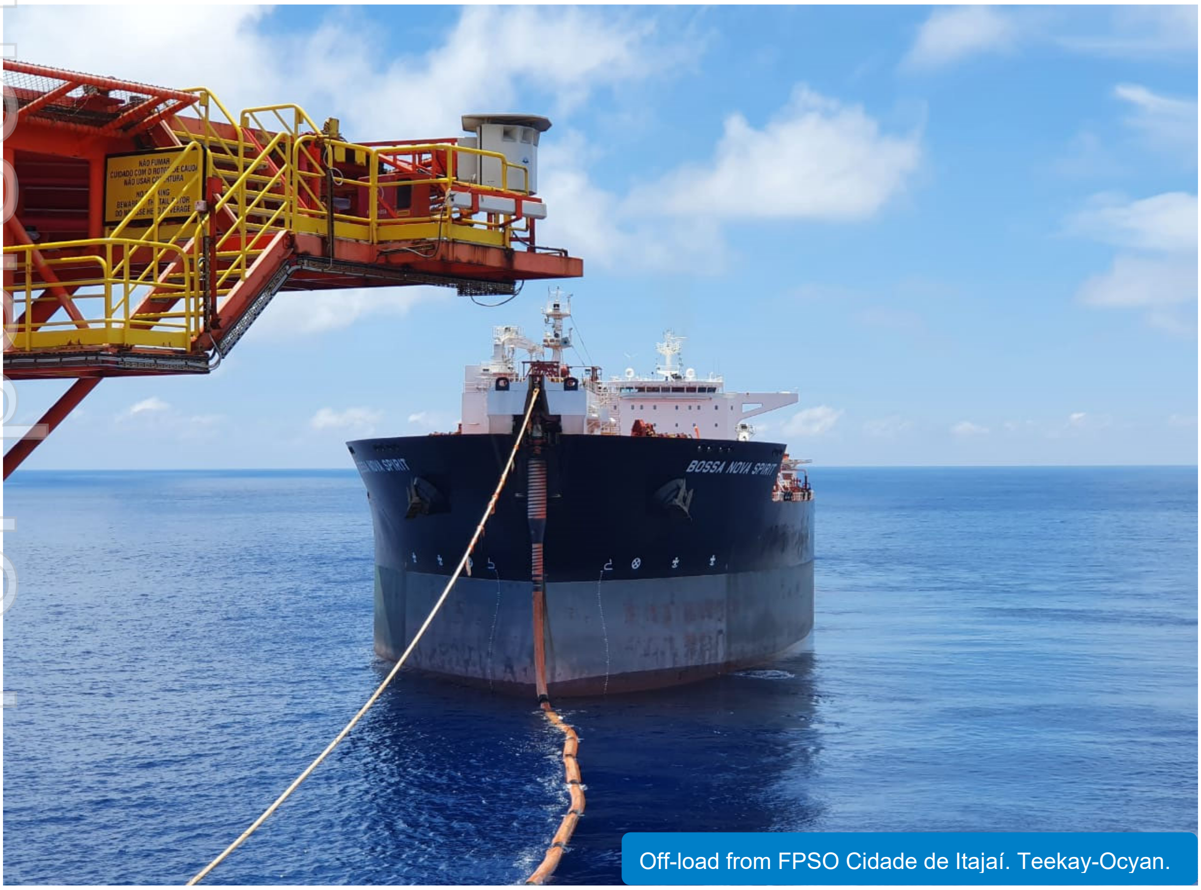
Financial Position

At the end of December 2021, the Group had a cash and cash equivalents balance of $204.1 million (30 June 2021: $133.2 million) and total liquidity (cash and undrawn debt facilities) of $334.1 million.

The Group's working capital, being current assets less current liabilities, increased from $53.6 million as at 30 June 2021 to $128.1 million as at 31 December 2021 predominantly as a result of positive operating cash flows and proceeds from the initial draw down of the loan facility of $30 million partly offset by lease payments in relation to the Baúna FPSO and CAPEX payments for the Baúna intervention campaign and Patola development. Current tax liabilities have increased from $8.3 million as at 30 June 2021 to $17.8 million as at 31 December 2021.

During the financial half-year, total assets increased from $1,014 million to $1,103 million, total liabilities increased from $633.7 million to $822.4 million and total equity reduced by $99.9 million to $280.4 million. The major changes in the consolidated statement of financial position included:

- an increase in working capital discussed above;
- an increase in the contingent consideration payable to Petrobras of $183.8 million during the financial half-year, due to an upward revision of Karoon's current and forecast oil prices, resulting in a contingent consideration payable of $255 million at 31 December 2021;
- recognition of borrowings in relation to the loan facility of $27.9 million;
- a reduction of oil and gas assets during the financial half-year resulting from depreciation of the Baúna asset, offset by CAPEX additions in relation to the Baúna intervention campaign and Patola development; in addition to a reduction of lease liabilities in relation to payments for the charter of the FPSO;
- positive cash flows generated from strong oil sales;
- an increase in deferred tax assets of $48.7 million resulting largely from recognition of the contingent consideration expense for the financial half-year, partly offset by utilisation of Brazilian tax losses and reduction of temporary differences arising from foreign exchange movements in the US$ / Brazilian Real exchange rate; and
- recognition of the fair value of hedge instruments.



Off-load from FPSO Cidade de Itajaí. Teekay-Ocyan.

Directors' Report

For the Financial Half-Year ended 31 December 2021 *(continued)*

Review of Operations

Brazil

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

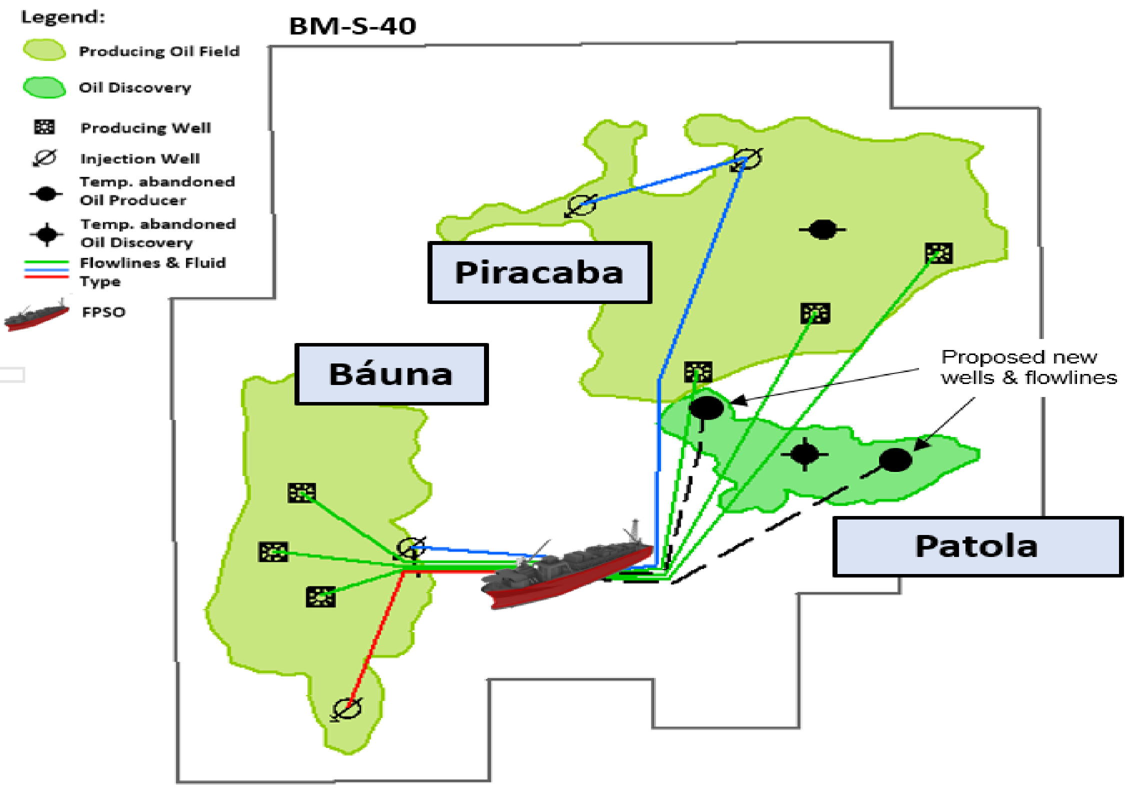
(KAR 100%)

Baúna is located in concession BM-S-40, in the southern Santos Basin and comprises the Baúna and Piracaba light oil fields and the Patola development. It is located 50-60km from Karoon's Neon and Goiá discoveries to the northeast and 50km from the Clorita exploration block to the south. Production from the two separate reservoirs (Baúna and Piracaba) is from 6 oil production wells, with 3 water injection wells and 1 gas injection well.

Operations continue to be performed safely and without any serious incidents. During the financial half-year, the team in Brazil achieved facilities uptime of 99%, which together with a strong performance at the wellhead, helped to mitigate the Baúna field natural decline. One lost time injury occurred during November 2021 when a cook slipped in the galley onboard the FPSO. A full incident investigation was undertaken and a Company-wide slips, trips and falls Safety Campaign is planned for the first quarter of calendar year 2022. While there were no instances of COVID-19 onboard the FPSO during the financial half-year, given the significant challenges that have continued from COVID-19, with many staff under lockdown or self-isolation, the operational performance has been a substantial achievement.

HSSE Statistics	31 Dec 2021	31 Dec 2020
Lost time injury rate (incidents/200,000 hours)	**0.47**	0.38
Total recordable incident rate (Incidents/200,000 hours)	**0.47**	0.38

Workover Intervention and Development Activities



Directors' Report
For the Financial Half-Year ended 31 December 2021 *(continued)*

Workover Intervention and Development Activities (continued)

Preparations for the Baúna intervention campaign and Patola development continued to advance during the financial half-year. Electric Submersible Pumps ("ESPs"), which will be installed in two Baúna wells, were tested and shipped to Brazil and the construction of specialised tools required to perform the workovers was completed. The procurement process remained on schedule, with external suppliers selected for more than 95% of the Baúna interventions and Patola contracts, and 80% by value of the anticipated contracts executed.

In December 2021, Maersk Drilling, the owner and operator of the Maersk Developer rig, narrowed the window of when the rig is expected to commence operations on the Baúna intervention program to between 15 April and 15 May 2022. The Maersk Developer rig, which is contracted for the Baúna intervention and Patola development drilling, concluded its work for the previous Operator and is undergoing maintenance and inspection. Mobilisation of the rig to Brazil is expected to commence at the end of February / early March 2022, with the rig expected to arrive in Rio de Janeiro at the end of March / early April 2022. The commencement of drilling activities for the intervention campaign and Patola development is subject to the receipt of normal regulatory approvals, which are in progress.

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

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

The Patola field development comprises the drilling, completion and tie-back of two new oil production wells into the existing FPSO, using the Maersk Developer rig to drill the two new wells. Patola field commissioning works and first oil production, at a forecast initial rate of 10,000 – 12,000 bopd, is expected to occur in early calendar 2023.

The increase to the overall BM-S-40 oil production rates expected to result from these planned activities is approximately 15,000 to 22,000 bopd, which will be partially offset by natural production decline.


Maersk Developer Rig

Directors' Report
For the Financial Half-Year ended 31 December 2021 *(continued)*

Santos Basin Exploration Blocks S-M-1037 and S-M-1101
(KAR 100%)

During the financial half-year, Neon discovery pre-development geotechnical and engineering studies continued. These studies were focused on integrating revised subsurface exploitation plans with several alternative surface development concepts and facilities designs. This work has considered the feasibility of multiple potential Neon commercialisation options, including the Neon standalone, Neon Hub and Baúna tie-back concepts, subject to further de-risking of the resource.

The drilling requirements associated with the revised exploitation plans were assessed during the financial half-year, with progress made on preliminary well designs and costings. Geotechnical studies relating to potential Neon Hub resources at Goiá and Neon West also advanced and will continue into the first quarter of calendar year 2022.

Karoon has options to extend its contract with the Maersk Developer rig to undertake control well drilling at Neon after the completion of the two Patola development wells. A decision will be made in early calendar 2022 on whether to exercise these options.

Santos Basin Exploration Block S-M-1537

(KAR 100%)

Low cost in-house geological and geophysical studies and mapping work were ongoing 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%)

During the financial half-year, the joint venture continued geological and geophysical studies on the WA-482-P reprocessed 3D seismic data. The joint venture has now completed the Primary Term work commitments of geoscience evaluation of the 3D seismic reprocessed data. Since the end of the financial half-year, Karoon Gas (FPSO) Pty Ltd has given notice to Santos WA Northwest Pty Ltd of its decision to withdraw from the title and joint venture.

Equity Interests

Equity interests of the participants in WA-482-P are:

Karoon Gas (FPSO) Pty Ltd	50%
Santos WA Northwest Pty Ltd (Operator)	50%

Ceduna Sub-basin, Great Australian Bight, Exploration Permit EPP46

During the financial half-year, the National Offshore Petroleum Titles Administration (NOPTA) gave notice that the Commonwealth-South Australia Offshore Petroleum Joint Authority had decided to cancel the whole of EPP46, effective on and from 23 September 2021.

Peru

Tumbes Basin Exploration Block Z-38

The Block Z-38 licence contract was terminated effective 27 July 2021. During the financial half-year, Karoon's wholly owned branch, KEI (Peru Z-38) Pty Ltd, Sucursal del Peru, entered into a deed of settlement and release with Pitkin Petroleum Peru Z-38 SRL (Pitkin) in respect of Block Z-38, offshore Peru. Under the deed of settlement and release, without any admission of liability, Karoon paid US$9.6 million to Pitkin during the financial half-year as full and final settlement of all claims of Pitkin and its associates in connection with Block Z-38.

Directors' Report

For the Financial Half-Year ended 31 December 2021 *(continued)*

Corporate and Commercial Activities

Strategic refresh

Having successfully transformed to an oil producer, a Strategic Refresh was completed during the financial half-year aimed at reviewing Karoon's corporate strategy and key objectives for the next five years and beyond. This work was presented to the market at an Investor Briefing during October 2021. The full presentation can be found on Karoon's website: 2021-Karoon-Strategy-Refresh-Presentation-1.pdf (karoonenergy.com.au).

Sustainability

Karoon began implementing its Carbon Management Action Plan, which was announced in the Strategic Refresh in October 2021. Two projects were undertaken in connection with the Company's commitment to reduce and mitigate emissions:

- A mooring buoy was installed for support vessels servicing the Baúna operations, enabling vessels to anchor safely when not in use, without the need to burn fuel. The new mooring buoy is expected to reduce Karoon's emissions by approximately 2,000 tonnes of CO_2e per year.
- A low-pressure flare blower was replaced, to improve flare efficiency.

In addition, Karoon purchased verified emission reduction credits ("VERs") to offset 40% of FY2021 Baúna emissions (which equates to approximately 19,800 tonnes of CO_2e). The credits, which are from the Enviro Amazonia REDD+ Project in Brazil, are VCS and CCB standard certified and deliver both environmental and social benefits.

After the end of the financial half-year, Karoon Petróleo & Gás Ltda, a wholly-owned subsidiary of Karoon Energy Ltd, entered into an agreement with Shell Western Supply and Trading Limited to purchase more than 480,000 VERs between 2022 and 2030, to offset an estimated 60% of total Baúna-Patola scope 1 and 2 GHG emissions. This agreement includes the purchase of VERs to offset 60% of Karoon's FY2021 Baúna emissions, which complements the purchase of VERs to offset 40% of Karoon's FY2021 Baúna emissions referred to above.

This represents a significant step toward Karoon achieving its targets of being carbon neutral[1] on Baúna-Patola Scope 1 and 2 emissions from FY2021 and net zero[2] on all Scope 1 and 2 emissions by 2035.

New Syndicated Loan Facility

During the financial half-year, Karoon reached financial close on a $160 million loan facility with a high-quality lending group. This transaction marked Karoon's first time as a corporate borrower and broadens the Group's access to capital sources. In line with the facility agreement, $30 million was drawn from the facility during the financial half-year, which was used to meet initial fees for the facility and supplement the Company's cash position ahead of an expected ramp-up in investment in the Baúna intervention campaign and Patola development.

Hedges were established during the financial half-year as a requirement of the loan facility, comprising a combination of bought puts and sold calls to mitigate oil price downside risk while retaining substantial exposure to the upside.

New Key Management Personnel Appointments

During the financial half-year, two new senior executives were appointed.

Ray Church, who replaced Scott Hosking, commenced as the Group's new EVP - CFO and Antonio Guimarães, was appointed as a new EVP and President of the Brazilian Business Unit.

Ray Church has more than 34 years of international experience in finance roles, including with TNK-BP and Chevron. Antonio Guimarães joined the company after a 34 year career with Shell including, on secondment from Shell, 7 years with the IBP (the Brazilian Petroleum Institute).

These appointments bolster Karoon's existing strong management and ensure the Group has the appropriate skills and capabilities, corporate and operational processes and necessary accountabilities to continue to deliver the Group's production and growth opportunities safely and reliably.

[1] Carbon neutral refers to having a balance between emitting and offsetting greenhouse gas (GHG) emissions. To be achieved through acquiring carbon offsets in respect of Scope 1 and 2 GHG emissions.
[2] Net zero refers to reducing GHG emissions as far as possible and balancing the residual GHG emissions produced and GHG emissions removed from the atmosphere. To be achieved through future transition planning in respect of Scope 1 and 2 emissions.

Directors' Report

For the Financial Half-Year ended 31 December 2021 *(continued)*

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.

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 12.

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

23 February 2022
Melbourne

pwc

Auditor's Independence Declaration

As lead auditor for the review of Karoon Energy Ltd for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

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

Anthony Hodge
Partner
PricewaterhouseCoopers

Melbourne
23 February 2022

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the Financial Half-Year Ended 31 December 2021

	Note	Consolidated 31 Dec 2021 US$'000	Restated* 31 Dec 2020 US$'000
Revenue	3(a)	**186,474**	23,804
Cost of sales	4(a)	**(104,352)**	(17,050)
Gross profit		**82,122**	6,754
Other income	3(b)	**82**	205
Business development and transition costs	4(b)	**(934)**	(15,086)
Exploration expenses	4(c)	**(1,689)**	(2,540)
Finance costs	4(d)	**(10,979)**	(3,573)
Other expenses	4(e)	**(12,152)**	(7,800)
Net foreign currency gains/(losses)		**3,377**	(17,041)
Change in fair value of contingent consideration	10	**(183,790)**	-
Loss before income tax		**(123,963)**	(39,081)
Income tax benefit	5	**26,258**	37,607
Loss for financial half-year attributable to equity holders of the Company		**(97,705)**	(1,474)
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		**(1,937)**	14,522
Net change in cost of hedging	10	**(3,511)**	-
Other comprehensive income (loss) for financial half-year, net of income tax		**(5,448)**	14,522
Total comprehensive income (loss) for financial half-year attributable to equity holders of the Company, net of income tax		**(103,153)**	13,048
Loss per share attributable to equity holders of the Company:			
Basic loss per ordinary share		**(0.1762)**	(0.0027)
Diluted loss per ordinary share		**(0.1762)**	(0.0027)

* The comparative statement for the half-year ended 31 Dec 2020 has been restated to show the effect of the voluntary change in presentation currency.

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

Condensed Consolidated Statement of Financial Position

As at 31 December 2021

		Consolidated	
		31 Dec 2021	30 June 2021
	Note	US$'000	US$'000
Current assets			
Cash and cash equivalents		**204,070**	133,209
Receivables		**36,998**	34,162
Inventories		**6,382**	10,952
Security deposits		**10**	209
Other financial assets	10	**1,207**	-
Other assets		**8,600**	5,317
Total current assets		**257,267**	183,849
Non-current assets			
Deferred tax assets	5	**85,257**	36,528
Inventories		**5,828**	6,536
Property, plant and equipment	7	**9,943**	8,260
Intangible assets		**62**	102
Exploration and evaluation expenditure carried forward		**40,944**	40,853
Oil and gas assets	8	**698,992**	736,422
Security deposits		**1,383**	1,406
Other financial assets	10	**3,156**	-
Total non-current assets		**845,565**	830,107
Total assets		**1,102,832**	1,013,956
Current liabilities			
Trade and other payables		**69,160**	76,174
Current tax liabilities		**17,831**	8,253
Lease liabilities		**41,782**	45,393
Provisions		**383**	457
Total current liabilities		**129,156**	130,277
Non-current liabilities			
Trade and other payables		**5,556**	4,261
Borrowings	9	**27,906**	-
Other financial liabilities	10	**254,951**	71,161
Deferred tax liabilities	5	**80**	1,775
Lease liabilities		**247,082**	267,447
Provisions		**157,715**	158,785
Total non-current liabilities		**693,290**	503,429
Total liabilities		**822,446**	633,706
Net assets		**280,386**	380,250
Equity			
Contributed equity	11	**906,002**	905,138
Accumulated losses		**(512,070)**	(414,365)
Reserves		**(113,546)**	(110,523)
Total equity		**280,386**	380,250

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

Condensed Consolidated Statement of Changes in Equity
For the Financial Half-Year Ended 31 December 2021

Consolidated	Contributed Equity US$'000	Accumulated Losses US$'000	Share-based Payments Reserve US$'000	Foreign Currency Translation Reserve US$'000	Cost of Hedging Reserve US$'000	Total Equity US$'000
Restated Balance as at 1 July 2020	905,281	(418,749)	47,156	(174,206)	-	359,482
Restated loss for financial half-year	-	(1,474)	-	-	-	(1,474)
Restated exchange differences arising from the translation of financial statements into presentation currency	-	-	-	14,522	-	14,522
Restated total comprehensive income/ (loss) for financial half-year	-	(1,474)		14,522	-	13,048
Transactions with owners in their capacity as owners:						
Restated deferred tax adjustment on transaction costs arising on ordinary shares issued in prior period	(138)	-	-	-	-	(138)
Restated share-based payments expense	-	-	1,193	-	-	1,193
	(138)	-	1,193	-	-	1,055
Restated balance as at 31 December 2020	905,143	(420,223)	48,349	(159,684)	-	373,585
Balance as at 1 July 2021	905,138	(414,365)	50,190	(160,713)	-	380,250
Loss for financial half-year	-	(97,705)	-	-	-	(97,705)
Other comprehensive income (loss)	-	-	-	(1,937)	(3,511)	(5,448)
Total comprehensive loss for financial half-year	-	(97,705)	-	(1,937)	(3,511)	(103,153)
Transactions with owners in their capacity as owners:						
Exercise of options	864	-	-	-	-	864
Share-based payments expense	-	-	2,425	-	-	2,425
	864	-	2,425	-	-	3,289
Balance as at 31 December 2021	906,002	(512,070)	52,615	(162,650)	(3,511)	280,386

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

Condensed Consolidated Statement of Cash Flows

For the Financial Half-Year Ended 31 December 2021

	Consolidated	
		Restated
	31 Dec 2021	31 Dec 2020
	US$'000	US$'000
Cash flows from operating activities		
Receipts from customers	184,460	347
Payments to suppliers and employees	(57,814)	(8,242)
Payments for Peruvian VAT	-	(2,503)
Payments for exploration and evaluation expenditure expensed	(2,101)	(11,392)
Payments for Baúna transition expenditure	-	(13,455)
Payments for legal settlement	(9,600)	-
Payments for derivative financial assets	(9,770)	-
Interest received	6	165
Borrowing and other costs of finance paid	(9,591)	(4,143)
Income taxes (paid) refunded	(11,727)	(3,132)
Net cash flows provided by/(used in) operating activities	83,863	(42,355)
Cash flows from investing activities		
Purchase of plant and equipment and computer software	(2,181)	(1,856)
Payments for oil and gas assets	(11,927)	(150,000)
Borrowings costs paid for qualifying assets	(4,163)	-
Payments for exploration and evaluation expenditure capitalised	-	(268)
Release/refund (payment) of security deposits	(46)	3,544
Proceeds from disposal of non-current assets	47	9
Net cash flows used in investing activities	(18,270)	(148,571)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	864	-
Proceeds from borrowings	30,000	-
Debt facility establishment costs	(2,192)	-
Principal elements of lease payments	(23,340)	(2,033)
Net cash flows provided by/(used in) financing activities	5,332	(2,033)
Net increase (decrease) in cash and cash equivalents	70,925	(192,959)
Cash and cash equivalents at beginning of financial half-year	133,209	296,420
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(64)	(1,090)
Cash and cash equivalents at end of financial half-year	204,070	102,371

* The comparative statement for the half year ended 31 Dec 2020 has been restated to show the effect of the voluntary change in presentation currency.

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

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021

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

(a) Basis of Preparation

This Interim 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 2021. The Company is a for-profit Company 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 2021 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 2021, except as disclosed in note 1(d) which relates to hedge accounting adopted during the period ended 31 December 2021.

(b) Rounding

The amounts in the financial statements are rounded to the nearest thousand dollars (US$’000) unless otherwise indicated, under the option available to the Company under *ASIC Corporation (Rounding in Financial/Directors’ Report) Instrument 2016/19.* The Company is an entity to which this legislative instrument applies.

(c) Currency of Presentation

The Directors elected to change the Group’s presentation currency in accordance with AASB 108 *‘Accounting Policies’* from Australian dollars to United States dollars (‘US$’), effective from 1 July 2020. The Directors believe that the change provides investors and other stakeholders with a clearer and more reliable understanding of the Group’s global business performance as a whole and is more comparable to the Company’s peers, most of which are presented in US$. The change is accounted for retrospectively and as such comparative information for the half-year ended 31 December 2020 has been restated in US$.

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

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

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

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

Notes to the Condensed Consolidated Financial Statements
For the Financial Half-Year Ended 31 December 2021

Note 1. Basis of Preparation of the Condensed Consolidated Financial Statements *(continued)*

(d) New accounting policies adopted for the financial half-year ended 31 December 2021

Derivatives designated as hedging instruments

The Group has entered into derivative financial instruments to hedge its exposure to cash flow risk from movements in oil price (commodity price risk) arising from highly probable forecasted future oil sales.

At the inception of a hedge relationship, the Group documents the risk management objective and strategy for undertaking the hedge transaction. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Derivative financial instruments are presented as current assets or liabilities to the extent they are expected to be realised or settled within twelve months after the end of the reporting period. Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described below:

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income ('OCI') and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. The Group designates only the change in fair value of the spot element of the derivative transaction contracts (the intrinsic value of the option) as the hedging instrument in cash flow hedging relationships. The change in fair value of the value of the option contract in time is separately accounted for as a cost of hedging and recognized in a costs of hedging reserve within equity.

For all financial hedged derivative transaction contracts, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss. If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flows is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss. Further details are disclosed in Note 10.

(e) New or Revised Australian Accounting Standards and Interpretations that are First Effective in the Current Reporting Period

There are no new and/or revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that have had a significant or immediate impact to the Group's operations for the financial half-year ended 31 December 2021.

The Group has not elected to apply any new or revised Australian Accounting Standards before their operative dates during the financial half-year.

Note 2. Significant Accounting Estimates, Assumptions and Judgements

The significant accounting judgements, estimates and assumptions adopted in this interim financial report are consistent with those disclosed in the Company's Annual Report for the financial year ended 30 June 2021, except for those that have arisen as a result of new standards, amendments to standards and interpretations effective from 1 July 2021 and new policies adopted during the financial half-year as detailed in note 1(d). The significant estimates, assumptions and/or judgements made by the Board of Directors and management in the preparation of this Interim Report in relation to the new policy are:

(a) Fair value of derivative financial instruments designated as cash flow hedges

The fair value of derivative financial instruments designated as cash flow hedges are obtained from third party valuations. The fair value is determined using valuation techniques which maximise the use of observable market data.

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 3. Revenue and Other Income

	Consolidated Financial Half-Year Ended	
		Restated
	31 Dec 2021	**31 Dec 2020**
	US$'000	**US$'000**
(a) Revenue		
Crude oil sales	**186,474**	23,804
Total revenue from contracts with customers	**186,474**	23,804
(b) Other Income		
Interest income	**49**	193
Net gain on disposal of non-current assets	**33**	12
Total other income	**82**	205

Note 4. Expenses

(a) Cost of sales		
Operating costs	**(26,811)**	(8,441)
Royalties	**(19,100)**	(3,900)
Depreciation and amortisation - oil and gas assets	**(53,164)**	(16,871)
Change in inventories	**(5,277)**	12,162
Total cost of sales	**(104,352)**	(17,050)
(b) Business development and transition costs		
Baúna transition costs (refer (i) below)	**-**	(14,578)
Business development and other project costs	**(934)**	(508)
Total business development and transition costs	**(934)**	(15,086)

(i) Prior year represents costs incurred on transition, development initiatives and other project activities associated with Baúna prior to the acquisition.

(c) Exploration Expense		
Exploration and evaluation expenditure expensed	**(1,666)**	(2,481)
Exploration and evaluation expenditure impaired	**(23)**	(59)
Total exploration and evaluation expenditure expensed or impaired	**(1,689)**	(2,540)
(d) Finance costs		
Finance charges on lease liabilities	**(8,709)**	(3,221)
Discount unwinding on net present value of provision for restoration	**(1,170)**	(220)
Interest expense	**(801)**	(132)
Other finance costs	**(299)**	-
Total finance costs	**(10,979)**	(3,573)
(e) Other Expenses		
Corporate	**(7,835)**	(5,550)
Depreciation and amortisation – non-oil and gas assets	**(289)**	(362)
Share-based payments expense	**(3,756)**	(1,585)
Loss on disposal of non-current assets	**(28)**	(5)
Other expenses	**(244)**	(298)
Total other expenses	**(12,152)**	(7,800)

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 5. Income Tax

	Consolidated Financial Half-Year Ended	
		Restated
	31 Dec 2021 US$'000	31 Dec 2020 US$'000
(a) Income Tax Benefit Recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income		
Income tax benefit (expense) comprises		
Current income tax	**(21,102)**	(5,089)
Current income tax under/(over)	**-**	(71)
Deferred income tax	**47,360**	42,767
Total income tax benefit	**26,258**	37,607
The prima facie tax on loss before income tax is reconciled to tax income as follows:		
Prima facie tax benefit on loss before income tax, calculated at the Australian tax rate of 30%	**37,189**	11,724
(Add)/subtract the tax effect of:		
Share-based payments expense (non-cash)	**(727)**	(358)
Other non-deductible items	**(1,332)**	(1,162)
Tax losses and temporary tax differences not recognised	**(141)**	(548)
Adjustment for current tax of previous financial years	**-**	(71)
Difference in overseas tax rates	**4,564**	475
Recognition of temporary differences and tax losses not previously brought to account	**-**	20,701
Foreign exchange differences	**(13,295)**	6,846
Total income tax benefit	**26,258**	37,607

Notes to the Condensed Consolidated Financial Statements
For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 5. Income Tax *(continued)*

(b) Deferred Tax Balances

	Balance as at 1 July 2021 US$'000	Charged (Credited) to Profit or Loss US$'000	Charged directly to Equity US$'000	Net foreign currency difference on translation of financial statements to presentation currency US$'000	Balance as at 31 December 2021 US$'000
Temporary differences					
Provisions and accruals	8,317	6,951	-	(26)	**15,242**
Equity raising transaction costs	249	(41)	-	(8)	**200**
Unrealised foreign currency losses/(gains)	7,257	(9,764)	-	99	**(2,408)**
Translation adjustment	(1,387)	1,478	-	-	**91**
Fair value movement of financial liabilities	2,255	62,489	-	-	**64,744**
Farm-out expenditures	97	-	-	(3)	**94**
Right-of-use assets	(105,172)	8,516	-	6	**(96,650)**
Lease Liabilities	106,710	(7,954)	-	(9)	**98,747**
Hedge premium	-	(3,292)	-	-	**(3,292)**
Net changes of cash flow hedges	-	-	1,809	-	**1,809**
Other	3	1	-	-	**4**
Total temporary differences	18,329	58,384	1,809	59	**78,581**
Unused tax losses					
Tax losses	16,424	(9,818)	-	(10)	**6,596**
Total unused tax losses	16,424	(9,818)	-	(10)	**6,596**
Net deferred tax assets/(liabilities)	34,753	48,566	1,809	49	**85,177**
Presented in the statement of financial position as follows:					
Deferred tax assets	36,528				**85,257**
Deferred tax liabilities	(1,775)				**(80)**

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021 *(continued)*

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 Managing Director and Chief Executive Officer (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 during the financial half-year in the exploration and evaluation of hydrocarbons in an offshore exploration permit area: WA-482-P; 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.

The Peru segment effectively ceased operations from 1 July 2021, when the Group decided to relinquish its explorations interests in Peru. Costs associated with the closure of the Group's Peruvian branches are included in 'All other segments'.

'All other segments' include amounts not specifically attributable to an operating segment, including costs associated with closure of the Group's Peruvian Branches as noted above.

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.

Employee benefits expense and other expenses, which are directly attributable to the production of goods are allocated to operating costs as part of cost of sales.

The amounts provided to the chief operating decision maker with respect to total assets and total liabilities are measured in a manner consistent with that of the condensed 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.

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 6. Segment Information *(continued)*

(a) Operating Segments

Segment performance	Australia US$'000	Brazil US$'000	Peru US$'000	All Other Segments US$'000	Consolidated US$'000
Result for financial half-year 31 December 2021					
Revenue	-	186,474	-	-	186,474
Other income	8	48	-	26	82
Total segment revenue	8	186,522	-	26	186,556
Expenses					
Business development and transition costs	(225)	(708)	-	(1)	(934)
Cost of sales	-	(104,352)	-	-	(104,352)
Depreciation and amortisation expense – non-oil and gas assets	(151)	(127)	-	(11)	(289)
Exploration expenses	(232)	(1,376)	-	(81)	(1,689)
Finance costs	(27)	(10,951)	-	(1)	(10,979)
Corporate expenses	(5,777)	(1,579)		(479)	(7,835)
Other	-	(167)	-	(105)	(272)
Net foreign currency gains/(losses)	2,088	1,734	-	(445)	3,377
Change in fair value of contingent consideration	-	(183,790)	-	-	(183,790)
Share-based payments expense	(3,239)	(517)	-	-	(3,756)
(Loss) before income tax	(7,555)	(115,311)	-	(1,097)	(123,963)
Income tax benefit	1,647	24,611	-	-	26,258
Profit/(loss) for financial half-year	(5,908)	(90,700)	-	(1,097)	(97,705)
Result for financial half-year 31 December 2020 (restated)					
Revenue	-	23,804	-	-	23,804
Other income	83	121	1	-	205
Total segment revenue	83	23,925	1	-	24,009
Expenses					
Business development and transition costs	(22)	(15,007)	(57)	-	(15,086)
Cost of sales	-	(17,050)	-	-	(17,050)
Depreciation and amortisation expense – non-oil and gas assets	(144)	(144)	(74)	-	(362)
Exploration expenses	(388)	(1,437)	(715)	-	(2,540)
Finance costs	(64)	(3,504)	(5)	-	(3,573)
Corporate expenses	(3,363)	(1,520)	(667)		(5,550)
Other	-	(75)	(228)	-	(303)
Net foreign currency losses	(18,075)	1,281	(247)	-	(17,041)
Share-based payments expense	(1,036)	(549)	-	-	(1,585)
(Loss)/before income tax	(23,009)	(14,080)	(1,992)	-	(39,081)
Income tax benefit	6,584	31,023	-	-	37,607
Profit/(loss) for financial half-year	(16,425)	16,943	(1,992)	-	(1,474)
Total segment assets					
As at 31 December 2021	53,774	1,047,970	-	1,088	1,102,832
As at 30 June 2021	64,560	947,806	1,590	-	1,013,956
Total segment liabilities					
As at 31 December 2021	4,509	817,576	-	361	822,446
As at 30 June 2021	6,267	617,632	9,807	-	633,706

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 7. Property, Plant and Equipment

	Plant & Equipment US$'000	Right of Use Assets US$'000	Consolidated Total US$'000
At 30 June 2021			
At cost	8,722	1,681	10,403
Accumulated depreciation	(1,549)	(594)	(2,143)
Carrying amount at end of financial year	7,173	1,087	8,260
Financial half-year ended 31 December 2021			
Balance at beginning of financial period	7,173	1,087	8,260
Additions	2,025	-	2,025
Disposals	(42)	-	(42)
Depreciation expense	(119)	(148)	(267)
Net foreign currency differences	(13)	(20)	(33)
Carrying amount at end of financial half-year	9,024	919	9,943
At 31 December 2021			
At cost	10,182	1,652	11,834
Accumulated depreciation	(1,158)	(733)	(1,891)
Carrying amount at end of financial half-year	9,024	919	9,943

Note 8. Oil and Gas Assets

	Production Asset US$'000	Development Asset US$'000	Right of Use Assets – FPSO Vessel US$'000	Consolidated Total US$'000
At 30 June 2021				
At cost	448,492	19,020	333,872	801,384
Accumulated depreciation	(36,827)	-	(28,135)	(64,962)
Carrying amount at end of financial year	411,665	19,020	305,737	736,422
Financial half-year ended 31 December 2021				
Balance at beginning of financial period	411,665	19,020	305,737	736,422
Additions	3,833	10,482	-	14,315
Depreciation expense	(29,531)	-	(23,633)	(53,164)
Borrowing costs capitalised(i)	-	3,586	-	3,586
Impact of increase in discount rate on provision for restoration at period-end	(2,167)	-	-	(2,167)
Carrying amount at end of financial half-year	383,800	33,088	282,104	698,992
At 31 December 2021				
At cost	450,158	33,088	333,872	817,118
Accumulated depreciation	(66,358)	-	(51,768)	(118,126)
Carrying amount at end of financial half-year	383,800	33,088	282,104	698,992

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

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 9. Borrowings

	Consolidated	
	31 Dec 2021 US$'000	30 June 2021 US$'000
Non-Current		
Syndicated loan facility - secured	30,000	-
Less transaction costs(i)	(2,094)	-
Total non-current borrowings	27,906	-

(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 new 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.

The facility is available to fund permitted expenditure in connection with the Patola field development and the Baúna intervention campaign, facility and treasury costs and deferred consideration payable to Petrobras of up to $44.5m.

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 is $160 million. At 31 December 2021, $30 million has been drawn down, with $130m remaining undrawn.

Interest is charged at a 4.25% margin over LIBOR, or the SOFR equivalent, per annum and a commitment fee is charged on undrawn but committed and available amounts at 1.7% per annum and an additional 0.85% per annum on any committed but unavailable amounts. 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. Semi-annual repayments of $40m commence on 30 September 2023 to the final maturity date.

Karoon is also required to enter into oil hedging to ensure forecasted oil production is within a minimum and maximum hedge ratio. The ranges for the first years are as follows:

- 10 months ending 30 September 2022 a minimum of 40% up to a maximum of 70% of forecast oil production;
- Year 2 ending 30 September 2023 a minimum of 30% up to a maximum of 60% of forecast oil production; and
- Year 3 ending 30 September 2024 a minimum of 0% up to a maximum of 50% of forecast oil production.

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

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 10. Other Financial Assets and Liabilities

	Consolidated	
	31 Dec 2021 US$'000	30 June 2021 US$'000
Assets		
Current		
Derivative financial instruments - cash flow hedges[i]	1,207	-
Non-Current		
Derivative financial instruments - cash flow hedges[i]	3,156	-
Total assets	4,363	-
Liabilities		
Non-Current		
Embedded derivative – contingent consideration payable[ii]	254,951	71,161
Total liabilities	254,951	71,161
(i) Reconciliation of derivative financial instruments cash flow hedges		
Balance at the beginning of the financial period	-	-
Additions (refer note (a) below)	9,770	-
Expensed to profit and loss	(88)	
Unrealised cost of hedging recognised in hedge reserve	(5,319)	-
Total derivative financial instruments designed as cash flow hedges	4,363	-

(a) During the 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 September 2023. 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 entered into during the period (refer 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 $5,407k pre-tax ($3,569k net of tax) have been recognised in the cost of hedging reserve within equity, of which $88k pre-tax ($58k net of tax) has been reclassified to profit and loss. As at 31 December 2021, no losses were recognised in profit and loss for hedge ineffectiveness. The fair value of derivative financial assets was determined based on valuation techniques which employ the use of market observable inputs representing a Level 2: fair value measurement.

At 31 December 2021, 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)
2022	65	852	87.5	426
2023	65	2,316	83.4	2,316
2024	65	630	82.5	630
		3,798		3,372

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 10. Other Financial Assets and Liabilities *(continued)*

	Consolidated	
	31 Dec 2021 US$'000	30 June 2021 US$'000
(ii) Reconciliation of contingent consideration payable		
Balance at the beginning of the financial period	**71,161**	-
Additions (refer note (a) below)	**-**	64,529
Unrealised fair value changes recognised in profit or loss during the period	**183,790**	6,632
Total contingent consideration payable at fair value	**254,951**	71,161

(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.

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 31 December 2021, based on higher current oil prices and industry consensus, the Brent oil forecast was revised and the fair value of the contingent consideration payable to Petrobras revalued upwards by $183,790k to $255 million (30 June 2021: $71 million). A discount rate of 0.89% and 2% interest per annum has been applied in the calculation of the present value at 31 December 2021. The fair value of the contingent consideration is estimated calculating the present value of the future expected cash outflows. The estimates are based on the Group's internal assessment of future oil prices, which considers industry consensus and observable oil price forecasts.

Notes to the Condensed Consolidated Financial Statements
For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 11. Contributed Equity

	Consolidated	
	31 Dec 2021	30 June 2021
	US$'000	US$'000
(a) Contributed Equity		
Ordinary shares, fully paid	**906,002**	905,138
Total contributed equity	**906,002**	905,138

(b) Movement in Ordinary Shares

Date	Details	Number of ordinary shares	US$'000
1 July 2020	Opening balance in previous financial year	552,984,693	905,281
	Deferred tax credit recognised directly in equity	-	(143)
	Performance rights conversion	785,836	-
30 June 2021	Balance at end of previous financial year	553,770,529	905,138
	Exercise of options	866,186	864
	Performance rights conversion	1,550,423	-
31 December 2021	Balance at end of financial half-year	556,187,138	906,002

Note 12. Dividends

There were no ordinary dividends declared or paid during the financial half-year by the Company (31 December 2020: $Nil).

Notes to the Condensed Consolidated Financial Statements
For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 13. Commitments

	Consolidated	
	31 Dec 2021 US$'000	30 June 2021 US$'000
(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 2021 include the provision of services related to the charter of the FPSO acquired as part of the Baúna acquisition.		
Capital commitments for Baúna workovers and Patola Development		
Not later than one year	99,046	79,269
Later than one year but not later than five years	-	26,691
Total capital commitments	99,046	105,960
Service commitments		
Not later than one year	10,674	11,990
Later than one year but not later than five years	32,947	42,504
Total service commitments	43,621	54,494
Total capital and service expenditure commitments	142,667	160,454
(b) Exploration Expenditure Commitments		
The Group has guaranteed commitments for exploration expenditure arising from obligations to governments to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration tenements WA-482-P and Block S-M-1537 (30 June 2021: WA-482-P and Block S-M-1537) not provided for in the consolidated financial statements and payable.		
Not later than one year	-	102
Later than one year but not later than five years	3,500	3,500
Later than five years	-	-
Total guaranteed exploration expenditure commitments	3,500	3,602
In addition to the guaranteed work commitments shown above, the Group has non-guaranteed work commitments in relation to these tenements due later than one year but not later than five years of $14,693k (30 June 2021: $15,224k). These commitments will become firm commitments if the Group elects to retain the tenements by proceeding into the unguaranteed work periods.		
Exploration expenditure commitments, including farm-in, obligations in respect of joint operations are set-out below:		
Not later than one year	-	102
Total joint operation guaranteed exploration expenditure commitments	-	102

Note, the figures above do not include any commitments in relation to Exploration Blocks S-M-1037 and S-M-1101 relating to the Neon and Goiá light oil discoveries. In accordance with Brazilian regulatory requirements, during January 2019 Karoon submitted 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, akin to receiving a Retention Licence over the oil discoveries. However, it does not mean that Karoon has reached, nor is compelled to reach, a final investment decision ('FID') to proceed into a Development of the discoveries. Prior to an FID being reached, Karoon anticipates drilling a 'control well(s)' to assist with delineating the Neon discovery, confirming reservoir quality and assisting with the planning and design of both development wells and infrastructure. Karoon is evaluating options to drill a control well(s) on the Neon discovery immediately after the planned Baúna intervention campaign and Patola development which is dependent on ongoing evaluation work. As at 31 December 2021, Karoon had not entered into a firm commitment to drill a control well.

Estimates for future exploration expenditure commitments to government are based on estimated well and seismic costs, which will change as actual drilling locations and seismic surveys are completed and are calculated in current dollars on an undiscounted basis. The exploration and evaluation obligations may vary significantly as a result of renegotiations with relevant parties. The commitments may also be reduced by the Group entering into farm-out agreements, which are typical of the normal operating activities of the Group and by relinquishing exploration permits or blocks.

Where exploration and evaluation expenditure included in this category relates to an existing contract for expenditure, the amount will be included in both categories (a) and (b) above.

Notes to the Condensed Consolidated Financial Statements

For the Financial Half-Year Ended 31 December 2021 *(continued)*

Note 14. Contingent Liabilities

There has no material change to the contingent liabilities since 30 June 2021.

Note 15. Subsequent Events

The Interim Financial Report was authorised for issue by the Board of Directors on 23 February 2022. The Board of Directors has the power to amend and reissue the condensed consolidated financial statements and notes.

Since 31 December 2021, there have been no material events that have occurred.

Directors' Declaration
For the Financial Half-Year Ended 31 December 2021

The Directors declare that:

(a) in the Directors' opinion, the condensed consolidated financial statements and notes, set out on pages 13 to 30, 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 2021 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
Managing Director and Chief Executive Officer

23 February 2022
Melbourne

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 2021, 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 2021 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.

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999

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 2021 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

Anthony Hodge
Partner

Melbourne
23 February 2022

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 2021.
FPSO	Floating production, storage and off-loading facility.
G&G	Geological and geophysical.
GHG	Greenhouse Gas

Glossary *(continued)*

Term	Definition
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.
kbbls	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.
SPA	Sale and Purchase Agreement.
TRIR	Total Recordable Incident Rate.
US$	United States dollars.