

15 May 2024

Company Announcements Office  
ASX Limited

Dear Sir / Madam

**Chairman's Letter to Shareholders**

Karooon Energy Ltd (Karooon) (ASX:KAR) attaches a letter from Karoon Chairman, Peter Botten, to be sent to shareholders which provides a general update and information on its upcoming Annual General Meeting to be held on Thursday, 23 May 2024.

The release of this announcement was authorised by the Board.

Yours faithfully

Daniel Murnane  
**Company Secretary**

15 May 2024

## SHAREHOLDER LETTER

Dear Fellow Shareholders

As you may be aware, two Karoon shareholders, Samuel Terry Asset Management (STAM) and Sandon, have formed an association and have indicated that they intend to vote against Items no. 3, 6, 7, 8 and 9 on the Notice of Meeting agenda, while supporting Item 4 (re-election of Mr Carlos Tadeu da Costa) and are undecided on how they will vote on Items 1 and 2 (elections of Ms Melissa Holzberger and Ms Joanne Palmer). I have spoken with both shareholders on several occasions to discuss their concerns and express the Company's position on the issues raised.

I would like to confirm that the Board remains unanimously in favour of *all* resolutions and will not be changing this stance prior to the AGM. Our recent meetings with shareholders have indicated strong support for the Board's proposals.

Karoon welcomes different ideas and respects the right of any shareholder to adopt a contrary view to the Board and to seek to advance that view with other shareholders. However, given the upcoming AGM, I believe it is important that I, on behalf of the Board, provide our perspectives and address STAM and Sandon's issues which are driving their decisions on how to vote on the Board resolutions.

- **Capital Management.** As stated consistently since the results of our strategic refresh were announced in October 2021 and again at our 2023 AGM, it has always been our intention to consider capital returns to shareholders, including possible dividends and share buy backs, once we had achieved a stable and diversified production base. This has been delivered through a combination of the successful completion of the intervention and Patola campaigns at Baúna and by the recent Who Dat acquisition in the US Gulf of Mexico.

The Board recognises the importance shareholders place on the payment of dividends and capital returns in adding value to shareholders. It also recognises the discipline that paying a reasonable, sustainable dividend brings to managing an appropriate capital management and investment strategy. The Board is well advanced in developing a shareholder returns approach in line with its stated strategy and the Company's capital allocation framework. This framework is aimed at supporting safe and reliable operations, maintaining liquidity and balance sheet strength, while supporting both value accretive organic and inorganic growth, as well as capital returns to shareholders.

Work is being finalised on the key factors and constraints that impact the development of a robust and sustainable dividend policy. This includes Australian profit availability, balance sheet, credit strength, tax planning, availability of franking credits, scenario planning, contingent payment consideration and production reliability sensitivities, together with share buyback considerations. The Board intends to announce its framework for shareholder returns in July 2024. The application of this approach will occur in the context of the 2024 half year results to be announced in August 2024, including what combination of capital management options, including dividends and any other initiatives that are appropriate.

- **Long term growth focus, while maintaining discipline.** The Board believes that its current strategy is strongly aligned with the interests of the majority of Karoon's shareholders, particularly those who have a long-term perspective and an interest in Karoon remaining a competitive and stable participant in the international oil and gas sector. For an oil and gas producer, value accretive investment in the business is essential to offset natural production decline and to build a longer term sustainable production profile. It is the Board's current expectation that this approach should drive superior total shareholder returns in the form of share price appreciation *and* direct capital returns to shareholders.

Karoon benefits from having a strong capability set with respect to offshore oil assets at a time of ongoing asset rationalisation by the energy majors and others. This provides a deep pool of potentially highly value-accretive acquisition opportunities. While the immediate focus is on the integration of Who Dat and the stabilisation of production at both Baúna and Who Dat, it is important that Karoon continues to review these potential opportunities given their long lead times. Karoon has, and will continue to apply, a rigorous screening process and discipline in evaluating all acquisition opportunities, which must compete on economic merit with other forms of capital returns to ensure we deliver the most value for our shareholders as a whole.

- **Remuneration.** The Board firmly believes that the approach to remuneration and incentives in TY23 was entirely appropriate. The acquisition of a second producing asset, to diversify Karoon's operations from its single asset, one country exposure, was crucial to Karoon's long term de-risking objectives and strategy to create long-term value for shareholders. As already stated, all Karoon's growth initiatives are subject to strict investment criteria to drive shareholder value creation. The Karoon team has conducted detailed evaluations of more than 20 acquisition opportunities over the past two years, with only the Who Dat assets satisfying all of the Company's strategic and return objectives. Based on our assessment, Who Dat is expected to add material long term value to shareholders.

Having completed the Who Dat acquisition and the consequent delivery of a second production stream to the Company that materially de-risks the cash flow of the business, the 2024 STI incentives are weighted (in the order of 75%) towards delivery of production and cost targets and operational excellence across all our assets. The focus in 2024 is on demonstrating the value of the Baúna and Who Dat production, development and exploration assets.

It is also worth noting that Karoon's approach to Long Term Incentives is similar to other peer companies and market norms.

- **Board Succession and governance.** In relation to the AGM items that relate primarily to Board composition and governance, these proposals form part of a carefully considered program that takes into account the Board's current and emerging skills matrix requirements, board renewal and turnover dynamics, diversity balance and committee leadership responsibilities. Board composition and renewal has been a key focus area for me since assuming the role of Chair in November 2023, and I am firmly convinced that all four director appointments / re-appointments and the increase in the aggregate fee cap for non-executive Directors are critical elements of that ongoing process. The appointment of two new Directors, bringing deep audit, commercial, legal and governance experience to the Board, will allow a smooth transition of Board Committee responsibilities in the second half of 2024 and during 2025. We will also look to appoint an additional Director over this period, who will bring experience and knowledge of the US oil and gas sector to the Board.
- **Climate and sustainability disclosures.** In Australia's evolving regulatory and legislative environment, it seems likely that sustainability reporting requirements will coalesce around mandated and comparable metrics across industries, rather than company-specific initiatives such as advisory shareholder votes. In view of this, the focus of Karoon's Board is that the Company keeps pace with increasing sustainability reporting compliance and disclosure practices going forward. However, we do not currently consider that the adoption of non-binding shareholder voting is the optimal path to achieve this.

In conclusion, I hope that the above provides you with further insights into your Board's views and recommendations as it relates to these issues leading into the AGM.

We urge you to vote on the TY23 AGM resolutions. Your vote must be received by 10.00am (Melbourne time) on Tuesday, 21 May 2024. You can submit your vote in the following ways:

- Online at [www.investorvote.com.au](http://www.investorvote.com.au) (control number 133729) and follow the prompts. You will need your SRN/HIN.
- Post your proxy form to Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne, Victoria 3001.
- Fax your proxy form to 1800 783 447 (within Australia), or +61 3 9473 2555 (outside Australia).

If you have any queries about the issues raised, please do not hesitate to contact our Investor Relations team, at [investor@karoonenergy.com](mailto:investor@karoonenergy.com).

Yours sincerely,



**Peter Botten AC CBE**  
Chairman