

2024 Half Year Results

28 August 2024 | ASX: KAR

Karoon announces inaugural interim dividend, of AUD 4.496 cps

Six months to	30 June 2024 (1H24)	31 Dec 2023 (TY23)	% Change
Production ¹ (MMboe)	5.08	5.47	-7
Sales volume (MMboe)	5.45	5.07	+8
Weighted average net realised price (US\$/boe)	75.07	81.51	-8
Sales revenue (US\$ million)	409.4	412.9	-1
Underlying EBITDAX ² (US\$ million)	266.8	286.3	-6
Underlying NPAT ² (US\$ million)	115.8	144.7	-20
Statutory net profit/(loss) after tax (US\$ million)	61.8	122.5	-50
Interim dividend (Australian cents per share)	4.496	-	NA
Operating cash flow (US\$ million)	224.3	303.4	-26
Unit production costs ¹ (US\$/boe)	13.51	11.09	+22
Unit depreciation and amortisation (US\$/boe) ³	16.20	11.12	+46
Lost time injury rate (incidents/200,000 hours) ⁴	0.41	0.0	NA
Total recordable incident rate (incidents/200,000 hours) ⁴	0.82	0.0	NA

1. Baúna Project production based on Karoon's working interest, Who Dat on a net revenue interest (NRI) basis.

2. EBITDAX (earnings before interest, tax, depreciation, depletion, amortisation and exploration expense), underlying EBITDAX, underlying net profit before tax and underlying net profit after tax are non-IFRS measures that are unaudited but are derived from figures within the audited financial statements. These measures are presented to provide further insight into Karoon's performance.

3. Excludes depreciation on FPSO right-of-use asset capitalised under AASB 16 'Leases' and non-oil and gas related depreciation.

4. Calculated per calendar year.

HIGHLIGHTS

- 1H24 underlying Net Profit After Tax (NPAT) of US\$115.8 million, down 20% from TY23 primarily due to 34% lower production from the Baúna Project in Brazil, partially offset by the first full half year contribution from Who Dat in the US Gulf of Mexico.
- Statutory NPAT of US\$61.8 million, compared to US\$122.5 million in TY23. 1H24 statutory NPAT includes US\$39.3 million related to non-cash foreign exchange impacts on deferred tax.
- 1H24 unit production costs of US\$13.51/boe, up 22% from TY23 due to lower production from Baúna Project over a largely fixed production cost base.
- Major milestone reached on capital management, with inaugural interim dividend of AUD 4.496 cents per share (fully franked), representing a 21% payout ratio based on an AUD:USD exchange rate of 0.6776. In addition, a US\$25 million share buyback commenced on 12 August, as the Board believes Karoon's current share price does not reflect the significant value created over the past four years.
- Gearing at 30 June 2024 of 6%, total liquidity of US\$528.2 million, comprising US\$282.2 million of cash and cash equivalents and US\$246.0 million of undrawn available debt facilities.
- US\$350 million issuance in the US 144A debt market completed in May. The bond proceeds supplement Karoon's existing Reserve Based Lending debt facility and diversify Karoon's source of debt capital.
- Successful Who Dat East exploration/appraisal well encountered liquids-rich gas-condensate in 45 metres good quality net pay. The well has been suspended as a potential future producer.
- 2024 capex guidance revised to US\$150-177 million, following joint venture approval to drill Who Dat West and deferral of the SPS-88 intervention into 2025. All other guidance remains unchanged (see page 5 for details).

Commenting on the results, Chief Executive Officer and Managing Director, Dr Julian Fowles, said:

“While 20% lower than in TY23, Karoon’s underlying 1H24 NPAT of US\$115.8 million demonstrates the improved resilience of Karoon’s operations now that the Company has two assets and a diversified earnings base. The profits generated from Who Dat partially offset the lower profitability from the Baúna Project, which was impacted by a three week scheduled maintenance shutdown, FPSO reliability issues, the continued outage of SPS-88 and expected natural decline.

The Baúna FPSO operator is undertaking a heightened level of maintenance and inspection activities to improve the reliability and uptime on the FPSO. This will lead to production fluctuations over the balance of 2024 and into 2025, as systems are periodically taken offline. In July, work on the gas compressors impacted production but rates have since rebounded to approximately 25,500 bopd, prior to natural decline resuming. Industrial action at the Brazilian environmental agency, IBAMA, has delayed the approvals necessary for the SPS-88 intervention and the third party equipment supplier targeted to undertake the intervention has now committed its drilling rig to other activities. Consequently, the SPS-88 intervention has been deferred into 1H25, subject to necessary contracting and regulatory approvals being obtained, and the well is now targeted to be back online in mid-2025. As a result, we expect 2024 full year Baúna Project production to be towards the lower end of our 7.5–9 MMbbl guidance range, while US\$20-30 million of associated SPS-88 expenditures has been removed from CY24.

In the US, the Who Dat operator, LLOG, and the joint venture partners have been working to identify, evaluate and implement opportunities to optimise and sustain production. Together with updated management of facility constraints, this has translated into production at Who Dat increasing to rates above 42,000 boepd late in the half year, prior to natural decline resuming. Several additional value-accretive, medium term, in-field opportunities to potentially mitigate natural decline are being evaluated. 2024 Who Dat production guidance, which takes into account a planned program of facilities maintenance and testing in the second half, is unchanged at 3.0–3.5 MMboe on a Net Revenue Interest basis.

The Who Dat East exploration/appraisal well was successfully drilled during 1H24, intersecting liquids-rich gas-condensate as prognosed, in 45 metres of good quality net pay in a series of Miocene turbidite reservoirs. The well has been suspended as a potential future producer. The resource base is being updated and the commerciality of a potential Who Dat East tieback development is being evaluated using the data collected. Meanwhile, the Seadrill West Neptune drillship is scheduled to spud the Who Dat South exploration well in September and the joint venture has recently approved the third exploration well, Who Dat West, which is planned to spud towards the end of the year.

In Brazil, Concept Select activities on Neon are continuing. Reprocessed 3D seismic over Neon and Neon West has recently been received for interpretation and will assist in remodelling of the reservoir and potential development well placements and design, ahead of the year end Reserves and Resources review and a potential Decision Gate 2 decision (FEED entry) in 1H25.

Now that the Company has a diversified production base, in July 2024, we announced a revised capital allocation framework and a capital returns policy. In line with the policy, the Board has determined to pay an inaugural fully franked AUD 4.496 cents per share interim dividend in respect of the 2024 half year, payable on 21 October 2024. This is a significant milestone for the Company and is the final element to be delivered of the key initiatives of the 2021 Strategy Refresh, with all other elements already achieved. The interim dividend represents 21% of first half underlying NPAT (based on an AUD:USD exchange rate of 0.6776) and is in addition to the US\$25 million on-market buyback announced in July 2024, which commenced on 12 August 2024. The buyback is planned to resume once the shares commence trading ex-dividend, based on the Board’s view that the Karoon share price does not reflect the value created over the past four years.

We believe our capital returns strategy achieves the right balance of rewarding shareholders while ensuring sufficient capital is retained to maintain a robust balance sheet and support ongoing reinvestment in the business and value-accretive growth.”

FINANCIAL RESULT

TABLE 1 - Financial Summary

US\$ million	Six months to 30 June 2024	Six months to 31 Dec 2023
Sales Revenue	409.4	412.9
Underlying EBITDAX ^{1,2,4}	266.8	286.3
EBITDAX ^{3,4}	246.9	253.2
Net interest and other finance costs	(20.2)	(6.6)
Depreciation and amortisation ³	(83.0)	(61.2)
Underlying net profit before income tax ^{1,4}	162.3	215.2
Underlying net profit after income tax ^{1,4}	115.8	144.7
Net profit/(loss) after income tax	61.8	122.5
Operating cashflow	224.3	303.4
Net assets	977.4	914.0
Investment Expenditure:		
– Oil and gas assets	16.2	3.4
– Exploration and evaluation capital expenditure capitalised	61.6	6.6
– Other plant and equipment ⁵	0.5	0.7

NOTES:

- EBITDAX (earnings before interest, tax, depreciation, depletion, amortisation and exploration expense), underlying EBITDAX, underlying net profit before tax and underlying net profit after tax are non-IFRS measures that are unaudited but are derived from figures within the audited financial statements. These measures are presented to provide further insight into Karoon's performance.
- Includes depreciation on FPSO charter lease right-of-use asset and finance charges on the FPSO right-of-use lease.
- Excludes depreciation on FPSO charter lease right-of-use asset.
- Underlying EBITDAX, underlying net profit before tax and underlying net profit after tax (NPAT) have been adjusted for the items listed below in Table 2.

TABLE 2 - Reconciliation of statutory net profit to underlying profit

	Six months to 30 June 2024		Six months to 31 Dec 2023	
	NPAT US\$M	EBITDAX US\$M	NPAT US\$M	EBITDAX US\$M
Statutory results	61.8	246.9	122.5	253.2
Change in fair value of contingent consideration	3.1	4.7	2.3	3.5
Realised losses on cash flow hedges	7.1	10.7	5.6	8.5
Foreign exchange losses/(gains)	(0.3)	(0.3)	5.8	8.1
Social investment/sponsorships	-	-	-	2.2
Advisory and transaction costs	4.8	4.8	10.8	10.8
Capital distributions impact on current tax expense	-	-	(8.0)	-
Cumulative translation adjustment impact on deferred tax	39.3	-	5.7	-
Total adjustments	54.0	19.9	22.2	33.1
Underlying results	115.8	266.8	144.7	286.3

- Excludes leased right-of-use asset additions.

Karoon's underlying NPAT in 1H24 was US\$115.8 million, down 20% from US\$144.7 million in TY23, while 1H24 statutory NPAT was US\$61.8 million, compared to US\$122.5 million in TY23. The difference between statutory NPAT and underlying NPAT in 1H24 was primarily due to the cumulative adjustment impact on deferred tax and realised losses on cash flow hedges (see Table 2 for adjustments to derive underlying NPAT). The deferred tax adjustment relates to non-cash foreign exchange impacts of temporary differences between the tax base of the Brazilian business, denominated in REAL (R\$), and Karoon's reporting currency, which is in US\$. The

movement in 1H24 reflected the depreciation of the R\$ relative to the US\$ over the period. Adjustments will occur each reporting period in line with variations in conversion rates between the R\$ and US\$.

The decline in 1H24 underlying NPAT compared to TY23 primarily reflected reduced revenue from the Baúna Project due to lower production, and high DD&A associated with Who Dat. Production costs (including FPSO depreciation and finance charges) increased marginally, from US\$70.4 million to US\$71.3 million, reflecting a full period of production costs associated with Who Dat, offset by lower production costs from the Baúna Project because of reduced FPSO uptime in 1H24. The US\$13.6 million increase in net finance charges reflected interest costs associated with the debt used to finance the acquisition of Who Dat (which was completed on 21 December 2023) and the bond.

Operating cash flow for 1H24 was US\$224.3 million, down from US\$303.4 million in TY23, reflecting lower Baúna Project production, partially offset by higher cash margin production from Who Dat.

Capital expenditure was US\$78.3 million. This included Karoon's share of costs for the Who Dat East exploration/appraisal well, development costs for drilling, completion and hook-up activities on the G2 and G4 wells at Who Dat, signature bonuses for the two Brazil deepwater blocks awarded to Karoon and expenditure related to Neon. Karoon also paid US\$86.0 million to Petrobras in January 2024 in relation to the contingent payment for the Baúna asset.

At 30 June 2024, Karoon had liquidity of US\$528.2 million, comprising US\$282.2 million of cash and cash equivalents and US\$246.0 million of undrawn available debt facilities.

GUIDANCE

2024 full year capex guidance has been revised to US\$150-177 million. This reflects the inclusion of capex related to the Who Dat West exploration well (which was previously allocated as contingent capex, which is now zero), offset by the removal of SPS-88 well intervention costs from 'Other capex', following the deferral of the intervention to 2025. All other guidance remains unchanged.

Due to the deferral of the SPS-88 intervention and a continued high level of maintenance activities, production for the Baúna Project in 2024 is expected to be towards the lower end of the guidance range.

TABLE 2 - Guidance¹

Calendar Year 2024		Prior Guidance	Revised Guidance
PRODUCTION²			
Brazil	MMbbl	7.5 – 9	7.5 – 9
Who Dat (NRI)	MMboe	3 – 3.5	3 – 3.5
Total production	MMboe	10.5 – 12.5	10.5 – 12.5
COSTS			
Unit production costs ³	US\$/boe	10.5 – 15	10.5 – 15
Business Development, share-based payments & Neon studies	US\$m	11 – 12	11 – 12
Unit DD&A ⁴	US\$/boe	16 – 17	16 – 17
Finance costs and interest (net) ⁵	US\$m	36 – 44	36 – 44
Other operating costs ⁶	US\$m	31 – 35	31 – 35
INVESTMENT EXPENDITURE			
Neon	US\$m	13 – 14	13 – 14
Other capex ⁷	US\$m	37 – 48	17 – 18
Who Dat	US\$m	87 – 102	120 – 145
Total capex	US\$m	137 – 164	150 – 177
Contingent capex	US\$m	33 – 43	Nil
Petrobras contingent consideration ⁸	US\$m	86	86

NOTES:

- Guidance is subject to various risks (including "Key Risks" set out in the TY23 Annual Report).
- Production assumes drilling results and expected future development and appraisal projects are delivered in accordance with their currently expected schedules.
- Unit Production Costs: based on daily operating costs associated with Baúna and Who Dat Production, and Baúna FPSO lease costs (pre AASB 16).
- Excludes depreciation on FPSO right-of-use asset capitalised under AASB 16 'Leases' and non-oil and gas related depreciation.
- Finance Costs and Interest includes fees, interest on debt and financial instruments and interest income.
- Other Operating costs: includes staff costs, IT, other corporate costs and non-oil and gas related depreciation. This excludes royalties and other government take, social investment/sponsorships in lieu of tax and foreign exchange gains/losses.
- Includes signature bonuses paid to ANP in July 2024.
- Contingent consideration (including accrued interest) paid to Petrobras in January 2024.

CONFERENCE CALL

Karoon's Chief Executive Officer and Managing Director, Dr Julian Fowles, and Chief Financial Officer, Mr Ray Church, will hold a conference call for analysts and investors to discuss the 2024 Half Year Results on Wednesday, 28 August 2024 at 11am (Melbourne time). The conference call will be streamed live and can be accessed via the following link:

<https://ccmediaframe.com/?id=VirtASyu>

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ABOUT KAROON ENERGY

Karoon Energy Ltd. is an ASX listed international oil and gas exploration and production company with assets in Brazil, the United States of America and Australia.

Karoon's vision is to be a leading, independent international energy company that adapts to a dynamic world in an entrepreneurial and innovative way.

Karoon's purpose is to provide energy safely, reliably and responsibly, creating lasting benefits for all its stakeholders.

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GLOSSARY

Term	Definition
AUD	Australian dollar
bbl/boe	Barrels of oil/barrels of oil equivalent
bopd/boepd	Barrels of oil per day/barrels of oil equivalent per day
TY23	Transition year for the six months ending 31 December 2023
1H24/1H25	Six months ending 30 June 2024/30 June 2025
Karoon	Karoon Energy Ltd and its subsidiaries
MM	Million
US\$/USD	United States dollars
AUD cps/US cps	Australian/United States cents per share



Forward-looking statements

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

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

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

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

Notes on calculation of Reserves and Resources

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

All statements are net to Karoon's interests as of 31 December 2023 and use a combination of deterministic and probabilistic methods. Reserves and Resource volumetric estimates are rounded to one decimal place. Each category is aggregated by arithmetic summation.

The reference point for Reserves calculation is at the fiscal meter situated on the respective production facility. 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.

Contingent Resources are assessed using both deterministic and probabilistic methods. The Contingent Resources reflects the estimated recoverable resource under a conceptual development plan. However, any finalised development plan may not recover all these resources. There is no identified requirement for the development of new technology.

Governance and Competent Person's Statement

Members of the Karoon Reserves Committee consider and assess all proposed changes and additions to the Company's Reserves and Resources, considering advice and contributions from subject matter experts and external consultants.

All Reserves statements are based on, and fairly represent, information and supporting documents prepared by, or under the supervision of, Martin Austgulen, SVP 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 with over 15 years of experience.