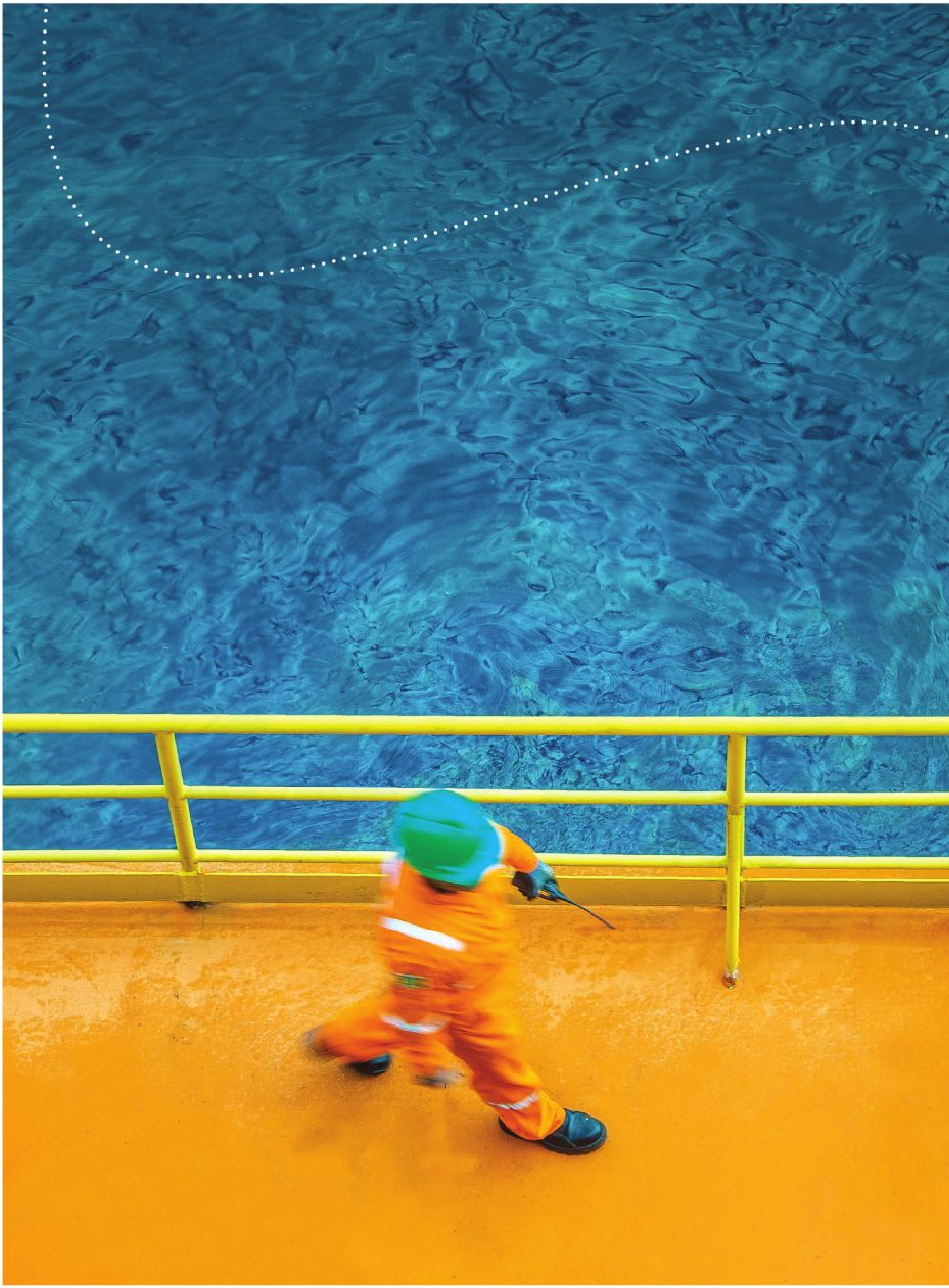
DELIVERING RESULTS

KAROON ENERGY

2023 ANNUAL REPORT



ADVANCING STRATEGY

Karoon is an international oil and gas exploration and production company, listed on the ASX, with assets in Brazil and Australia. Our vision is to be a leading, independent international energy company that adapts to a dynamic world in an entrepreneurial and innovative way. Our purpose is to provide energy safely, reliably and responsibly, creating lasting benefits for all stakeholders.

In FY23, Karoon delivered a 52% increase in production and 70% higher underlying net profit after tax. Together with progress on organic and inorganic growth opportunities, the Company is advancing its strategic priorities of ensuring safe and reliable operations and building scale, cost-effectively and sustainably.


KAROON
ENERGY
FROM
DECISION

TO PRODUCTION GROWTH

During FY23, Karoon continued its major investment in Brazil, with the completion of the Baúna intervention campaign and the Patola development. These projects were delivered on time and within the original budgets, with initial production rates higher than expectations. Most importantly, both programs were conducted safely and with no material environmental issues.

As a result, oil production was 52% higher than in FY22, at 7.04 million barrels (MMbbl), despite a six week unplanned shut down of the production facility.

Personal safety performance improved, with the Total Recordable Injury Rate down 47% compared to FY22, despite managing materially higher levels of activity during the year.

7.04 MMbbl
oil produced

TRIR 0.41
per 200,000 hours


FROM
EVALUATION

TO FUTURE OPTIONS

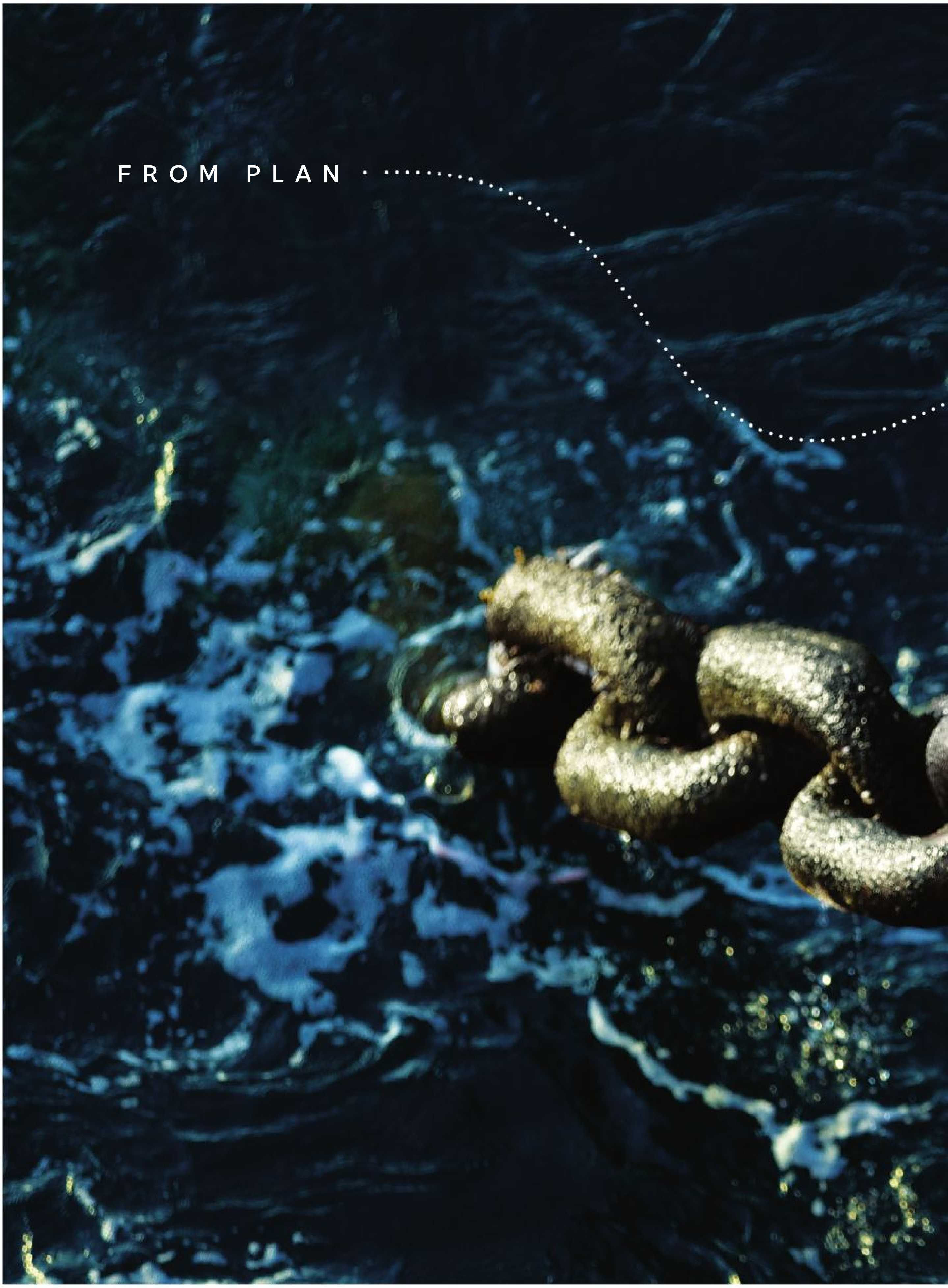
Karoon made progress in FY23 on its aim to build near and medium-term production through value-accretive, organic and inorganic growth opportunities.

The Company drilled two successful control wells in the Neon oil field. Information from these wells has added significantly to the field knowledge base and has led to a 9% increase in Neon 2C Contingent Resource estimates. The new data is being incorporated into technical and commercial feasibility studies underway on a potential Neon development. The next decision point will be whether to enter Concept Select.

In addition, a range of inorganic growth opportunities were evaluated, with a focus on assets in Brazil and/or the US Gulf of Mexico that can add material value to shareholders.

Two Neon wells drilled

9% increase
in Neon 2C Contingent Resources


FROM PLAN

TO FINANCIAL READINESS

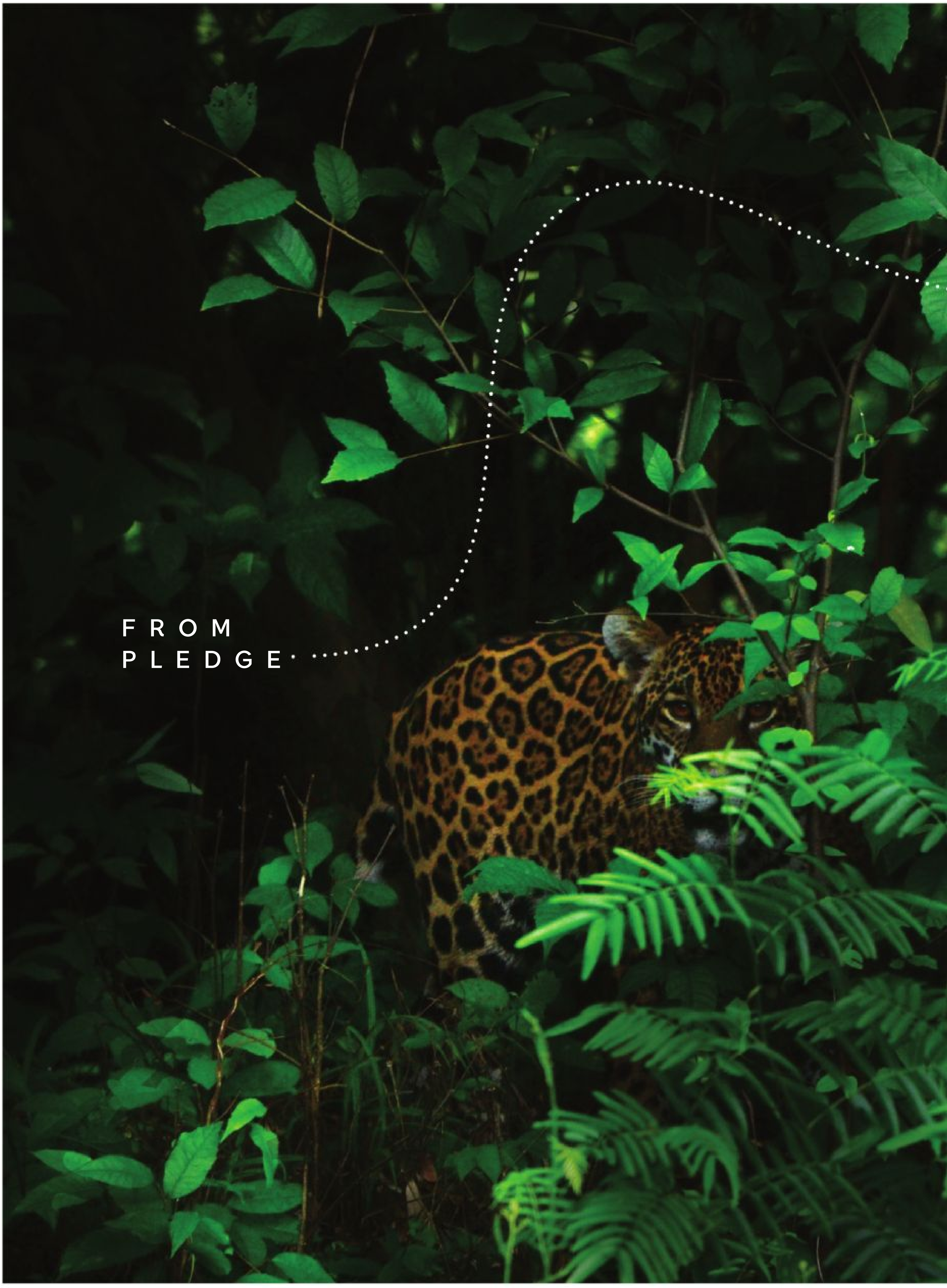
Karoon entered FY23 in a strong financial position, in preparation for the Company's first major capital investment projects in Brazil.

Over the year, the Baúna interventions, Patola development and Neon drilling program were successfully completed within the original budgets, reflecting sound contracting and project delivery discipline. These projects, as well as the first Petrobras contingent payment, were funded from cash flow from operations and existing cash, with no further drawdowns from debt facilities.

Karoon completed the year with a balance sheet that is well positioned to fund potential organic and inorganic growth as well as returns to shareholders.

US$74.8m
cash and cash equivalents

US$210m
facility, US$30m drawn


FROM
PLEDGE

TO PROGRESS

Karoon made progress in FY23 on its Carbon Management Action Plan, which is designed to strike a balance between the Company helping the world meet global oil demand while minimising and offsetting its carbon footprint. In FY23, Karoon screened a number of ARR and REDD+ Nature Based Solution projects, signed a term sheet with one party and advanced several others. In addition, work is ongoing to identify opportunities to reduce emissions (Scope 1 and 2) from its operations.

Karoon contributed approximately US$150 million to the Brazilian and Australian economies in FY23 in employee benefits and payments to governments. This included US$1.9 million in community and environmental investments in Brazil, to help empower people and create a positive impact on their future.

Expect to be
Carbon Neutral[1]
in FY23

US$1.9m
invested in Brazilian social and environmental programs

1. Carbon Neutral refers to firstly, reducing or avoiding operational Scope 1 and 2 greenhouse gas (GHG) emissions and, secondly, acquiring carbon offsets to balance the remaining Scope 1 and Scope 2 emissions.

FY23 AT A GLANCE

7.04 MMbbl
Production up 52% on FY22

Patola and Baúna interventions
Completed on time and within original budgets

TRIR 0.41
per 200,000 hours down 47% on FY22

200%
Reserves Replacement Ratio in FY23[1]

US$80.20/bbl
Realised oil price

US$145.9m
Underlying net profit after tax up 70% on FY22

US$271.8m
Cashflow[2] generated up 148% on FY22

US$254.8m
Total liquidity at 30 June 2023

142,074 tCo_2e
Absolute emissions (Scope 1 & 2) in FY23

20.2 kgCO_2e per bbl
Emissions intensity (Scope 1 & 2)

22
New community investment projects

~US$150m
Employee benefits, government take and community and environmental investments in FY23

1 Reserves replacement is defined as 2P Reserves additions during the period from 30 June 2022 to 30 June 2023 divided by production over the same period.

2 Cashflow generated reflects net cashflow from operations and includes principal elements of lease payments.

LETTER FROM OUR CHAIR & CEO/MD

Bruce Phillips
Chairman

Julian Fowles
CEO and MD

DELIVERING OUR STRATEGIC OBJECTIVES

FY23 was one of Karoon's busiest operational periods since the Company was formed. As well as delivering strong operating and financial results, significant progress was made on our strategy to strengthen, build scale and diversify Karoon's business.

The Board and management focus during the year was on advancing our key strategic objectives, which include:

- Achieving operational excellence through safe, reliable, responsible and cost-effective operations.
- Pursuing organic and inorganic growth opportunities.
- Maintaining a strong financial position to support expansion.
- Implementing a fit-for-purpose sustainability strategy that recognises Karoon's climate, social, environment and governance commitments.

SAFE AND RELIABLE OPERATIONS PROVIDE PLATFORM FOR GROWTH

During FY23, Baúna Project production increased materially following the completion of the Baúna intervention campaign in late CY22 and the Patola field development in March 2023. The successful delivery of these two projects, with no major safety incidents and within the original budgets (despite the prevailing inflationary environment), satisfied a key component of our strategic plan to extract maximum value from Baúna by accelerating the recovery of Baúna oil Reserves.

Production peaked at more than 40,000 barrels of oil per day (bopd) in early CY23, ahead of expectations. Shortly after the Patola field came onstream, a leak in the gas flare system of the FPSO resulted in Altera&Ocyan (A&O), the FPSO operator, and Karoon shutting down operations. While the leak was repaired swiftly, in the interests of safety, we decided to undertake a comprehensive inspection of the FPSO's pipework. All identified repairs, maintenance or replacements were conducted over a six week unplanned shutdown. Production recommenced in May and by the end of FY23 had been restored to 33,000 – 35,000 bopd, from where we anticipate it will now commence a more gradual natural decline.

Ensuring the integrity of the production facility is of key importance to Karoon, with safe and reliable oil production underpinning our corporate growth strategy. The recent unplanned shutdown has highlighted that with production rates reaching close to the facility's capacity, further work is required on the FPSO. We are planning additional inspections and maintenance work, ahead of the next planned shutdown scheduled for March 2024.

Despite the interruption to production, FY23 oil production increased 52% on FY22, to 7.04 million barrels (MMbbl). 7.06 MMbbl of oil was sold over the year, realising an average oil price of US$80.20/bbl, which was slightly lower than in FY22 due to weaker oil demand in early 2023 reflecting slowing global economic growth. The increased production and sales volumes drove sales revenue to a record level of US$566.5 million, 47% higher than in FY22.

STRONG FINANCIAL RESULTS, ROBUST BALANCE SHEET POSITION

Underlying net profit after tax for FY23 was US$145.9 million, compared with US$85.6 million in FY22, reflecting the sharp rise in sales revenue. The statutory NPAT was US$163.0 million, compared to a statutory net loss after tax of US$64.4 million in FY22. With a largely fixed cost base, unit production costs fell, from US$25.36/bbl to US$15.75/bbl.

> During FY23, Baúna production increased materially following the completion of the Baúna intervention campaign in late CY22 and the Patola field development in March 2023.

Over FY23, Karoon spent US$191 million on completing the value accretive Baúna intervention and Patola development projects, in line with our original budgets. Continued high oil prices and largely fixed operating costs enabled these investments and the Neon drilling to be funded from cash on hand and cash flow, with no further drawdowns required from the Company's US$210 million debt facility. Karoon ended the year with US$74.8 million in cash and cash equivalents and US$30 million of drawn debt.

This strong balance sheet position represents a good financial foundation for growth, as Karoon enters a period with more modest ongoing sustaining capital requirements and with good support from its financial partners.

CAPITAL MANAGEMENT

During FY23, Karoon focused on maximising efficiency and flexibility in capital management and funding. This includes optimising access to operating earnings in Brazil, to ensure that capital can be readily redeployed across the Group to support potential growth investments and returns to shareholders.

Given the significant production outage from 29 March to 9 May and its impact on Karoon's cash position at 30 June 2023, as well as the fact that Karoon has only recently achieved stabilised production rates from the interventions and Patola, the Board has decided not to pay a dividend in respect of FY23.

Capital management options will be closely monitored and reassessed over the next six months.

ADVANCING ORGANIC AND INORGANIC GROWTH OPPORTUNITIES

De-risking the potential Neon development

Following the completion of the Patola drilling, two control wells were drilled on the Neon field located 65 kilometres northeast of Baúna. Results from both wells were encouraging, and met all key subsurface objectives.

The data gathered from these wells was used to update Karoon's estimate of Contingent Resources while further technical, engineering and commercial studies also commenced. These studies will assess the commercial feasibility of the current potential development concepts. The concepts include Neon being developed through subsea wells tied back to a standalone FPSO or tied back to the existing FPSO at Karoon's producing Baúna oil field. A third concept is also being considered, which would involve the tieback of the existing Baúna development to a new standalone Neon FPSO.

The objectives of Karoon's phased project maturation process, used to assess potential new projects such as Neon, are to ensure any development will maximise value while minimising risk, with a focus on de-risking projects prior to spending material capital. Subject to a potential Neon development exceeding internal technical and commercial hurdles at each assessment gate, Karoon's preliminary timetable is targeting entry into the Concept Select phase in late first quarter of CY24; entering the Define phase, including Front End Engineering and Design, in early CY25; and a Final Investment Decision in late CY25.

Progress on a potential Neon development remains subject to strategic capital allocation, as well as supply chain and prevailing oil market conditions.

Evaluation of M&A opportunities ongoing

Karoon continued to assess inorganic oil opportunities in offshore Brazil and the US Gulf of Mexico, with several advancing to the detailed evaluation phase during FY23. The Company believes that these two jurisdictions provide the best opportunity for Karoon to leverage the experience and knowledge of its technical and commercial teams to add value for shareholders. Karoon remains highly disciplined in assessing potential opportunities, applying strict criteria to any potential acquisition and with any investment ranked against the return of capital to shareholders.

GROWTH IN RESERVES AND RESOURCES

Karoon booked increases in both Reserves and Contingent Resources in FY23 following a reassessment of the BM-S-40 license and the Neon field. In addition, Prospective Resources at Neon West were booked for the first time. *(See Reserves and Resources on page 32 for full details and notes)*.

Baúna and Patola Reserves increase

A better than expected performance from the existing producing wells and information from the Baúna well interventions and Patola drilling have been incorporated into Karoon's Baúna reservoir modelling. After FY23 production of 7.0 MMbbl, 2P Reserves have increased 16%, to 51.8 MMbbl at 30 June 2023, compared to 44.8 MMbbl at 30 June 2022.

Neon Contingent Resource increase

The two control wells drilled at the Neon field have helped reduce subsurface uncertainty, resulting in improved definition of the Neon oil resource. The Neon 2C Contingent Resource estimate has increased by 9% to 60.1 MMbbl and the range of Resource estimates, from 1C to 3C, has narrowed. Karoon's assessment has been reviewed and supported by independent expert, RISC.

Maiden Neon West Prospective Resource booked

The recent Neon 2 well has reduced the risk of the Neon West prospect that lies two kilometres west of Neon 2. Karoon has assessed that the 2U Prospective Resources are 14.8 MMbbl, with a geological chance of success estimated at 41%.

PROGRESSING KAROON'S SUSTAINABILITY STRATEGY

A key component of Karoon's strategy is to ensure that its approach to managing Environmental, Social and Governance (ESG) factors mitigates risks and drives long-term success. Over FY23, Karoon continued to build its ESG team, adding senior internal capabilities to assess carbon sequestration opportunities and community commitments, as the ESG landscape continues to evolve.

Health and safety

Safe and reliable operations remain Karoon's highest priority as the Company continues to focus on maintaining a safe and healthy work environment. During FY23, one lost time injury (an injury to a contractor's finger requiring surgery) was recorded and the total recordable injury rate fell to 0.41 per 200,000 hours worked, down from 0.77 in FY22. The improved safety performance was achieved despite a significant increase in activity levels, with multiple complex operations ongoing in parallel. The trend is positive and reflects Karoon's high expectations of its employees and contractors in maintaining safety and integrity in all operations. Nonetheless, Karoon believes all incidents are preventable and conducted investigations on each recordable incident, to establish lessons learned and to avoid recurrences.

Climate change

As an oil producer, Karoon recognises its responsibility to contribute towards the global energy transition and pathway to Net Zero. The Company remains committed to its short- and long-term targets to be Carbon Neutral from FY21 onward for the Baúna Project and Net Zero by 2035 for Scope 1 and 2 Greenhouse Gas (GHG) emissions. Karoon's strategy to meet these targets is unchanged:

- First, reduce emissions from existing operations, where possible.
- Second, invest directly in high quality projects to offset and remove emissions.
- For any remaining emissions, purchase carbon offsets.

As in FY21, Karoon has acquired sufficient carbon offsets and emission reduction certificates to remain Carbon Neutral for Karoon's FY22 Scope 1 and 2 carbon footprint.

During FY23, a range of carbon sequestration projects in Brazil were assessed and a binding term sheet was signed to participate in a REDD+ project, to help Karoon achieve its carbon neutrality. The Company continues to seek carbon removals-based projects in which to participate.

51.8 MMbbl

2P Reserves increased 16% (at 30 June 2023)

60.1 MMbbl

Neon 2C Contingent Resources increased 9% (at 30 June 2023)

Scope 1 and 2 GHG emissions will increase over the next twelve months, due to higher production from Baúna. In line with its commitments, Karoon will seek to ensure it remains Carbon Neutral.

More details of Karoon's emission targets, including Karoon's strategy to achieve Net Zero by 2035, are in the FY23 Sustainability Report on the Karoon website, www.karoonenergy.com.au.

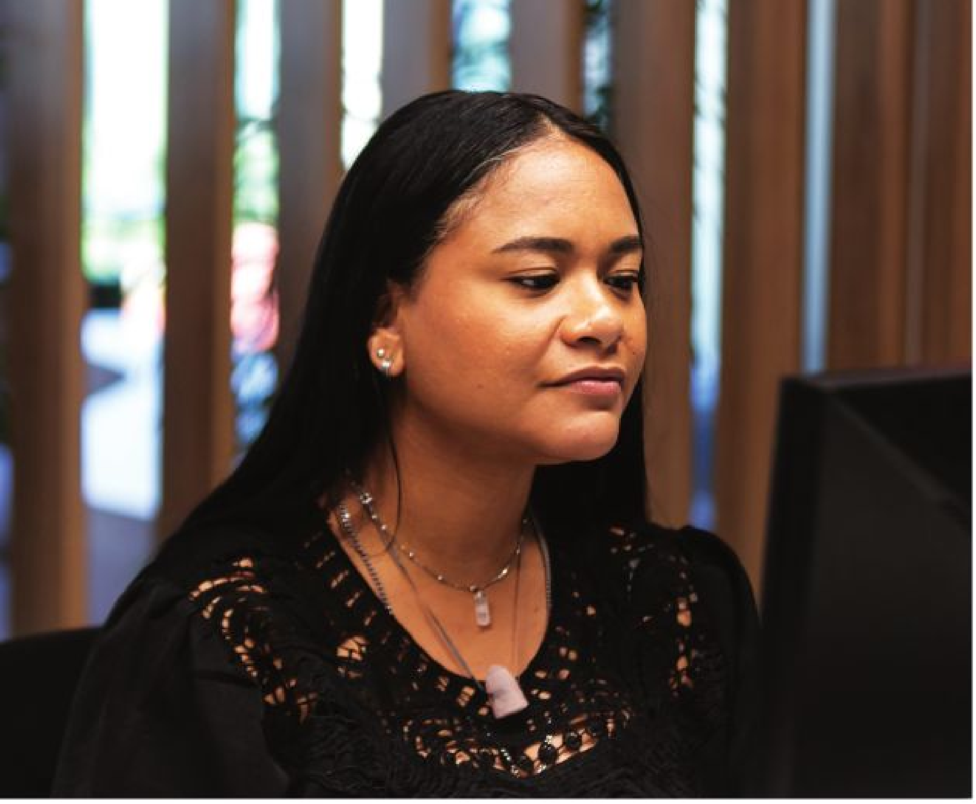
Community Programs

During FY23, Karoon expanded its support to the communities in which it operates by committing to 22 new social projects. These projects were selected in line with the Company's new Community Investment Guidelines. They include providing access to programs for vulnerable people, equipment in local hospitals treating cancer patients, education for young adults entering the music industry, and music and theatre education opportunities for children and young people.

Karoon's approach to investing in local communities is aligned with the UN Sustainable Development Goals 4, 8 and 17 which focus on education and employment.

Contribution to Brazilian and Australian economies

Karoon's strong financial performance in FY23 resulted in a substantial increase in the Company's contribution to the Brazilian and Australian economies. In Brazil, R$671.5 million (US$130.9 million) was paid via royalties, levies and taxes, with R$47.6 million (US$9.2 million) paid in wages and R$10.0 million (US$1.9 million) committed to social and community projects. In addition, in Australia, Karoon paid approximately US$8.5 million in employee benefits and taxes.



CHANGE IN FINANCIAL YEAR END

The Karoon Board has decided to change the Company's financial year end from 30 June to 31 December. This aligns Karoon's financial year with Brazil's tax year, which will ease considerably the current administrative burden of preparing full accounts twice each year. In addition, it will facilitate comparisons with other Australian and global oil and gas industry peers, the majority of which have a December year end.

After completing the current 12-month financial year on 30 June 2023, Karoon's next financial year will be a six-month Transitional Financial Year (TY) beginning on 1 July 2023 and ending on 31 December 2023. Thereafter, the Company's financial year will commence on 1 January and end on 31 December.

Cybersecurity

The growing prevalence of cyber threats and data breaches globally has emphasised the importance of having robust cybersecurity to safeguard sensitive information and maintain trust with stakeholders. During FY23, Karoon appointed a senior Cyber Security and IT Manager, to strengthen our capability, conducted regular cybersecurity risk assessments and modernised its security control foundation, aligned to the National Institute of Standards (NIST) Cybersecurity Framework, to safeguard Karoon's digital assets. No cybersecurity breaches were experienced over the year.

SUPPORTIVE BRAZILIAN GOVERNMENT

In November 2022, a new Government was elected in Brazil, led by President Luiz Inácio Lula da Silva. To date, the Government has remained supportive of the oil and gas industry, including industry's plans to increase Brazil's oil production from approximately 3 million bopd to 5 million bopd by 2027.

Notably for Karoon, in October 2022, the Brazilian National Agency for Petroleum, Natural Gas and Biofuels (ANP) reduced the royalty rate applying to incremental production from the Baúna, Piracaba and Patola fields resulting from the Baúna interventions and the Patola development. This reduction is in line with similar royalty concessions on several other late life oil and gas fields onshore and offshore Brazil, designed to encourage investment in mature oil assets.

The royalty reduction was partially offset by Special Participation and Research and Development levies, which become applicable once production exceeds specified hurdles. These levies are part of the well-established fiscal regime that exists in Brazil for the oil and gas sector.

The Company's FY23 results were also impacted by a Temporary Export Tax, introduced in late February 2023 by the new Government to help meet the country's fiscal targets. The export tax, which applied from 1 March 2023 to 30 June 2023, resulted in an additional pre-tax cost of US$14.6 million for Karoon. We welcome the Government's decision to end this extra tax burden on the upstream oil industry in line with the timetable indicated when it was first announced.

Karoon has enjoyed a constructive relationship with successive governments and independent regulatory bodies in Brazil for over a decade. These entities have successfully achieved the balance of acting, first and foremost, in the best interests of the Brazilian people, but also recognising the need for businesses, including Karoon, to operate in a stable environment.

THANKS

We would like to take this opportunity to thank our fellow Board members for their wise counsel and support, as well as our dedicated management and staff in Australia and Brazil for their contributions over the year.

We would also like to thank everyone involved in the Baúna intervention and Neon control well drilling programs, including the technical and operational teams on the Noble Developer rig, and the pipelaying and other support vessels, for delivering these important programs safely and efficiently.

Finally, we would like to thank you, our shareholders, for your continued loyalty and support of our business model and its strategic objectives.

Bruce Phillips
Chairman

Julian Fowles
CEO and MD

FINANCIAL OVERVIEW

DELIVERING FINANCIAL STABILITY

Karoon's FY23 financial results reflected higher production from the Baúna interventions and Patola development, which offset weaker oil prices and drove revenue to a record high. Together with good cost control, this allowed Karoon to generate an underlying net profit after tax (NPAT) of US$145.9 million, up 70% from FY22. On a statutory basis, the Company reported a NPAT of US$163.0 million, compared to a statutory net loss after tax of US$64.4 million. Pleasingly, operating cash flow and existing cash on hand was sufficient to fund the Baúna intervention and Patola development, as well as the two control wells at Neon and the first contingent payment to Petrobras.

CRUDE LIFTINGS

The number of oil cargoes lifted from the Baúna Project increased from nine (4.54 MMbbl) in FY22 to 15 (including one part-cargo) in FY23, totalling 7.06 MMbbl. The higher oil output reflected the Baúna intervention campaign, completed in late CY22, and the Patola development, which came online in March 2023, offset by a six-week unplanned shutdown in the second half of the year.

The Company realised a weighted average oil price, net of selling expenses, of US$80.20/bbl in FY23, compared to US$84.74/bbl in FY22, due to weaker global oil demand reflecting slowing global economic growth. Nonetheless, demand for Karoon's light sweet crude remained strong, with cargoes sold to various refineries in North and South America, Europe and Asia.

PROFITABILITY

Increased crude oil liftings drove revenues up by 47%, to US$566.5 million. As a large proportion of Karoon's production costs are fixed, FY23 unit production costs (comprising operating costs plus the FPSO charter lease costs) were 38% lower than in FY22, at US$15.75/bbl (FY22: US$25.36/bbl).

Underlying EBITDA for the year increased to US$321.8 million (FY22: US$205.2 million), and underlying NPAT for the financial year was US$145.9 million (FY22: US$85.6 million). The Company reported a statutory net profit after tax of US$163.0 million (FY22: statutory net loss after tax US$64.4 million). *See FY23 Financial Summary on page 42 for full details.*

CASH FLOWS

Over FY23, operating activities generated net cash inflows of US$305.9 million (FY22: US$154.2 million). Significant operating cash payments for the year included the following:

- Payments to suppliers and employees, including production costs and government take, of US$135.2 million (FY22: US$116.5 million).
- Income tax of US$78.8 million (FY22: US$39.4 million).
- Payments for cash flow hedges of US$13.4 million (FY22: US$20.8 million).
- Finance-related interest and other costs, predominantly relating to finance charges on the FPSO lease, of US$19.8 million (FY22: US$18.9 million).

Cash outflows from investing activities in FY23 were US$356.2 million (FY22: 113.0 million), largely due to:

- Capital expenditure relating to the Baúna intervention campaign, Patola development and ongoing field maintenance of US$222.5 million (FY22: US$59.6 million).
- Neon control well drilling of US$43.1 million.
- The first contingent payment to Petrobras under the Baúna Sale and Purchase Agreement of US$84.5 million (FY22: nil).

Cash flow from operations in FY23 was sufficient to fund the extensive capital expenditure program and pay the first contingent payment to Petrobras.

FINANCIAL POSITION

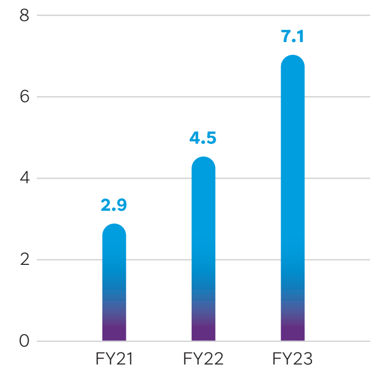
Karoon's total liquidity as at 30 June 2023 was US$254.8 million, comprising US$74.8 million in cash and cash equivalents and US$180 million in undrawn available debt. Karoon's current debt facility remains unchanged from 30 June 2022 at US$210 million.

To support the loan facilities, the Company has oil hedges covering 30-40% of production in place over the first two years of the loan life. The hedging program is designed to protect operating cashflows against the risk of lower oil prices, allowing for debt repayments, while retaining upside price exposure on the unhedged volumes. Given Karoon's low level of drawn debt and modest debt service requirements, the minimum hedge volume obligation under the debt facility was temporarily waived in the March and June quarters of CY23.

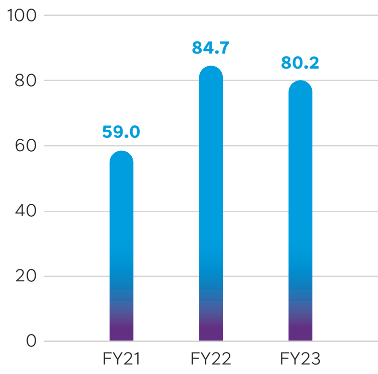
Karoon is currently in discussions with existing and potential new lenders regarding refinancing the existing debt facility, to support Karoon's organic and inorganic growth strategy.

Refer to the Directors' Report on page 42 for further discussion of the results, cash flows and changes to the Group's financial position.

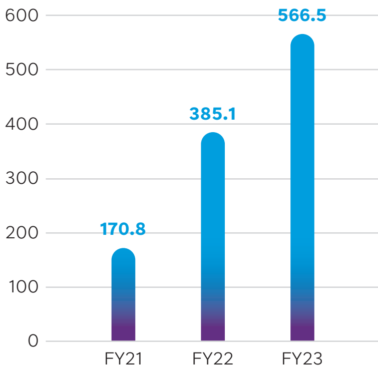
Sales volumes
(MMbbl)



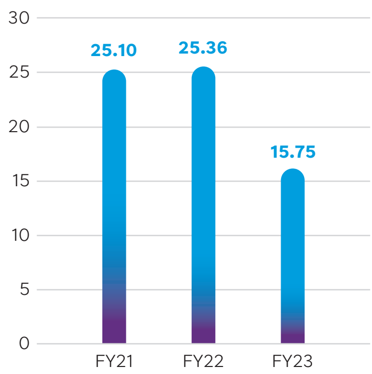
Weighted average net realised oil price (US$/bbl)



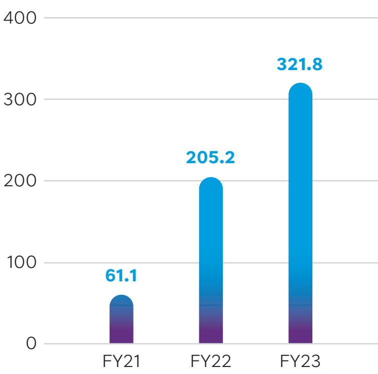
Sales revenue
(US$m)



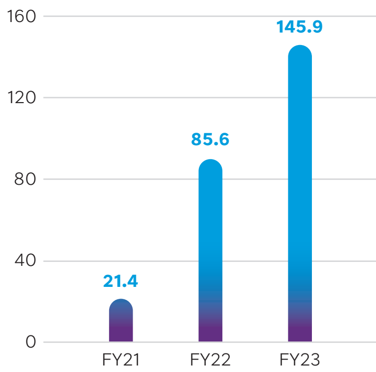
Unit production costs
(US$/bbl)



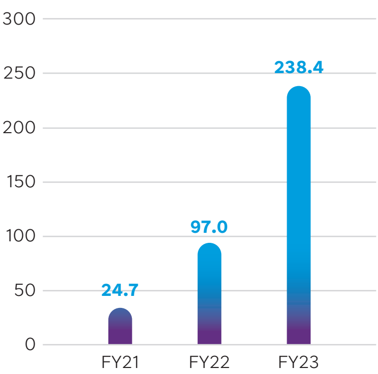
Underlying EBITDA[1]
(US$m)



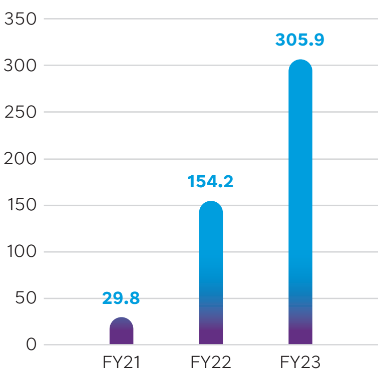
Underlying net profit after tax[1]
(US$m)



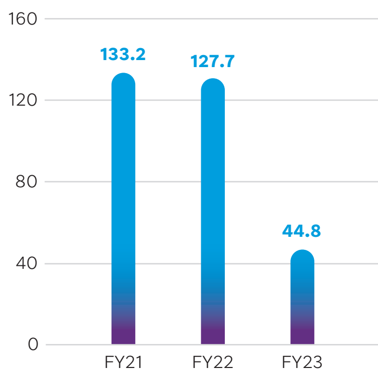
Capital expenditure
(US$m)



Operating cashflows
(US$m)



Net cash and cash equivalents
(US$m)



1. Underlying EBITDA (earnings before interest, tax, depreciation, depletion, and amortisation) and underlying net profit after tax are non-IFRS measures that are unaudited but are derived from figures within the audited financial statements.

PRODUCTION AND DEVELOPMENT

DELIVERING PRODUCTION GROWTH

During FY23, Karoon successfully completed interventions in three Baúna wells and developed the Patola field as a subsea tieback. These activities lifted oil production through the FPSO, Cidade de Itajaí, from approximately 13,000 bopd at the beginning of FY23 to a peak of more than 40,000 bopd, before stabilising at 33,000 – 35,000 bopd by year end.

Despite a six-week shut-in of the production facility following a leak in the gas flare system shortly after the Patola field came onstream, the well interventions and Patola development resulted in a 51% increase in Baúna Project production, from 4.64 MMbbl in FY22 to 7.04 MMbbl.

The Baúna and Patola well campaigns were delivered within the original budgets, on schedule and without any material safety or environmental incidents.

The average production facility uptime was 97% over the first nine months of FY23 (excluding eight days of scheduled maintenance), prior to the unscheduled shutdown in late March 2023. This strong performance was in part enabled by several activities undertaken during FY22 to improve facility reliability.

Unplanned production shutdown

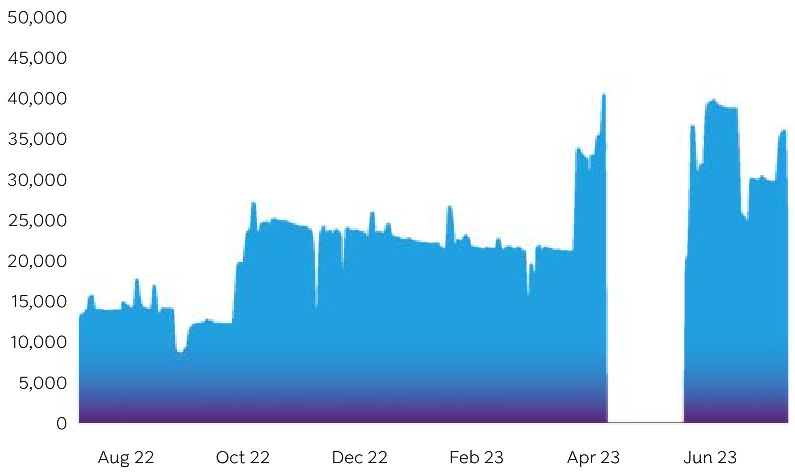
Production on the FPSO, Cidade de Itajaí, was shut down on 28 March 2023, after a hydrocarbon leak from pipework located within the FPSO's gas flare system. While the leak was rapidly isolated and repaired, Karoon, together with the FPSO operator, A&O, decided to undertake a more comprehensive inspection of the FPSO's hydrocarbon processing system pipework. A total of 783 pipes and valves were inspected and more than 120 parts repaired or replaced during the 42 day shutdown. The ANP (Brazilian Petroleum Agency) was notified of the gas leak, kept fully informed throughout the inspection and repair campaign, and supported the restart of production on 9 May 2023.

PRODUCTION AND SALES

FY23 production performance

FY23 oil production from the Baúna, Piracaba and Patola fields in the BM-S-40 license (collectively known as the Baúna Project), located approximately 220 kilometres offshore Brazil in the southern Santos Basin, was 7.04 MMbbl. The production increase reflected the successful completion of two major work programs – the three well Baúna intervention campaign and the development of the Patola field. Both the interventions and the Patola development delivered incremental production above expectations, resulting in a peak rate of more than 40,000 bopd, before output through the FPSO stabilised at 33,000 – 35,000 bopd by year end. This stabilised rate compares to the preliminary forecast of approximately 30,000 bopd.

Baúna Facility Oil Production (bopd)



During this period, Karoon and A&O took the opportunity to complete several other work scopes that were previously scheduled for a maintenance shutdown in July 2023. With the FPSO now producing at significantly higher rates than in the recent past and close to capacity, the recent unplanned shutdown has highlighted some areas of integrity, that require further work to support the facility's continued long term reliable performance. Karoon plans to undertake additional inspections and maintenance work, ahead of the next planned maintenance shutdown scheduled for March 2024.

Safety and environmental performance

Karoon is committed to maintaining a safe working environment for its staff and contractors, as well as minimising discharges and environmental impacts, and fully meeting all regulatory requirements and commitments at each of its onshore and offshore operational sites.

During FY23, personal safety performance improved and there were no material environmental incidents. In terms of process safety, the leak from the FPSO gas flare system in March 2023 was classified as a Tier 3 event ('Challenges to Safety Systems'). The incident was the subject of a detailed and thorough investigation, and a number of improvement opportunities are being considered.

During FY23, the total number of Lost Time Injuries reduced from four to one, comprising an injury to a contractor's finger, which required surgery. There was a total of four recordable injuries during the year, the same as in FY22. The FY23 Total Recordable Injury Rate (TRIR) was 0.41 per 200,000 hours, compared to 0.77 per 200,000 hours in FY22. While the lower number of incidents is pleasing, Karoon believes all incidents are preventable and each incident underwent a thorough investigation process to avoid any recurrence.

SAFETY AND ENVIRONMENTAL PERFORMANCE	FY21	FY22	FY23
Lost Time Injuries	1	4	**1**
Medical Treatment Cases	1	0	**2**
Restricted Work Cases	0	0	**1**
Work Exposure Hours	625,928	1,027,000	**1,947,000**
Total Recordable Injury Rate (per 200,000 hours)	0.64	0.77	**0.41**
High Potential Incidents	1	2	**1**
Tier 1 or 2 Process Safety Events	NA	0	**0**
Reportable Environmental Incidents	2	0	**2**

FY23 OIL PRODUCTION AND SALES DATA		SEPTEMBER QUARTER 2022	DECEMBER QUARTER 2022	MARCH QUARTER 2023	JUNE QUARTER 2023	FY23
Production	MMbbl	1.29	2.08	1.98	1.68	7.04
Number of cargoes	#	3	4	4	4	15
Sales volumes	MMbbl	1.46	1.95	1.98	1.68	7.06
Weighted average realised oil price	US$/bbl	96.02	81.74	72.93	73.10	80.20

Note: Numbers may not add due to rounding.

FY23 oil sales

15 oil cargoes were lifted from Baúna over FY23, totalling 7.06 MMbbl. Net of selling expenses, the average realised oil price was US$80.20/bbl, compared to US$84.74/bbl in FY22, reflecting weaker oil demand due to slowing global economic growth.

The cargoes, marketed by Shell Western Supply and Trading Limited (a member of the Royal Dutch Shell Plc group), were sold to a range of customers in South America, North America, Europe and Asia.

DEVELOPMENT

Baúna intervention campaign

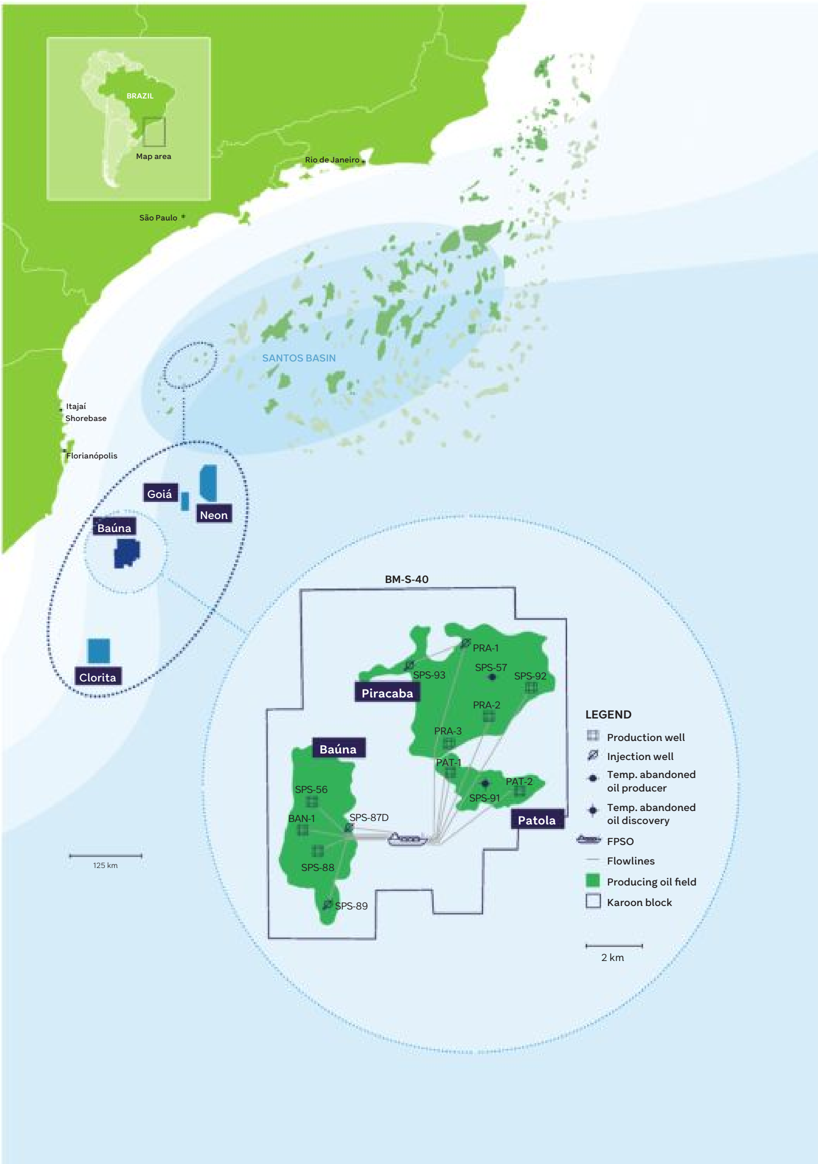
Karoon completed the Baúna well intervention campaign, utilising the Noble Developer rig (formerly known as the Maersk Developer), in the first half of FY23. The campaign consisted of:

- The installation of new electric submersible pumps in the PRA-2 and SPS-92 wells.
- The installation of gas lift equipment in SPS-56.

The cargoes, marketed by Shell Western Supply and Trading Limited (a member of the Royal Dutch Shell Plc group), were sold to a range of customers in South America, North America, Europe and Asia.

The production uplift from the three interventions was above expectations, adding initially more than 11,000 bopd to production, compared to the target of 5,000 – 10,000 bopd. In light of the strong results achieved from the first three interventions, Karoon deferred the planned re-opening of a previously producing oil zone in BAN-1 (expected to contribute 200-400 bopd), to optimise rig utilisation by accelerating the Patola development drilling.

While the intervention campaign took only 4-5 months to execute, it involved comprehensive planning by the Karoon teams in Australia and Brazil over an 18-month period.



Patola development

The Patola field is located within the BM-S-40 license, adjacent to the Baúna and Piracaba fields. The Patola development comprised drilling two subsea production wells, installing subsea infrastructure and tying back the wells to existing spare riser slots on the Baúna FPSO.

The Noble Developer rig commenced drilling the Patola wells in November 2022, following the completion of the Baúna interventions. Both wells encountered better than expected reservoir properties and demonstrated excellent productivity from initial production data. Wellheads and Christmas trees on the two Patola wells were installed in January 2023. This was followed by laying subsea flowlines and umbilicals connecting the wells to the FPSO and completing well and infrastructure commissioning activities. First oil was achieved from the PAT-2 well on 15 March 2023 and from PAT-1 on 27 March 2023.

Initial production rates were more than 12,000 bopd from each well, compared to expectations of a combined production rate of approximately 10,000 bopd. Due to the FPSO shut-down shortly after the second well came onstream, both PAT-1 and PAT-2 were shut in in late March, prior to being brought back online successfully in May 2023.

OUTLOOK

Planned activities over the next twelve months include the following:

- Undertake work related to asset integrity, operational efficiency and emissions reduction, with the objective of increasing operational performance, reliability, safety, sustainability and overall integrity of the FPSO operations.
- Increase produced water treatment capacity.
- Explore opportunities to extend the Baúna field life from 2032 to 2038 and commercialise the Baúna Contingent Resources.

GROWTH OPPORTUNITIES

DELIVERING GROWTH OPTIONALITY

During FY23, Karoon continued to investigate potential value-accretive organic and inorganic growth opportunities to build scale and relevance.

Following the successful two well Neon drilling campaign, a reassessment of the 100% owned Neon field resulted in increases in the 1C and 2C Contingent Resource estimates. The improved resource definition will facilitate a full technical and commercial feasibility study of potential Neon development concepts. Prospective resources were also booked for the nearby undrilled Neon West prospect, highlighting the potential of the Neon area.

A significant number of inorganic growth options, primarily oil assets in Brazil and the US, were screened during FY23, with several high-graded opportunities progressing to detailed evaluation stage.

EXPLORATION AND EVALUATION ACTIVITIES

Brazil

Santos Basin, Blocks S-M-1037, S-M-1101, 100% Equity Interest, Operator

In FY23, following extensive planning by Karoon's technical and operational teams, a two well control drilling campaign on the Neon discovery in block S-M-1037, 60 kilometres north-east of Baúna, was successfully completed using the Noble Developer rig.

The control well campaign was designed to address key subsurface uncertainties, to enable an updated resources assessment, and help mature a value-optimised development plan for the Neon field.

Neon-1 (9-NEO-1-SPS) is located 2.1 kilometres south of the Neon oil field discovery well, Echidna-1. This position was selected to test reservoir and fluid properties, and reduce the range of uncertainty on the oil-water contact, in a down-dip location on the southern flank of the field. The well confirmed 39 degree API oil and an oil:water contact consistent with seismic predictions for that area of the field.

Neon-2 (9-NEO-2D-SPS) is positioned 1.2 kilometres north of Echidna-1 and was designed to test reservoir continuity and quality in an area of the field known to be impacted by faulting. The well confirmed thickened reservoir sections and 33 degree API oil in that location. Reservoir pressure measurements in the Paleocene primary targets of both Neon 1 and Neon 2 were similar.

Drilling operations were completed safely and within budget during the first quarter of CY23 and met all key subsurface objectives.

An updated Contingent Resource assessment for Neon was subsequently completed, resulting in a 26% and 9% increase in 1C and 2C Contingent Resources, to 37.7 MMbbl and 60.1 MMbbl, respectively. 3C Contingent Resources estimates reduced 3% to 89.5 MMbbl *(see Reserves and Resources on page 32 for full details and notes)*.

Following the successful two well Neon drilling campaign, a reassessment of the 100% owned Neon field resulted in increases in the 1C and 2C Contingent Resource estimates.

The improved Contingent Resource definition for the Neon field will feed into technical and commercial feasibility studies for a potential Neon development, which are currently underway. This work will be progressed and refined as the dataset is augmented by results from ongoing laboratory and seismic reprocessing study programs. Updates to subsurface geotechnical evaluations will be incorporated into the engineering and commercial study workstreams as they become available. Concepts being evaluated include a standalone development utilising a redeployed FPSO, a tie-back connection from Neon to the FPSO at Baúna, and a Neon hub-style development which would involve the tieback of the existing Baúna development, Neon and other potential nearby accumulations to an FPSO at Neon.

If the results of these studies are encouraging, entry to the Concept Select phase is targeted for late first quarter of CY24, subject to strategic capital allocation, and the prevailing supply chain and oil market conditions. Under the Company's provisional Neon timetable, the next milestones would be a decision to enter the Define stage, which would include undertaking FEED activities, which could potentially be made in early CY25, and a Final Investment Decision in late CY25. These decisions are dependent on the potential Neon development achieving Karoon's internal hurdles at each decision gate.

In addition to progressing the Neon foundation development opportunity, work took place on maturing the Neon West prospect, located two kilometres west of the Neon field. The Neon West prospect is structurally and stratigraphically analogous to Neon and exhibits direct hydrocarbon indicators on seismic.

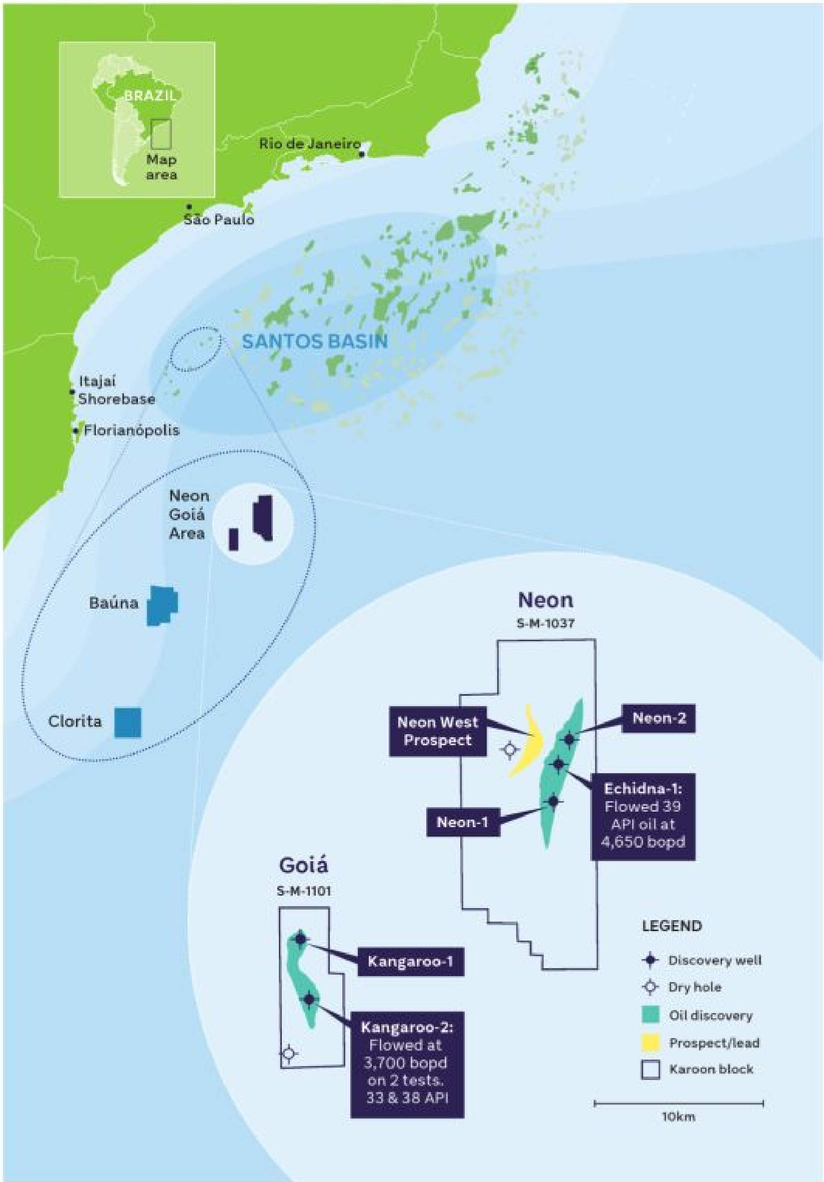
As a result of the work on Neon West, Karoon booked 14.8 MMbbl of 2U Prospective Resources for the prospect *(see Reserves and Resources on page 32 for full details and notes).*

60.1 MMbbl

9% Increase in Neon 2C Contingent Resources

14.8 MMbbl

2U Prospective Resources booked for Neon West prospect



Seismic reprocessing studies, due to be completed over the next twelve months, will be key to de-risking Neon West. Together with the nearby Goiá field and other nearby opportunities, there is potential for significant incremental resources in the Neon region. These opportunities will be evaluated to assess the full resource potential of the area and feasibility of a Neon hub-style development plan, which could bring significant additional production to Karoon.

Santos Basin, Block S-M-1537, 100% Equity Interest, Operator

Geological and geophysical studies continued over the year on the S-M-1537 block, located 50 kilometres south of Baúna. Activities were focused on de-risking the Clorita Prospect, which is targeting the same high-quality Oligocene turbidite reservoirs seen in the Baúna field to the north. To date, no material drillable leads or prospects have been identified within the block.

Other activities in Brazil

Over the year, Karoon continued to monitor and evaluate acreage acquisition opportunities potentially available through Brazilian regulatory release cycles. All potential new acreage acquisitions are screened against strict criteria and tests.

Australia

WA-315-P and WA-398-P contingent payments

At the end of FY23, outstanding deferred milestone payments relating to Karoon's sale of a 40% interest in permits WA-315-P and WA-398-P in the Browse Basin, including the Poseidon gas discovery, to Origin Energy Browse Pty Ltd in June 2014, remained on foot. These contingent payments comprise US$75 million due at FID, US$75 million due at first production and a resource step-up payment of up to US$50 million payable on first production.

New Ventures activity

Karoon's New Ventures team continued to seek high-quality, inorganic growth opportunities during FY23. A large number of assets were screened, which led to several being evaluated in detail.

The Company is targeting value-accretive assets that can add scale, as well as asset and geographical diversification. Any acquisition opportunity is assessed relative to the value of returning capital to shareholders. Karoon is committed to being highly disciplined and rigorous in its evaluation process.

Karoon's key asset selection priorities are as follows:

- Producing or close to production, providing immediate cash flow.
- Existing expansion and/or near-field exploration opportunities, supporting potential production upside.
- Competitive cost structure and low break-even.
- Fundable.
- In a jurisdiction with a stable governance and regulatory framework.
- Ability to leverage existing capabilities.
- Can be accommodated within Karoon's carbon management objectives.

The Company's geographical focus areas are offshore Brazil and in the US Gulf of Mexico, which are in a similar time zone and where Karoon's technical and commercial staff have considerable experience and knowledge.

Karoon is targeting value-Neon accretive assets that can add scale as well as asset and geographical diversification.

OUTLOOK

Planned activities over the next twelve months include the following:

- Continued maturation of the Neon field and the integration of additional well data into the technical and commercial feasibility studies.
- Evaluation of whether to enter the next stage of the Neon project maturation process, Concept Select, with a decision aimed for late first quarter of CY24, in the event of a positive outcome of current studies.
- Evaluation of strategic merger and acquisition opportunities.
- Assessment of organic growth opportunities presented by the regular bid rounds and Permanent Offer processes in Brazil.

DELIVERING SUSTAINABLE OPERATIONS

Sustainability is a core element of Karoon's business strategy and underpins the Company's vision to deliver energy through safe, reliable, and responsible operations.

Karoon's five core pillars of sustainability are:

- Health, Safety and Security
- Climate
- People and Culture
- Community
- Environment

Executive remuneration is linked to specific outcomes within the safety and climate pillars, which reflect the Company's core ESG priorities *(refer to Remuneration Report on page 47).*

COMMITMENT TO SUSTAINABILITY

During FY23, Karoon demonstrated its commitment to sustainability through:

- Making progress on its Carbon Management Action Plan.
- Continuing to embed a 'safety first' culture.
- Investing in additional social projects in Brazil.
- Building a sustainability team in Brazil and Australia.
- Reinforcing the role of the Board and its Sustainability and Operational Risk Committee in overseeing sustainability risks and opportunities through a review of the Board and Committee charters.

During the year Karoon also continued to improve its sustainability reporting. The Sustainability Report contains the 2023 TCFD-aligned Climate Report and references the Global Reporting Initiative (GRI) Standards index to enhance reporting transparency.

Full details under each of the five pillars, including Karoon's governance framework and approach to risk management, can be found in the 2023 Sustainability Report.

HEALTH AND SAFETY

Safety

Karoon's success is built on the foundation of a strong 'safety first' culture. The Company's safety metrics improved in FY23, despite the significant increase in the complexity of work undertaken and the number of hours worked in Karoon's operations for the Baúna interventions, Patola development and Neon control wells. Only one Lost Time Injury was reported during FY23 compared to four in FY22. *For further details, refer to the Production and Development section on page 19.*

LTIR* 0.10

(0.77 in FY22)

TRIR* 0.41

(0.77 in FY22)

* Per 200,000 work hours.

Cybersecurity

Recognising the challenges posed by the increasing prevalence of cyber security threats in today's digital age, Karoon has implemented changes to both the governance and oversight of its cyber security risk and strengthened its data management framework. During FY23, Karoon employed a dedicated Cyber Security and IT Manager, conducted cybersecurity risk assessments and modernised its security control foundation, aligned to the National Institute of Standards (NIST) Cybersecurity Framework. No cybersecurity breaches were experienced over the year. *Refer to Karoon's Sustainability Report for more detail regarding Karoon's cybersecurity strategy.*

CLIMATE

As an oil producer, Karoon recognises the challenge of helping provide energy security while contributing towards a global decarbonisation pathway. The Company is committed to remaining Carbon Neutral on Scope 1 and 2 emissions from the Baúna Project and is targeting Net Zero on Scope 1 and 2 emissions by 2035.

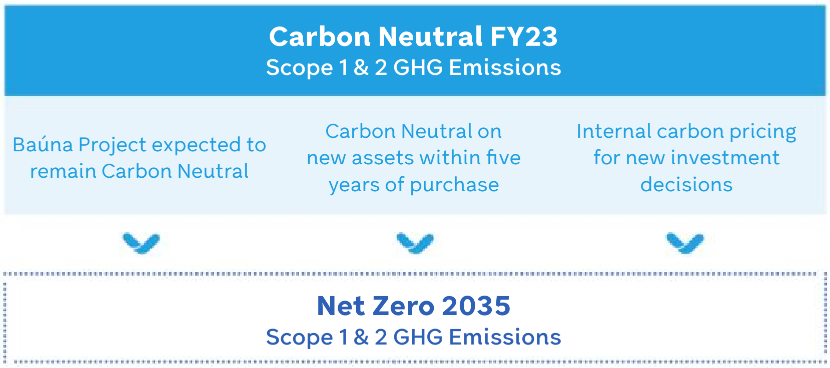
CLIMATE STRATEGY

Strategy Review

Karoon completed a review of its Climate Strategy during FY23, engaging an international consultant to advise on Karoon's climate targets and Carbon Management Action Plan. The review supported Karoon's current approach and confirmed that Karoon's targets reflect a strong and ambitious commitment to mitigating climate risks for a company of Karoon's size.

Karoon's Carbon Management Action Plan prioritises reducing or avoiding emissions where viable. Given the limitations of Karoon's existing facilities, the inclusion of offsetting in Karoon's strategy is currently necessary. The Company recognises the importance of ensuring offsets are of a high quality and is therefore committed to investing in carbon sequestration projects where possible and only purchasing additional offsets as required. Karoon has a preference to use removals-based offsets as they become available. From 2035 onwards, Karoon is aiming to invest in, and where necessary purchase additional, removals-based offsets only.

Climate Strategy



Carbon Management Action Plan

Improvements to climate reporting

Karoon is committed to transparent reporting and strives to continue to improve its alignment to key reporting frameworks, especially TCFD. Several improvements have been made in the 2023 Climate Report (included in the Sustainability Report), including the use of NGFS scenario data and the REMIND-MAgPIE model in Karoon's TCFD scenario analysis, the use of location-specific (Itajaí, home of Karoon's shorebase) physical climate risk information in assessing risk and opportunities and the disclosure of Karoon's internal carbon price.

While the 2023 Sustainability Report seeks to align to both the TCFD and the Global Reporting Initiative (GRI) standards, the Company plans to review its sustainability reporting framework to ensure compliance with future mandatory reporting requirements. This will include working toward full alignment to the International Sustainability Standards Board (ISSB) standards S1 and S2 that were released in June 2023. (*Refer to Karoon's Sustainability Report*).

Karoon's climate related performance

In FY23, Karoon's Scope 1 and 2 emissions were 142,074 tCO_2e. This is significantly higher than in FY22 due to materially higher activity levels from the Baúna intervention program, Patola development and Neon control well drilling, using the Noble Developer rig. The majority of Scope 3 emissions related to the oil Karoon produces and sells lies within Category 11 – Use of Sold Products, which accounts for approximately 93% of Karoon's Scope 3 emissions and 89% of Karoon's total Scope 1, 2 and 3 emissions.

The Scope 1 and 2 emissions intensity of Karoon's operations also increased relative to previous years due to the additional activities. However, on completion of these activities the emissions intensity of Karoon's operations decreased and was less than 10 kg CO_2e/bbl in June 2023.

Karoon will continue to look for opportunities to reduce emissions in its operations for any asset in its portfolio. While production remains high, the intensity is anticipated to be relatively low, but as production declines the emissions intensity will increase.

Avoid and reduce

Karoon avoided 2,864 tCO_2e of Scope 1 emissions during FY23 from the installation of a mooring buoy in FY22, reducing 1,054,000 litres of diesel consumption. In addition, a project to optimise vessel scheduling resulted in a 2,429 tCO_2e reduction in Scope 1 emissions, the majority of which were achieved during the Noble Developer rig campaign.

The Company has commenced a study to identify additional opportunities to improve operational efficiencies.

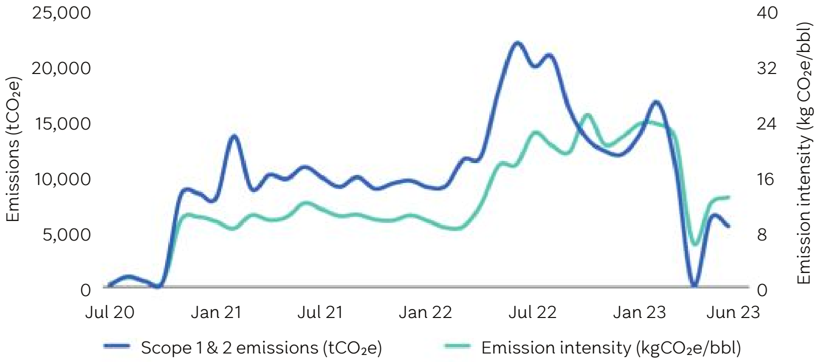
Baúna-Patola emissions fully offset

In FY23, Karoon acquired 93,000 verified emission reduction (VER) units from Shell Western Supply and Trading (Shell) under a long term agreement. The VERs fully offset Karoon's Scope 1 emissions from FY22, with the remainder to be used to partially offset Scope 1 emissions from FY23.

tCO_2e	FY21	FY22	FY23
Scope 1	49,525	82,805	**142,025**
Scope 2	143	65	**49**
Scope 3*	N/A	2,055,229	**3,102,331**
Emissions intensity Scope 1 & 2 (kgCO_2e per bbl)	15.8	17.9	**20.2**

* Scope 3 includes total Scope 3 emissions i.e. both material and non-material emissions.

FY23 Scope 1 & 2 emissions and intensity



REDD+ Tambopata Project in the Tambopata-Bahuaja Biodiversity Reserve, Peru

The rest of Karoon's FY23 emissions will be offset during FY24.

Karoon is working closely with several large nature-based solutions project developers in Brazil and has executed a term sheet to acquire equity directly in a REDD+ project. Karoon expects the project will facilitate exclusive access to the verified carbon units (VCUs or 'carbon credits') generated by the project, located in the Amazon region in Brazil, for up to 10 years.

PEOPLE AND CULTURE

Everything Karoon does is guided by its values of Safety, Integrity, Collaboration, Commitment and Respect. Karoon believes that, to succeed, it is critical that the Company has the right capabilities to operate safely, reliably, and responsibly. Karoon developed a comprehensive People Capability and Culture Plan during FY23 as the Company looks for opportunities to improve collaboration and team performance to achieve Karoon's shared ambitions.

Diversity

Karoon believes a diverse workforce, and the diversity of thought they bring, enables greater innovation and collaboration, and better business outcomes. At 30 June 2023, Karoon had 109 permanent employees, of which 41% were women, exceeding the target of 30%. At year-end, 11% of Senior Leaders were women (previously 17%), while the participation rate of women on the Board was 14% following the addition of a male Non-Executive Director in August 2022. Karoon's gender targets of 30% female participation at Board and Senior Leadership levels remain an area of focus.

Karoon developed a comprehensive People Capability and Culture Plan during FY23 as the Company looks for opportunities to improve collaboration and team performance to achieve Karoon's shared ambitions.

% Female Participation	FY21	FY22	FY23	FY25 (Target)
Board	17	17	**14**	30
Senior Leaders[1]	26	17	**11**	30
Group wide	50	46	**41**	30

1. The term 'senior leaders' is defined for the purposes of the diversity analysis by reference to Karoon's internal organisation structure.

Employee engagement

Karoon is committed to being an employer of choice. The Company strives to create an inclusive workplace that can attract and retain talented staff with different backgrounds, skills and experience. During FY23, Karoon conducted a staff engagement survey and worked with employees across Australia and Brazil to develop an action plan. Various programs were also implemented to motivate and encourage staff to continue developing their talents and expertise. In addition, the Company maintains an Employee Assistance Program (EAP), ensuring that Karoon's employees and their families are supported with services ranging from mental health to financial advice.

Operating with Integrity

Karoon submitted its second Modern Slavery Statement in January 2023 in accordance with its obligations under the *Australian Modern Slavery Act 2018* (Cth). Modern slavery questionnaires were distributed to new suppliers meeting the engagement threshold during FY23. A digital platform was developed in FY23 to improve how modern slavery risks are assessed, which enabled further verification of Modern Slavery questionnaire responses. Karoon is currently also working with its suppliers to improve how modern slavery risks are identified in its supply chain. Karoon's FY23 Modern Slavery Statement will be submitted in December 2023.

All suppliers and employees have access to grievance mechanisms through a Whistleblower reporting service that facilitates both named and anonymous reporting.

ENVIRONMENT

Karoon continued to implement its Baúna Pollution Control Plan, which aims to outperform the regulatory environmental targets and monitors air emissions, water use, and waste minimisation and disposal. Karoon also aims to minimise flaring in operations and prevent any oil spills to sea.

Baúna Pollution Control Plan

Gas produced from operations is used to power the FPSO in the first instance or is reinjected back into the oil reservoir to minimise flaring in operations. However, there are still instances where flaring is required for safety reasons. Karoon recorded an overall rate of flaring of 1.5% in FY23.

There were no significant oil spills or environmental incidents recorded in Karoon's operations in FY23. There was a gas leak recorded in March 2023 that resulted in a shutdown of production (*refer to Production and Development section on page 18*).

Details of the measures taken to protect the local environment around Karoon's operations, the Company's performance against environmental regulatory requirements and targets, and Karoon's economic contributions to state and federal environmental compensation programs in Brazil can be found in the Environment section of the Sustainability Report.

1.5%

Flaring

8ppm

Produced water OIW[1]

Zero

Significant environmental incidents

1. OIW refers to annual average oil in water concentration

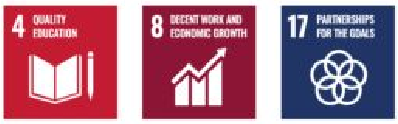
COMMUNITIES

Karoon has been present in Brazil for more than 15 years and is proud of its contribution to the local communities in which it operates and to the local economy in Brazil. Karoon seeks to empower people to create a positive impact on their futures.

Karoon contributed approximately US$142 million in FY23 in employee benefits, payments to governments and social projects in Brazil. In addition, approximately US$8 million was paid in employee benefits and taxes in Australia.

During FY23, Karoon developed guidelines to prioritise community investment based on specific criteria.

The focus areas of Karoon's community investment are goals 4, 8 and 17 of the UN Sustainable Development Goals, which focus on education and employment.



The community projects also considered UN Sustainable Development Goals 3, 5, 7, 10 and 14.

R$1.1m (US$0.2m)

Voluntary social investment in Brazil

R$8.9m (US$1.7m)

Tax incentivised social investment projects in Brazil

The Company contributed to 22 social projects in Brazil during FY23, increasing its community investment in FY23 to US$1.9 million (FY22: Nil). This included three voluntary social projects located in Santa Catarina, the home of Karoon's Baúna operations shore base and two in Rio de Janeiro, the location of Karoon's office in Brazil, and 17 new tax incentivised projects through Brazilian government programs supporting cultural projects, sporting projects, projects for children and projects for the elderly.

In addition to voluntary investments, Karoon continues to support several social projects in compliance with the requirements of its licence to operate. The most notable of these is Project RUMO, which has been running for more than two years and has made a significant contribution to the knowledge and understanding of the coastal environment and use of the Itajaí River (which services Karoon's Itajaí shorebase).

Further information regarding Karoon's commitment to communities in Brazil can be found in Karoon's Sustainability Report.

Scholarships to enable students in Itajaí to complete their secondary education.

Training for artisanal fishermen in Itajaí to enable them to obtain employment and operate safely to create a sustainable income.

Alternative energy project using basic materials and solar panels to provide lighting in a major favella (underprivileged neighbourhood) in Rio. The project provides employment for those installing the equipment. The lights are actually made from reused 1 litre bottles, hence the project is aptly named 'Litre of Light'.

RESERVES AND RESOURCES STATEMENT

DELIVERING RESERVES AND RESOURCES GROWTH

Following the completion of the Baúna intervention campaign, Patola development and Neon control well drilling in FY23, Karoon has reviewed its Reserves and Resources estimates as at 30 June 2023.

After adjusting for FY23 production of 7.0 MMbbl, 2P Reserves have increased 16% to 51.8 MMbbl compared to 30 June 2022. Based on these revisions, Karoon has achieved a 2P Reserves Replacement Ratio in FY23 of 200%[1].

In addition, 2C Contingent Resources at Baúna, Neon and Goiá are 14% higher than previously assessed, at 98.2 MMbbl, and unrisked Prospective Resources for the Neon West prospect, located two kilometres west of the Neon field, have been estimated for the first time, at 14.8 MMbbl.

RESERVES

Karoon's internal assessment of 2P Reserves at 30 June 2023 is 51.8 MMbbl. The revised Reserves assessment takes into account a range of technical and commercial parameters, including the following:

- Recent production data confirming better than expected performance from the existing producing wells. This follows the successful conclusion of interventions in SPS-92, PRA-2 and SPS-56.
- Revised subsurface modelling of Patola capturing reservoir properties at the PAT-1 and PAT-2 wells which were better than pre-drill predictions and recent production data confirming better than expected performance.
- An extension of the assessed economic field life, with reserves now including production up to 2032. Production beyond 2032 has not been classified as Reserves, due to the greater uncertainty on the FPSO maintenance requirements after this date.
- Production between 1 July 2022 and 30 June 2023 of 7.0 MMbbl.

CONTINGENT RESOURCES

2C Contingent Resources at 30 June 2023 are assessed at 98.2 MMbbl oil.

Over FY23, studies took place on the possible extension of the Baúna field life from 2032 to 2038. As a result, 1C, 2C and 3C Contingent Resources of 10.5 MMbbl, 11.1 MMbbl and 14.9 MMbbl, respectively, have been booked associated with a potential FPSO life extension. Offsetting these additions, Baúna Contingent Resources relating to the potential hook-up of the SPS-57 well have been reassessed. Given the uncertainty in resource potential and possible timing of this intervention, 1C, 2C and 3C Contingent Resources of 1.9 MMbbl, 4.2 MMbbl and 8.3 MMbbl, respectively, have been removed from the Contingent Resources estimates. In respect of the Baúna Contingent Resource estimates:

- The estimates reflect Karoon's 100% operated interest in BM-S-40 (as at 30 June 2023).
- A combination of deterministic and probabilistic methods have been used.
- The Contingent Resource figures above reflect the estimated recoverable resource associated with a life extension project.
- There is no identified requirement for the development of new technology.

Following the completion of drilling two control wells on the Neon field, Neon Contingent Resources have been reassessed. 1C and 2C Contingent Resource estimates have increased by 7.7 MMbbl and 5.1 MMbbl respectively, while 3C Contingent Resources have been revised down by 2.5 MMbbl. The revised estimates take into account the following:

- The estimates reflect Karoon's 100% operated interest in S-M-1037 (as at 30 June 2023).
- Probabilistic methods benchmarked against deterministic scenarios have been used to estimate the Contingent Resource.
- The Contingent Resource figures reflect recoverable resource for the whole field. However, any finalised development plan may not recover all these resources.
- Contingent Resources are assessed within the Development Unclarified subclass and have not been subject to commerciality determination.
- In respect of revisions to Resource estimates, the following technical data and interpretation updates were considered:
  - Additional well to seismic calibration points and updated mapping of key seismic events describing reservoir package thickness and areal extent.
  - Revised well to well correlation and updated estimations of reservoir quality at the Neon-1 and Neon-2 well locations.
  - Revised field oil-water contacts based on petrophysical analyses of wireline log, pressure and sample data from Neon-1 and Neon-2.
  - Revised environment of depositional and predictive models for reservoir quality distribution based on sedimentological interpretation of Neon-1 core samples.
  - Updated assumptions for fault properties and potential for infield compartmentalisation.
  - Updated 3D geocellular field modelling and uncertainty analysis determining a revised in-place volume (STOIIP) range for the field.
  - Updated assumptions for reservoir performance and drainage efficiency (recovery factor).

No changes have been made in the Goiá contingent resources assessment from the Karoon 2022 Annual Report statement.

1. Reserves replacement is defined as 2P Reserves additions during the period from 30 June 2022 to 30 June 2023 divided by production over the same period. For FY23, the annual Reserves replacement arises from revisions to the Baúna, Piracaba and Patola Reserves estimates, due to updated technical studies and commercial assessments.

After adjusting for FY23 production of 7.0 MMbbl, 2P Reserves have increased 16% to 51.8 MMbbl.

Net Oil Reserves at 30 June 2023 (MMbbl)

BM-S-40 (Baúna)	1P	2P	3P
Developed Baúna, Piracaba & Patola[1]	39.8	51.8	61.3
Total	39.8	51.8	61.3

1. Producing.

Movement in Net Oil Reserves (MMbbl)

BM-S-40 (Baúna)	1P	2P	3P
Reserves at 30 June 2022[1]	36.5	44.8	61.5
Production Baúna, Piracaba & Patola	-7.0	-7.0	-7.0
Revisions	10.3	14.0	6.8
Reserves at 30 June 2023	39.8	51.8	61.3

1. Disclosed in Karoon 2022 Annual Report.

Net Contingent Oil Resources at 30 June 2023 (MMbbl)

	1C	2C	3C
BM-S-40 (Baúna, Piracaba & Patola)	10.5	11.1	14.9
S-M-1037 (Neon)	37.7	60.1	89.5
S-M-1101 (Goiá)	16.0	27.0	46.0
Total	64.2	98.2	150.4

Movement in Net Contingent Oil Resources (MMbbl)

	1C	2C	3C
Contingent Resources at 30 June 2022[1]	47.9	86.2	146.3
Removal of SPS-57 hook-up	-1.9	-4.2	-8.3
Baúna Life Extension Project	10.5	11.1	14.9
Neon post control well drilling	7.7	5.1	-2.5
Contingent Resources at 30 June 2023	64.2	98.2	150.4

1. Disclosed in Karoon 2022 Annual Report.

Prospective Oil Resources at 30 June 2023 (MMbbl)

	1U	2U	3U
S-M-1037 (Neon West)[1]	6.1	14.8	32.9
Total	6.1	14.8	32.9

1. Geological probability of success is estimated to be 41%.

PROSPECTIVE RESOURCES

Karoon holds a number of interests/licenses with Prospective Resources of varying maturity levels. Unrisked Prospective Resources for the Neon West prospect have been estimated and reported due to the prospect's close proximity to the Neon discovery and its higher probability of technical and commercial viability in the event of resource confirmation. The Neon West Prospective Resource has been estimated primarily using probabilistic methods.

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 30 June 2023 and use a combination of deterministic and probabilistic methods.

Resource volumetric estimates in MMbbl have been rounded to one decimal place.

The reference point for reserves calculation is at the fiscal meter situated on the FPSO Cidade de Itajaí.

Governance and Competent Persons Statement

Members of the Karoon Reserves Committee considered and assessed all proposed changes and additions to the Company's Reserves and Resources (as set out in this report), considering advice and contributions from subject matter experts and external consultants.

All Reserves statements in this report are based on, and fairly represent, information and supporting documents prepared by, or under the supervision of, Martin Austgulen, VP 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' experience, has consented in writing to the inclusion of Reserves and Resources in the format and context in which they appear.

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.

This Annual 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 Annual Report.

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 Annual Report 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 Annual 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.

STRENGTHS AND RISKS

STRENGTHS

- 100% owner and operator of quality production asset, producing 33–38° API crude oil with no material impurities.
- Clear corporate strategy, including sustainability targets.
- Operates in Brazil, an attractive oil and gas jurisdiction.
- Potential for organic growth via the Neon field.
- Robust financial position and balance sheet with demonstrated ability to access debt financing.

MATERIAL BUSINESS RISKS

- Lower than expected demand for oil or low oil prices may negatively impact revenues, available liquidity or access to capital markets, resulting in funding shortfall and/or inability to service debt. Declines in the price of oil and continuing price volatility may also lead to revisions of the medium and longer-term price assumptions for oil from future production, which, in turn, may lead to a revision of the value of the Company's assets.
- Oil production and recovery volumes may differ from Karoon's assumptions and forecasts.
- Unplanned interruptions to production arising from reliance on third party assets and operators may result in inability to meet production forecasts and generate revenue to support delivery of base business and to fund growth.
- Estimated quantities of Reserves and Contingent Resources are based on interpretations of geological, geophysical and engineering models and assessment of the technical feasibility and commercial viability of producing the reserves. Estimates that are valid at a certain point in time may alter significantly or become uncertain when new reservoir information becomes available through additional drilling or subsurface technical analysis over the life of the field. As Reserves and Contingent Resource estimates change, development and production plans may be altered in a way that may adversely affect the Company's financial results.
- Geographic, geopolitical and social risks resulting from production located in a single jurisdiction (Brazil) and production concentration risk resulting from single asset production.
- Changes to the rate of taxes imposed on Karoon, changes in tax legislation or changing interpretations enforced by taxation authorities, whether in Australia, Brazil or other foreign jurisdictions in which Karoon operates, could result in immediate impacts on the Company's forecast revenues and financial position.
- Changes in foreign exchange rates and interest rates may negatively impact the Company's liquidity.
- Supply or availability of required infrastructure (including drilling rigs when required), equipment, goods or services could be subject to interruptions, delays or increases in cost, which may impact production, the cost of running Karoon's operations and the economics of future development projects, including Neon.
- Cyber incidents could result in interruptions to, or failure of, the Company's operations and business.
- Regulatory approvals or required licences, including the Company's social licence to operate may not be forthcoming or may be delayed.
- Insufficient cashflow could result in inability to meet contingent payment obligations to Petrobras that might arise under the Baúna acquisition oil-linked contingent consideration regime.

Offtake certainty via leading market participant.

Hedge position significantly reduces exposure to downside oil price risk.

Knowledgeable and experienced staff in all functions of the business.

One of the few companies with pure oil exposure listed on the ASX.

- Insurance coverage may be insufficient to cover all risks associated with oil and gas production, development, exploration and evaluation.
- Karoon may be required, but unable, to raise or attract debt or equity issuance to fund ongoing operations.
- Policies related to climate and the energy transition may adversely affect oil demand, oil prices and oil industry investment and funding behaviour.
- Weather events (including those related to climate change) may result in physical damage to assets or interruption to operations.
- Changes in regulations or investor sentiment regarding measures taken by Karoon to neutralise its carbon emissions.
- Ability to attract, motivate and retain talent.
- Development work has inherent risks and is subject to various hazards including unexpected geological conditions, equipment failures, environmental incidents and risks to the health and safety of personnel and other incidents.
- Oil and gas exploration, development and production activities may damage the environment. If Karoon is responsible, it will be required to remediate such damage which may involve substantial expenditure and adversely affect Karoon's reputation.
- Karoon has entered into a debt facility agreement. In certain circumstances, the facility may be terminated, funding unavailable or withdrawn and/or repayments accelerated.
- Liabilities relating to the Baúna concession (in respect of periods prior to Karoon's ownership) may arise which Karoon is not currently aware of but liable for.

Each of the key risks if they were to materialise, could have a material and adverse impact on (among other aspects) Karoon's business, reputation, growth, financial position and/or financial performance.

Karoon has an established risk management framework in place to identify, assess and mitigate risks in accordance with the materiality and risk tolerance parameters set by the Board of Directors. Corporate, Country and operational asset risk registers are maintained by senior management with oversight from the executive leadership team.

The executive leadership team reports regularly to the Board through the Audit, Risk and Governance Committee (in respect of corporate risks) and the Sustainability and Operational Risk Committee (in respect of operational risks), including mitigation and monitoring plans for all key risks.

DIRECTORS' REPORT

BOARD OF DIRECTORS

Under the Company's Constitution, the minimum number of Directors that may comprise the Board of Directors is currently three and the maximum number of Directors is 10. Directors are elected and re-elected at annual general meetings of the Company.

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

MR BRUCE PHILLIPS

BSc. (Hons), (Geology)

Independent Non-Executive Chairman (Appointed 1 January 2019)

Mr Phillips has approximately 45 years of technical, financial and commercial experience in the global energy industry, encompassing a number of corporate entities. Bruce has extensive experience in upstream oil and gas exploration and production via involvement in projects in Australasia, Africa, Europe and the Americas. He also has considerable experience in governing publicly listed companies, including the chairmanship of four companies listed on the ASX.

During Mr Phillips' executive career he held varied positions within the industry initially as a geophysicist for AMAX and Esso, graduating to a business development role at Command Petroleum Limited and General Manager of Petroleum Securities Australia Limited. In 1997, Mr Phillips founded AWE Limited and held positions as CEO, Chairman and Non-Executive Director.

He is currently the Chairman of ALS Limited (ASX: ALQ), is the former Chairman of Platinum Capital and AWE Limited (now part of Mitsui Corporation), and a former Non-Executive Director of AGL Energy Limited (ASX: AGL) and Sunshine Gas Limited (ASX: formerly SHG pre-merger with QGC).

He is a member of the Petroleum Society of Australia and the Australian Society of Exploration Geophysicists.

Current directorships of other listed companies include: Chair, ALS Limited.

Member of the People and Culture Committee.

Chairman of the Board of Directors. Mr Phillips was last re-elected to the Board on 26 November 2021.

DR JULIAN FOWLES

BSc. (Hons), PhD, Grad Dip App Fin Inv, GAICD

Chief Executive Officer and Managing Director (Appointed 27 November 2020)

Dr Fowles started his career with Shell International where he spent 17 years working across the upstream sector in Europe, West Africa, Australasia, South Asia and Latin America, including five years as the Exploration and New Ventures Manager in Shell Brazil. Following Shell, he held senior executive positions with Cairn India, Petra Energia, and most recently Oil Search, where he firstly led exploration and new business and then the PNG operated and non-operated oil and LNG production and development businesses. Leaving Oil Search in late 2018, Dr Fowles joined the boards of Central Petroleum and FAR Limited in 2019 as an independent non-executive director, roles he relinquished prior to joining Karoon in November 2020.

Dr Fowles speaks Portuguese and is a Graduate of the Australian Institute of Company Directors. He holds a BSc (Hons) degree in Geology from the University of Edinburgh and a PhD from the University of Cambridge. Dr Fowles also holds a Graduate Diploma in Applied Finance and Investment from the Australian Securities Institute.

MS LUCIANA BASTOS DE FREITAS RACHID

B. Chem Eng. Post Grad Degree Corporate Finance

Independent Non-Executive Director (Appointed 26 August 2016)

Ms Rachid has over 40 years' experience in the oil and gas industry in both technical and senior leadership roles in Brazil, including 20 years in the Exploration and Production Division of Petrobras.

Ms Rachid's technical experience covers a variety of project evaluation, development and management roles, the design of the first offshore platforms in the Campos Basin, the production, handling and processing of natural gas onshore and offshore and the coordination of the Petrobras E&P Deepwater Strategic Project.

Ms Rachid has also held positions in the Petrobras financial team including Executive Manager of Investor Relations and Executive Manager of Financial Planning and Risk Management. In addition, she served as Chief Executive Officer of Transportadora Brasileira Gasoduto Bolivia-Brasil SA (TBG) and Chief Executive Officer of Transportadora Associada de Gás SA (TAG), each of which is a subsidiary of Petrobras.

Ms Rachid also has served on several boards in Brazil. She has represented Petrobras as Chairperson of TBG and GásBrasiliano Distribuidora SA as well as a Director of TAG, Companhia de Gásde Minas Gerais and Companhia Paranaense de Gás.Chair of the Sustainability and Operational Risk Committee. Ms Rachid was last re-elected to the Board on 26 November 2021.

MR PETER BOTTEN AC, CBE

BSc. (Hons), (Geology)

Independent Non-Executive Director (Appointed 1 October 2020)

Mr Botten is a highly experienced and successful former Chief Executive and internationally recognised business leader with over 40 years' experience in the international resources sector. His executive career was dominated by his 26-year tenure as CEO of Oil Search, where he was instrumental in driving its growth from a market capitalisation of A$200 million to a peak of A$15 billion.

Peter's executive experience spanned all aspects of the upstream petroleum sector, including in upstream oil and gas exploration, development and production operations through his involvement in projects in PNG, Australia, Africa, the Middle East and North America.

Peter also has considerable experience in governing and growing ASX listed companies and other business entities.

Peter holds a Bachelor of Science (Geology) from the Imperial College of Science and Technology, London University and the Royal School of Mines. In recognition of building relations between Australia and PNG, along with services to business and communities in PNG, Peter was awarded Companion of the Order of Australia (AC) along with Commander of the British Empire (CBE).

Current directorships of other listed companies include: Chair, Aurelia Metals Ltd (ASX: AMI) and Chair, Conrad Asia Energy (ASX: CRD)

Previous directorships in the last three years include: Chair, AGL Energy Limited (ASX: AGL), ceased September 2022 and Managing Director of Oil Search (ASX: OSH), ceased February 2020.

In March 2023 Mr Botten was appointed Deputy Chairman of Karoon following Bruce Phillips' decision to retire from the Karoon Board at the conclusion of the 2023 AGM. It is intended that Mr Botten will succeed Mr Phillips as the Chair of Karoon Board at the conclusion of the 2023 AGM.

Member of the Audit, Risk and Governance and Sustainability and Operational Risk Committees. He was elected to the Board on 27 November 2020.

MR CLARK DAVEY

B. Commerce, FTIA, MAICD

Independent Non-Executive Director (Appointed 1 October 2010)

Mr Davey is an independent Company Director with long experience in the natural resources industry as a taxation and strategy advisor. Clark was a partner at Price Waterhouse and PricewaterhouseCoopers for several years with an oil and gas and natural resources specialty holding industry leadership roles in both firms. Clark is a member of the Australian Institute of Company Directors.

The wealth of taxation and business advisory experience Clark brings to Karoon includes input on international company tax, Australian and overseas resource and indirect taxation and oversight of accounting, governance and capital management procedures. Clark has advised many companies with both tax and management of joint venture interests as well as merger and acquisition transactions. He has also assisted both listed and unlisted companies expand their resource industry interests internationally.

Chair of the Audit, Risk and Governance Committee and member of the People and Culture Committee. Mr Davey was last re-elected to the Board on 24 November 2022.

MR TADEU FRAGA

B. Eng

Independent Non-Executive Director (Appointed 26 August 2022)

Mr Fraga has over 40 years of experience in the oil and gas sector, including 23 years as an executive at Petrobras. Mr Fraga held various positions at Petrobras over his career, including as Campos Basin Production General Manager, Gulf of Mexico E&P Operations Manager, Board Member Petrobras Argentina SA, General Manager – Domestic Oil and Gas Production, Executive Manager – E&P Brazil – South and Southeast Regions, Executive Manager – Research and Development and E&P Executive Manager – Pre-Salt Developments. During his career at Petrobras, Mr Fraga led the team involved in the development of various technologies applied on pre-salt fields and played a vital role in the development of pre-salt discoveries, being responsible for the implementation of several projects, from conceptual design to first oil.

Mr Fraga is a former CEO of Prumo Logistic and of the Porto do Açu, a former Chief Technology Officer at Gran Energia, as well as a former Board member of Gran Bio, GranIHC, Ultrapar, MRO Logistics, Ferroport, Gás Natural do Açu and Porto do Açu (being the Chairman in the last three). Mr Fraga has also served as a board member of several technology institutions in Brazil, where he made substantial contributions to technological development at universities and research institutes.

Mr Fraga currently serves as a board member of Radix Engenhaira e Software, Vast Infraestrutura (formerly Açu Petróleo) and the Brazilian Institute for Petroleum, Natural Gas and Biofuels (IBP). Mr Fraga is also an advisor to both Serviços de Petróleo Constellation and Prumo Logistica.

During his career, Mr Fraga has received recognition from various institutions, including "Brazilian Oil Industry Personality of the Year" (2008) from the Society of Petroleum Engineers (SPE), "Commander Degree" (2010) from the Brazilian National Order of Scientific Merit, "Industry Achievement Award" (2012) from the American Society of Mechanical Engineers (ASME), "Personality of the Year for Innovation" (2017) from the Brazilian National Agency of Oil, Gas and Biofuels and "Distinguished Individual Award" (2019) from the Offshore Technology Conference (OTC).

Mr Fraga holds a Bachelor of Engineering from the Universidade Federal do Rio de Janeiro and is a post-graduate in Petroleum Engineering from Universidade Petrobras. He has also attended executive education programs at University of Alberta (Management and Regulation in the Petroleum Industry), Columbia University (Executive Education in Business Administration), INSEAD (Technology Management), London School of Economics (Strategic Leadership), and Brazilian Institute for Corporate Governance – IBGC (Board Member).

Member of the Sustainability and Operational Risk Committee.

MR PETER TURNBULL AM

B. Commerce, LLB, FGIA (Life), FAICD

Independent Non-Executive Director (Appointed 6 June 2014)

Peter Turnbull is an experienced ASX independent non-executive director and chair with significant exposure to the global mining, energy and technology sectors.

Peter brings to the board significant commercial, legal and governance experience gained from working with boards and management to build company value for shareholders both organically and through mergers, acquisitions and other corporate routes. Peter also has expertise in the commercialisation and scaling of new technologies and building new companies to take new technologies to market.

In addition, Peter has significant regulatory and public policy experience from prior executive roles including as a Director of the Securities & Futures Commission of Hong Kong and roles with ASIC. Over time, Peter has held roles as a director or senior officer of several global organisations which promote best practice governance and is a regular contributor and speaker in Australia and overseas on corporate governance issues. Peter is a former President and current Life Member of the Governance Institute of Australia and is the immediate past President of the global Chartered Governance Institute.

Peter's senior executive roles over 30 years involved significant experience in very large publicly listed organisations with global operations, particularly South East Asia, Europe and the USA. This experience included over a decade in energy markets and the resources sector including as Company Secretary of Newcrest Mining Limited, Company Secretary and General Counsel of BTR Nylex Limited and General Manager, Legal and Corporate Affairs with Energex Limited.

In June 2020, Peter was made a member of the Order of Australia for services to business and corporate governance institutes.

Current directorships of other listed companies include: Chair, Calix Limited (ASX: CXL), since its ASX listing on 20 July 2018. He is also the Chair of Auxita Pty Ltd.

Chair of the People and Culture Committee.

Member of the Audit, Risk and Governance and the Sustainability and Operational Risk Committees. Mr Turnbull was last re-elected to the Board on 24 November 2022.

Company Secretary

MR DANIEL MURNANE

BA.LLB

Appointed on 8 December 2022

Daniel has more than 16 years' experience gained in Australia and internationally, including over 12 years advising resources companies. He has worked as a senior associate in private legal practice predominantly for energy companies on mergers and acquisitions, major projects, capital raisings and commercial disputes.

In addition, Daniel has held various in-house roles spanning legal and corporate governance environments, including with ASX and NYSE listed oil and gas companies.

Daniel is qualified as a solicitor in New South Wales and Papua New Guinea and holds a Bachelor of Arts and a Bachelor of Laws.

MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and attendance by each Director of the Company during the financial year were:

	BOARD MEETINGS		AUDIT, RISK AND GOVERNANCE COMMITTEE MEETINGS		SUSTAINABILITY AND OPERATIONAL RISK COMMITTEE MEETINGS		PEOPLE AND CULTURE COMMITTEE MEETINGS	
DIRECTOR	A	B	A	B	A	B	A	B
MR BRUCE PHILLIPS	17	16	–	–	–	–	5	4
DR JULIAN FOWLES	17	17	–	–	–	–	–	–
MS LUCIANA RACHID	17	17	–	–	4	4	–	–
MR CLARK DAVEY	17	17	6	6	–	–	5	5
MR PETER TURNBULL	17	17	6	6	4	4	5	5
MR PETER BOTTEN	17	16	6	6	4	4	–	–
MR TADEU FRAGA	15	15	–	–	3	3	–	–

A. The number of meetings held during the time the Director held office during the financial year.

B. The number of meetings attended during the time the Director held office during the financial year.

DIRECTORS' INTERESTS IN THE COMPANY'S SHARES, SHARE OPTIONS AND PERFORMANCE RIGHTS

As at the date of this Directors' Report, the Directors held the following number of ordinary shares and performance rights over unissued ordinary shares (and did not hold any share options over unissued ordinary shares) in the Company:

DIRECTOR	ORDINARY SHARES, FULLY PAID	UNLISTED PERFORMANCE RIGHTS
DR JULIAN FOWLES	673,539	1,009,629[1]
MR BRUCE PHILLIPS	1,750,000	–
MS LUCIANA RACHID	52,960	–
MR CLARK DAVEY	147,214	–
MR PETER TURNBULL	173,000	–
MR PETER BOTTEN	–	–
MR TADEU FRAGA	–	–

1 Subject to shareholder approval at the 2023 Annual General Meeting, the CEO/MD will be issued a further 12,649 performance rights associated with the 2023 Long Term Incentive.

PRINCIPAL ACTIVITIES

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There was no significant change in the state of affairs of the Company during the financial year.

RESULTS

Financial results for FY23 are summarised below:

FY23 FINANCIAL SUMMARY

YEAR TO 30 JUNE	2023	2022*
Production volume (MMbbl)	**7.04**	4.64
Oil sales volume (MMbbl)	**7.06**	4.54
Unit production costs[1] ($/bbl)	**15.75**	25.36
Weighted average net realised price ($/bbl)	**80.20**	84.74
	US$ MILLION	**US$ MILLION**
Sales revenue	**566.5**	385.1
Underlying EBITDA[2,3,5]	**321.8**	205.2
EBITDA[2,3]	**308.5**	(28.4)
Net interest and other finance costs	**6.0**	5.7
Depreciation and amortisation[4]	**86.4**	55.7
Underlying net profit before income tax[2,5]	**229.5**	143.8
Underlying net profit after income tax[2,5]	**145.9**	85.6
Net profit/(loss) after income tax	**163.0**	(64.4)
Operating cash flows	**305.9**	154.2
Net assets	**473.6**	276.2
Investment Expenditure:		
– Baúna intervention and Patola capital expenditure[6]	**190.9**	92.0
– Exploration and evaluation capital expenditure[7]	**44.8**	–
– Other plant and equipment[8]	**2.7**	5.0

* FY22 underlying NPAT has been restated from US$89.6m to $85.6m, to include the cumulative translation adjustment impact on deferred tax.

1. Unit production costs are presented on a pre–AASB 16 basis and include operating costs and the FPSO Charter lease costs associated with Baúna production.
2. EBITDA (earnings before interest, tax, depreciation, depletion, and amortisation), underlying EBITDA, 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. Includes depreciation on FPSO charter lease right-of-use asset and finance charges on the FPSO right-of-use lease.
4. Excludes depreciation on FPSO charter lease right-of-use asset.
5. Underlying EBITDA, underlying net profit before tax ('NPBT') and underlying net profit after tax ('NPAT') have been adjusted for the following items:

	2023		2022	
YEAR TO 30 JUNE	NPAT US$ MILLION	EBITDA US$ MILLION	NPAT US$ MILLION	EBITDA US$ MILLION
Statutory results	**163.0**	**308.5**	(64.4)	(28.4)
Change in fair value of contingent consideration	**3.4**	**5.2**	149.9	227.1
Realised losses on cash flow hedges	**4.8**	**7.1**	7.8	11.8
Foreign exchange losses/(gains)	**0.4**	**0.8**	(4.3)	(6.2)
Employee restructure cost	**-**	**-**	0.6	0.9
Social investments/sponsorships	**-**	**1.9**	-	-
Write-back of inventory impairment	**(1.1)**	**(1.6)**	-	-
Cumulative translation adjustment impact on deferred tax	**(24.6)**	**-**	(4.0)	-
Total adjustments	**(17.1)**	**13.4**	150.0	233.6
Underlying results	**145.9**	**321.8**	85.6	205.2

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

During the financial year, Karoon produced 7.04 MMbbl of oil from the 100% owned and operated Baúna Project in BM-S-40 in Brazil, produced at an average rate of 19,278 bopd. This compares to total production of 4.64 MMbbl in the previous financial year (12,707 bopd). The 52% production increase included the first contributions from the successful Baúna intervention campaign and Patola development.

Fifteen cargoes (including one part-cargo) were lifted during the financial year, up from nine cargoes in the previous financial year. These cargoes were sold to end customers in Europe, Asia and North and South America. Revenue for the financial year was $566.5 million, 47% higher than in the previous financial year, as higher production offset the lower realised average oil price, down 5% from $84.74/bbl in FY22 to $80.20/bbl.

Unit production costs (comprising operating costs plus the FPSO charter lease costs) for the financial year were $15.75/bbl, representing a 38% decrease from the previous financial year of $25.36/bbl. Cost of sales for the financial year was $283.2 million (2022: $191.7 million) and gross profit was $283.3 million (2022: $193.4 million). The increase in cost of sales was primarily due to higher depreciation and amortisation of oil and gas assets and includes depreciation associated with the right-of-use asset (the FPSO lease). Cost of sales does not include finance charges on the FPSO right-of-use lease of $15.3 million (2022: $16.8 million), which are disclosed as part of finance costs. The other driver of the increase in cost of sales was royalties and government take which included the one-off impact of the temporary export tax levied from 1 March to 30 June 23, costing Karoon $14.6m.

The Group recognised an underlying net profit after income tax of $145.9 million (2022: $85.6 million) for the financial year with a statutory net profit after income tax of $163.0 million (2022: loss of $64.4 million). Other key items impacting the result during the financial year were as follows:

- Finance costs of $25.4 million (2022: $22.7 million) comprising finance charges on lease liabilities of $15.5 million (2022: $16.9 million) including the FPSO lease in relation to the Baúna operations of $15.3 million, discount unwinding on the net present value of the provision for restoration of $5.0 million (2022: $2.4 million), other finance costs of $2.8m (2022: $1.3m) and interest expense of $2.1 million (2022: $2.1m).
- Corporate costs of $20.7 million (2022: $15.4 million) which include net employee benefits expense, insurance and director fees.
- Realised losses on out of the money oil hedges and amortisation of hedge premiums of $7.1m (2022: $11.8m)
- Share-based payments expenses of $3.1 million (2022: $5.7 million).
- Social investment/sponsorships of $1.9 million (2022: Nil). This is a scheme which under Brazilian tax law permits a company when paying tax to direct a portion of this payment to specific government approved projects. There is no net cost to the company as this amount replaces tax payable. It is classified as an expense in the financial statements rather than within income tax.
- Exploration and evaluation expenditure expensed of $3.9 million (2022: $3.2 million)

The result included income tax expense of $53.2 million (2022: 25.4 million benefit). Income tax is impacted each year by movements in deferred tax relating to temporary differences between the carrying amount of non-monetary assets and liabilities and their tax base. This arises as the functional currency and reporting currency of the Company's Brazilian branch is US dollars (US$), while tax is determined and settled in the local currency, Brazilian REAL R$. This will continue to move each reporting period in line with the variation in conversion rates between R$ and US$. During the financial year, due to the appreciation of the R$ against the US$, this movement generated a significant income tax benefit of $24.6 million (2022: $4.0 million). The calculation of underlying net profit after income tax has been adjusted for this non-cash adjustment.

CASH FLOWS

Cash inflows from operations for the financial year were $305.9 million, compared to $154.2 million in the previous financial year. The increase in operating cash flows reflected the higher oil sales proceeds of $552.9 million (2022: $362.9 million). Operating cash payments for the financial year included:

- Payments to suppliers and employees, including production costs and royalties of $135.2 million (2022: $116.5 million).
- Payment of income tax of $78.8 million (2022: $39.4 million), including social investments/sponsorships in lieu of tax of $1.9 million (2022: Nil).
- Payments for cash flow hedges of $13.4 million (2022: $20.8 million) and interest and other costs of finance paid of $19.8 million (2022: $18.9 million), predominantly relating to finance charges on the FPSO lease.

Cash outflows from investing activities for the financial year were $356.2 million (2022: $113 million). The larger cash outflow reflected:

- Higher capital expenditure relating to the Baúna intervention campaign, Patola development and ongoing field maintenance of $222.5 million (2022: $59.6 million).
- The first contingent consideration payment to Petrobras for the Baúna acquisition of $84.5 million (2022: $43.6 million for the Baúna deferred firm consideration payment).
- Neon control wells of $43.1 million (2022: Nil).

Net cash outflows from financing activities for the financial year were $34.2 million (2022: $15.5 million), representing the principal elements of lease payments. There was no cash inflow from the drawdown of debt facilities (2022: $30.0 million).

FINANCIAL POSITION

At the end of June 2023, the Group had a cash and cash equivalents balance of $74.8 million (30 June 2022: $157.7 million) and total liquidity (cash and undrawn debt facilities) of $254.8 million.

The Group's current assets decreased by $78.4m to $167.2 million, largely due to the funding of capital expenditure (CAPEX) from cash balances. Current liabilities decreased by $51.2 million to $196.2 million as at 30 June 2023, resulting predominantly from fair value movements of hedge liabilities and a reduction in CAPEX-related trade payables.

During the financial year, total assets increased from $1,164.2 million to $1,190.4 million, total liabilities decreased from $888.0 million to $716.8 million and total equity increased from $276.2 million to $473.6 million. The major changes in the consolidated statement of financial position included:

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

REVIEW OF OPERATIONS

Information on the operations of the Group is set out in the Operations Review on pages 18 to 35 of this Annual Report.

BUSINESS STRATEGIES AND PROSPECTS, LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

DIVIDENDS

No dividend has been paid or declared by the Company to shareholders since the end of the previous financial year.

SHARE OPTIONS AND PERFORMANCE RIGHTS

As at the date of this Directors' Report, there are no share options over unissued ordinary shares in the Company.

As at the date of this Directors' Report, there were 6,179,137 performance rights issued under the 2019 PRP and 2022 PRP respectively, representing approximately 1.09% of the Company's total number of shares issued. The details of performance rights over unissued ordinary shares in the Company were as follows:

TYPE	GRANT DATE	DATE OF EXPIRY	EXERCISE PRICE PER PERFORMANCE RIGHT	NUMBER OF PERFORMANCE RIGHTS
Performance rights	25 September 2020	30 June 2024	$–	1,571,826
Performance rights	23 March 2022	30 June 2025	$–	928,327
Performance rights	6 May 2022	30 June 2025	$–	1,246,439
Performance rights	24 November 2022	30 June 2026	$–	432,577
Performance rights	16 December 2022	30 June 2024	$–	167,437
Performance rights	16 December 2022	30 June 2026	$–	1,726,970
Performance rights	31 March 2023	30 June 2026	$–	105,561
Total performance rights				**6,179,137**

For details of performance rights issued to Directors and other key management personnel of the Company as remuneration, refer to the Remuneration Report in this Directors' Report.

2,434,214 fully paid ordinary shares have been issued since 1 July 2023 as a result of the vesting and conversion of performance rights under the 2019 Performance Rights Plan and the 2022 Performance Rights Plan (each being a 'PRP').

Information relating to the Company's PRP and share options, including details of performance rights and share options granted, exercised, vested and converted, cancelled, cash-settled, forfeited and expired during the financial year and performance rights and share options outstanding at the end of the financial year, is set out in Note 29 of the consolidated financial statements.

No share option or performance right holder has any right under the share options or performance rights to participate in any other share issue of the Company or any other entity.

INDEMNIFICATION OF DIRECTORS, OFFICERS AND EXTERNAL AUDITOR

An indemnity agreement has been entered into between the Company and the Directors of the Company named earlier in this Directors' Report and with the full-time executive officers, directors and secretaries of the Company and all Australian subsidiaries. Under this agreement, the Company has agreed to indemnify, to the extent permitted by law, these Directors, full-time executive officers, directors and secretaries against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. The Company has also entered into a contract of insurance in respect of any liability incurred by the Directors, full-time executive officers, directors and secretaries (referred to above) in such capacity. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium (which is paid by the Company).

As approved by shareholders at the 2009 Annual General Meeting, the Company will continue to pay those Directors' insurance premiums for a period of ten years following termination of their directorships of the Company and will provide each Director with access, on ceasing for any reason to be a Director of the Company and for a period of ten years following cessation, to any Company records which are either prepared or provided to the Director during the time period they were a Director of the Company.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or external auditor of the Company or of any related body corporate against a liability incurred as such by an officer or external auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to any such proceeding during the financial year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate governance in order to drive performance and accountability, the Directors support the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Company's Corporate Governance Statement can be found under the Governance tab on the Company's website at www.karoonenergy.com.au.

ENVIRONMENTAL REGULATION

The Company and its subsidiaries are subject to a range of relevant Commonwealth, State and International environmental laws in the jurisdictions in which the Group operates.

The Board of Directors believes the Company has adequate systems in place for managing its environmental obligations and is not aware of any material breach of those environmental obligations as they apply to the Company and/or Group.

GREENHOUSE GAS EMISSIONS AND REPORTING REQUIREMENTS

Relevant entities are required to report greenhouse gas emissions, energy consumption and energy production under the National Greenhouse and Energy Reporting Scheme. The Group was not required to register and report greenhouse gas emissions, energy consumption, or energy production under the scheme for this financial year, as it did not meet the relevant Australian thresholds for the reporting period. Notwithstanding this, details of Karoon's greenhouse gas emissions and approach to climate change risks and opportunities can be found in the Sustainability section on page 27 and in the 2023 Sustainability Report.

NON-AUDIT SERVICES

The Company may decide to engage its external auditor, PricewaterhouseCoopers, on assignments additional to its statutory audit duties where the external auditor's expertise and experience with the Company and/or Group are important.Details of the amounts paid or payable to the external auditor for audit and non-audit services provided during the financial year are set out in Note 7 of the consolidated financial statements.

The Board of Directors has considered the position and, in accordance with written advice received from the Audit, Risk and Governance Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for external auditors imposed by the *Corporations Act 2001*. The Board of Directors is satisfied that the provision of non-audit services by the external auditor did not compromise the external auditor independence requirements of the *Corporations Act 2001* for the following reasons:

(a) all non-audit services have been reviewed by the Audit, Risk and Governance Committee to ensure they do not impact the impartiality and objectivity of the external auditor; and

(b) none of the services undermine the general principles relating to external auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants', including reviewing or auditing the external auditor's own work, acting in a management or a decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and reward.

EXTERNAL AUDITOR'S INDEPENDENCE DECLARATION

A copy of the external Auditor's Independence Declaration for the financial year, as required under Section 307C of the *Corporations Act 2001*, is set out on page 67 of this Annual Report.

No officer of the Company has previously belonged to an audit practice auditing the Company during the financial year.

MATTERS ARISING SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no significant matters or circumstances that have arisen since 30 June 2023 that have significantly affected, or may significantly affect:

- the Group's operations in future financial years;
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

REMUNERATION REPORT

Dear Shareholders,

On behalf of the Board of Directors I am pleased to present to you the Karoon Energy Ltd Remuneration Report for the financial year ended 30 June 2023.

Overview

Karoon's strategy and remuneration structure is designed to link remuneration outcomes to shareholder value. We believe it has achieved this for FY23 by rewarding the achievement of significant operational and strategic goals, while also accounting for the underperformance on production arising from the un-scheduled FPSO shutdown in March – May 2023.

In determining the remuneration outcomes for employees and executives, the Board has considered the overall performance of Karoon and individual executives having regard to the specific goals and objectives set at the beginning of FY23. A key aspect of the overall remuneration approach has been assessment against the measurable objectives set out in the Corporate Scorecard, which is disclosed within the Remuneration Report.

Overview of 2023 Financial Year Remuneration Outcomes

In respect of FY23, Karoon's key remuneration outcomes were:

Total Remuneration of executives	INCREASED	Total remuneration was increased for all executive KMP following an external benchmarking exercise undertaken in January 2023.
Short Term Incentive ("STI")	STI PARTLY AWARDED	60% of the Corporate Scorecard component of the STI was achieved. Individual STI outcomes for KMPs were as follows: 60% CEO/MD and 58% and 65% respectively for the other KMP. In respect of executives, the STI is to be paid 50% in cash and 50% in the form of a grant of performance rights with such rights to be (a) issued after the release of the Company's FY2023 full year financial results and (b) subject to a retention period. Details of performance rights are set out on page 52.
Long term Incentive ("LTI")	LTI AWARDED	100% of the 2021 LTI was awarded in respect of the three-year performance period from 1 July 2020 to 30 June 2023. In respect of the performance period, Karoon was at the 80th percentile, achieving a TSR of 49.1% when compared against the relevant industry peer group.
Board and committee fees	INCREASED	Board and Committee fees paid to the Non-Executive Chair and Non-Executive Directors were increased by 5%, while the fees paid to the Chairs of Board committees was increased by A$5,000 per annum. This was exclusive of the 0.5% superannuation guarantee increase.
2022 AGM Remuneration Report	'99.44%' YES VOTE	Karoon received more than 99.44% of 'yes' votes on a poll to adopt its Remuneration Report for the 2022 financial year. No specific feedback on Karoon's remuneration practices was received at the 2022 Annual General Meeting.

Detailed explanations in respect of the above are set out in the disclosures within the remuneration report.

No board discretion was exercised in relation to FY23 remuneration outcomes.

Remuneration Strategy and Guiding Principles

Karoon's guiding principles for its remuneration framework are as follows:

- **Safety, culture and ethics:** ensuring that clear vesting gateways exist based on appropriate safety and ethical outcomes. If outcomes do not meet the relevant standards, these gateways will block "at-risk" remuneration payments.
- **Shareholder value is paramount:**
  - remuneration outcomes (particularly incentive-based outcomes) are designed to take account of share price movements across the performance period and therefore, the value delivered to shareholders;
  - a close alignment is created between operational performance, delivery of corporate objectives, rewards and sustained growth in shareholder value; and
  - as Karoon has now transitioned from explorer to producer, it is recognised that capital management initiatives should also now be considered.

- **People:**
  - remuneration and people issues are considered by the People and Culture Committee of the Board and environmental and social issues by the Sustainability and Operational Risk Committee of the Board. Nonetheless, all relevant decision-making and associated discussion remains the responsibility of the Board;
  - our remuneration structures are designed to attract, motivate and retain the best people while remunerating them reasonably and competitively; and
  - we encourage our people to hold equity in Karoon which builds a culture of viewing management decisions as an owner, thereby helping to further align executives' and shareholders' interests. In relation to this, during 2023, the new management shareholding policy was reviewed and reconfirmed. Under the policy, KMP are now required to maintain a shareholding in the Company equal to 50% of their first year, fixed remuneration (after-tax) within three years of their initial appointment.
- **Environment, Social and Governance (ESG):** ESG considerations are integrated into our remuneration structures. In FY23, several STI hurdles were included as part of the Corporate Scorecard. These goals related to our people, emissions reduction activities in our operations and pursuing carbon sequestration projects of scale as part of Karoon's overall business strategy.
- **Transparency:** remuneration measures, outcomes and reporting are as simple and transparent as possible for shareholders and other stakeholders.

TY23 Financial Year Remuneration Settings

Looking ahead to the transitional financial year for the six months to 31 December 2023, the underlying remuneration structure and approach to setting incentives for Australian and Brazilian staff members will remain consistent, with the Board, aided by the People and Culture Committee, determining the appropriateness of the remuneration outcomes for TY23.

As always, we will continue to engage with our shareholders, proxy advisors and our wider group of stakeholders to seek feedback so we can continue to refine and improve our remuneration framework and the associated disclosures.

Yours sincerely

Mr Peter Turnbull AM
Chair, People and Culture Committee

23 August 2023

Section 1. Introduction

The Board of Directors is pleased to provide Karoon's Remuneration Report, which details the remuneration for its KMP, defined as those persons having the authority and responsibility for planning, directing and controlling, directly or indirectly, the activities of the Group.

For the financial year ended 30 June 2023, KMP disclosed in the Remuneration Report are as follows:

NAME	POSITION	TERM AS KMP
Executive Directors		
Dr Julian Fowles	Chief Executive Officer and Managing Director	Full financial year
Non-Executive Chairman		
Mr Bruce Phillips	Independent Non-Executive Chairman	Full financial year
Non-Executive Directors		
Ms Luciana Rachid	Independent Non-Executive Director	Full financial year
Mr Clark Davey	Independent Non-Executive Director	Full financial year
Mr Peter Turnbull	Independent Non-Executive Director	Full financial year
Mr Peter Botten	Independent Non-Executive Director	Full financial year
Mr Tadeu Fraga	Independent Non-Executive Director	Commenced 26 August 2022
Other KMP		
Mr Ray Church	Executive Vice President and Chief Financial Officer	Full financial year
Mr Antonio Guimarães	Executive Vice President and President Karoon Brazil	Full financial year

For the purposes of the Remuneration Report:

(i) 'executive' means the Chief Executive Officer and Managing Director and other KMP of the Group;

(ii) 'fixed remuneration' has the meaning given on page 51;

(iii) 'other KMP' means those KMP referred to above under the heading 'Other KMP';

(iv) 'other benefits' has the meaning given on page 51;

(v) 'total remuneration' means fixed remuneration plus variable remuneration; and

(vi) 'variable remuneration' means STI and LTI.

The Remuneration Report for the financial year ended 30 June 2023 outlines the remuneration arrangements of KMP of the Group in accordance with the requirements of the *Corporations Act 2001* and its regulations. The information provided in this Remuneration Report has been audited by Karoon's external auditor, as required by Section 308(3C) of the *Corporations Act 2001*. The Remuneration Report forms part of this Directors' Report.

Section 2. Board and People and Culture Committee Oversight

To assist in ensuring good remuneration governance at Karoon, the Board of Directors established a People and Culture Committee that provides oversight and recommendations to the Board on the remuneration arrangements for sub-CEO executives.

The People and Culture Committee currently consists of a majority of independent Non-Executive Directors and is responsible for reviewing and making recommendations to the Board of Directors regarding (among other things):

- the quantum of sub-CEO executive remuneration;
- the sub-CEO executive remuneration framework, including the operation of, and performance-based outcomes under, Karoon's share-based incentive schemes; and
- the recruitment, retention and termination policies and procedures for sub-CEO executives.

The Board of Directors, assisted by the People and Culture Committee, conducts remuneration reviews for its Non-Executive Chair, Non-Executive Directors, executives and all employees to ensure that remuneration remains market competitive, fair and aligned with both market practice and the best interests of shareholders.

The Board is responsible for all aspects of the remuneration of the CEO and Managing Director.

Further information on the role and responsibilities of the People and Culture Committee is contained in the People and Culture Committee Charter, which can be found under the Governance tab on Karoon's website at www.karoonenergy.com.au.

Share Trading Policy

The trading of ordinary shares by Non-Executive Directors and executives is subject to, and conditional on, compliance with Karoon's Share Trading Policy.

Under Karoon's Share Trading Policy, an individual may not limit his or her exposure to risk in relation to securities (including performance rights). Directors and executives are prohibited from entering into any hedging arrangements over unvested share options or performance rights under Karoon's share-based remuneration schemes.

Karoon monitors compliance with its Share Trading Policy.

To gain approval to trade and ensure that trading restrictions are not in force, any employee, contractor or other designated person wishing to trade in Karoon securities must consult the Company Secretary, while the Executive Vice President and President Karoon Brazil, the Company Secretary or any Director wishing to trade in Karoon securities must consult the Chair, and the Chair must consult and seek approval of the Audit, Risk and Governance Committee Chair. All trades by Directors and executives during the financial year ended 30 June 2023 were conducted in compliance with Karoon's Share Trading Policy.

Karoon's Share Trading Policy can be found under the Governance tab on Karoon's website at www.karoonenergy.com.au.

Karoon has a minimum shareholding policy which applies to both Non-Executive Directors and executives.

Section 3. How does Karoon make decisions about remuneration

The Board of Directors has developed a remuneration policy that ensures executive remuneration supports the current business strategy and needs of the business. In particular, the decision to use performance tested share-based remuneration (in addition to cash-based incentive payments) for its incentive plans reflects the Board of Directors' belief that this best aligns executive and shareholder interests in the short and long-term. Karoon's success is measured by the delivery of its strategic objectives in the short-term and a clear demonstration of shareholder value creation in the long-term through share price growth.

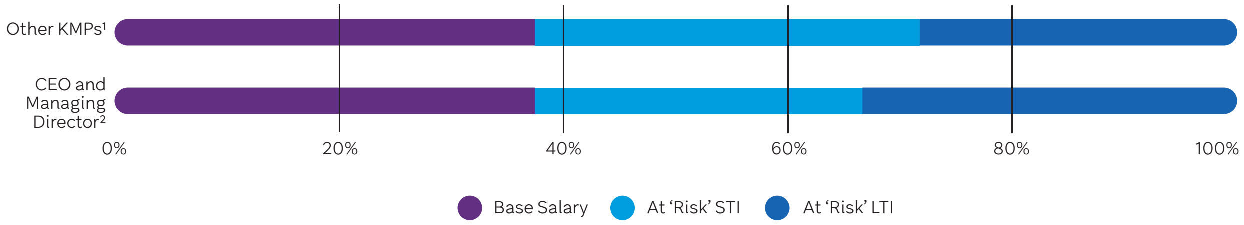
Broadly, the objectives of Karoon's executive remuneration framework are to ensure:

- remuneration is reasonable and competitive in order to attract, retain and motivate talented and high calibre executives capable of managing Karoon's diverse international operations;
- remuneration is set at a level acceptable to shareholders, having regard to Karoon's performance, and rewards individual achievements;
- remuneration structures create alignment between performance, reward and sustained growth in shareholder value;
- remuneration outcomes provide recognition of contribution to overall long-term growth in the value of Karoon's asset portfolio and are transparent to both participants and shareholders; and
- remuneration incentivises the best possible outcomes for the broader stakeholder community, including fostering best practice in preventing bribery and/or corruption, along with driving sustainability and safety outcomes.

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2023

The following table summarises the target remuneration mix for executives for the financial year ended 30 June 2023, based on maximum achievement of incentive plan outcomes:

Remuneration Mix – financial year ended 30 June 2023 (as a percentage of total remuneration, excluding Other Benefits)



1. "Other KMPs" includes the remuneration mix of the EVP and Chief Financial Officer and EVP and President Karoon Brazil.
2. The percentage of the CEO and Managing Director's at 'risk' STI and at 'risk' LTI is based on fixed remuneration at the conclusion of the financial year.

Set out below is a summary of the STI and LTI opportunity available to the CEO and Managing Director, Executive Vice President (EVP) and Chief Financial Officer (CFO) and EVP and President Karoon Brazil.

	CEO AND MANAGING DIRECTOR	EVP AND CHIEF FINANCIAL OFFICER	EVP AND PRESIDENT KAROON BRAZIL
STI OPPORTUNITY	75% of fixed remuneration[1]	87.5% of fixed remuneration[3]	87.5% of fixed remuneration[3]
LTI OPPORTUNITY	100% of fixed remuneration[2]	75% of fixed remuneration[4]	75% of fixed remuneration[4]

1. CEO/MD base STI opportunity increased to 100% on and from 1 January 2023, see ASX release dated 8 March 2023 and 'fixed remuneration' below. Prior to that, the base STI opportunity for the balance of FY23 was 50%. The aggregate at risk opportunity is illustrated above.
2. Participation in the LTI opportunity has been prorated from 1 January 2023, at the CEO/MDs revised fixed remuneration. The issuance of additional performance rights reflecting the increased LTI opportunity will be subject to shareholder approval at the 2023 Annual General Meeting.
3. Base STI opportunity for each of the EVP and CFO and EVP and President Karoon Brazil increased to 100% on and from 1 January 2023. Prior to that the base STI opportunity for the balance of FY23 was 75%. The aggregate at risk opportunity is illustrated above.
4. Participation for each of the EVP and CFO and EVP and President Karoon Brazil in the LTI opportunity has been prorated from 1 January 2023 based on the revised fixed remuneration for each KMP.

See pages 52–55 for additional information on the STI and LTI plans.

Fixed Remuneration

WHAT IS FIXED REMUNERATION?	Executives are entitled to fixed cash remuneration consisting of base salary and superannuation contributions/pension contributions. Fixed remuneration is not based on performance. Fixed remuneration excludes any accruals of annual or long service leave. Other benefits not included in fixed remuneration include any salary sacrifice items or non-monetary benefits including health insurance, motor vehicles, expatriate travel, certain membership and associated fringe benefits tax, depending on each individual's respective employment arrangements ('Other Benefits'). Details of other benefits paid to executives are set out in full on page 60.
HOW IS FIXED REMUNERATION REVIEWED?	Fixed remuneration is reviewed by the Board assisted by the People and Culture Committee. Broadly, fixed remuneration is positioned within a range that references the median of the relevant market for each role.
FIXED REMUNERATION FOR FY2023	Fixed remuneration of the executive KMP's increased during the year ended 30 June 2023, following a review by the Board and the People and Culture Committee in January 2023. The review was supported by an independent third-party expert who provided guidance on current trends in executive remuneration practices and undertook a detailed benchmarking review against a peer group of Australian and international companies. The fixed remuneration of KMP is set out in the table on page 60.

Superannuation

The Chief Executive Officer and Managing Director receives fixed remuneration inclusive of superannuation contributions, above the maximum contributions cap. Other Australian executives of the Company received statutory superannuation contributions of 10.5% of salary up to the maximum statutory contribution. Individuals may choose to sacrifice part of their salary to increase payments towards superannuation.

Social Security and Indemnity Fund Contributions

Karoon's Brazilian based executives are subject to specific Brazilian employment regulations, whereby the Group is required to contribute 27.3% of salary to the Government's social security fund. These contributions are subject to a cap on an annual, calendar year basis. However, the executives on retirement will only be entitled to a portion of the contributions made. A further 8% of executives salary is required to be contributed to a Federal Severance Indemnity Fund ('FGTS'). In the situation of unfair dismissal without just cause, the Group would have to pay a fine equivalent to 50% of the accumulated balance of the individual's FGTS account.

In addition to the above, the Group pays an amount equal to 10% of the monthly salary paid to the EVP and President Karoon Brazil into a private pension fund for the benefit of the EVP and President Karoon Brazil.

'At Risk' Remuneration

Karoon aims to align the interests of executives with those of shareholders by having a significant proportion of executive remuneration 'At Risk'. 'At Risk' remuneration represents the proportion of remuneration that requires pre-determined performance conditions to be met before the remuneration is vested to the executive. At the beginning of each financial year, the Board reviews the financial and operational goals and targets, looking broadly at where the building blocks for long-term value exist, then sets performance conditions that generate a link between operating performance, remuneration received and the value created for shareholders.

All executives that received grants of performance rights during the financial year ended 30 June 2023 received performance rights that were issued under the 2022 Performance Rights Plan ('2022 PRP').

STI Plan

The key features of the STI plan for the financial year ended 30 June 2023 ('FY2023 award') remain unchanged and are outlined in the table below:

WHO PARTICIPATES	All executives. Participation in the STI Plan is at the discretion of the Board of Directors on the recommendation of the People and Culture Committee.
WHAT IS THE CYCLE?	The annual performance cycle is 1 year – 1 July to 30 June. The Corporate Scorecard and role specific objectives are set by the Board initially to reflect key priorities to build long term value. Details of the FY2023 award Corporate Scorecard are set out on page 56.
WHAT IS THE LEVEL OF THE STI OPPORTUNITY?	The STI opportunity level of each executive is a pre-determined proportion of an executives' fixed remuneration. In respect of the FY2023 award, the CEO/MD can earn up to 75% of their fixed remuneration. The EVP and CFO and EVP and President Karoon Brazil can each earn up to 87.5% of their fixed remuneration. Senior leaders outside of the KMP participate at 70% of their fixed remuneration. The calculation of the FY2023 Award can be illustrated as follows: [Fixed Rem (at 1 July)[1] X STI Opportunity Level %] X Outcome of performance conditions[2] (as at 30 June) = STI award (for FY) 1. Please note that the Fixed Remuneration of the executives was subject to change during FY23, including the level of STI opportunity. See page 51. 2. Please note that for executives, excluding the CEO/MD, the outcome is a combination of the 'Corporate Scorecard' and individual role objectives, which is determined by the Board.

FORM OF INCENTIVE, IF AWARDED	Subject to the achievement of the performance conditions, the FY2023 award is delivered to senior executives in two parts, a cash element (50%) and a deferred element, represented by an offer and subsequent grant of performance rights (50%). The cash component of the FY2023 STI opportunity is paid following the achievement of applicable performance conditions. The quantum of performance rights to be granted is to be determined by dividing 50% of the total STI award (determined to be available based on the satisfaction of applicable corporate performance and (if appropriate) role specific objectives) for each employee by Karoon's weighted average share price in the 20-trading day period after the date of the release of the Company's 2023 full year financial results. Any performance rights granted will remain 'At Risk' until the satisfaction of retention conditions, which expire on 1 July 2024. Performance rights do not have a strike price. Each performance right provides the participant with the right to receive one fully paid ordinary share in Karoon, or its equivalent value, for no consideration. Under the rules of the 2022 PRP, ordinary shares issued or provided as a result of the exercise of vested and converted performance rights may be issued as new ordinary shares or ordinary shares acquired on market.
PERFORMANCE PERIOD	1 year.
DEFERRAL PERIOD	Performance rights granted in respect of the FY2023 award are subject to a retention period of 12 months, being the continuation of employment, immediately following the satisfaction of performance conditions, at the conclusion of the performance period.
WHAT ARE THE PERFORMANCE CONDITIONS?	As part of the 2023 remuneration review, for the financial year ended 30 June 2023 the Board set out the FY2023 award for short-term incentives based on a mix of the following performance hurdles:

	COMPANY-WIDE OBJECTIVES	ROLE-SPECIFIC OBJECTIVES
CEO and Managing Director	100%	Nil%
Other KMP	80%	20%

Company-wide Objectives

Company-wide Objectives were set by the Board at the beginning of the performance period.

The Company-wide Objectives, known as the 'Corporate Scorecard', includes financial and operational objectives, project objectives and strategic targets.

Role-specific Objectives

Role-specific Objectives were set at the beginning of the performance period and related directly to individual/team specific responsibilities.

All short-term performance outcomes are tempered by both a gateway for safety outcomes and a clawback (negative discretion) provision in relation to any fatality and bribery and/or corruption issues.

Further details on the performance conditions, targets and outcomes for the FY2023 award are outlined below in the STI outcomes within Section 3B on page 56.

GRANT DATE	In respect of performance rights, the grant date occurs following the offer and acceptance of performance rights. However, any performance rights offered and accepted by the Chief Executive Officer and Managing Director are subject to shareholder approval at the next Annual General Meeting prior to issuance.
WHAT HAPPENS AT THE END OF EMPLOYMENT?	Unvested performance rights will lapse on cessation of employment with Karoon, subject to the nature and circumstances of the termination and the discretion of the Board of Directors.
IF THERE IS A CHANGE OF CONTROL?	On a change of control, the Board of Directors may determine that a portion of the individual's unvested performance rights will vest based on pro-rata achievement of the performance conditions. Adjustments to an individual's unvested performance right may also occur in the event of a Company reconstruction and certain share issuances.
HOW DO STI'S LINK TO KAROON'S OBJECTIVES?	The STI framework is based on a set of challenging Company building goals, granted on a rolling short-term basis. Linking outcomes to operational performance develops an essential alignment between Karoon's year-to-year inherent value growth and rewards those who establish that value only when the company objectives are met. The Board assesses the objectives for the performance period annually in light of the long-term strategic building blocks and upcoming key value drivers within Karoon's operations, allowing for transparent measurement of company performance against these objectives. The Board recognises the risks associated with offshore oil production and drilling and considers ensuring the safety of the workforce, and avoiding any instances of bribery and corruption as paramount to its operations. Achieving appropriate safety standards is used as a gateway for any vesting of the STI, while any fatality or instance of bribery and corruption can be utilised to claw back incentives should they have been previously paid.

LTI Plan

The key features of the LTI grant for the financial year ended 30 June 2023 are outlined in the table below:

WHO PARTICIPATES

All executives.

Participation in the LTI plan is at the discretion of the Board of Directors on the recommendation of the People and Culture Committee. The LTI is a relative total performance measure over several years to align employees to Karoon's long term performance compared to others.

Performance rights granted will not vest and have no value to the executives unless the performance conditions are achieved.

LTI OPPORTUNITY

The LTI opportunity available to an executive is determined as a percentage of the executive's fixed remuneration. In respect of the FY23 LTI grant, the CEO/MD can earn up to 100% of their fixed remuneration. The EVP CFO and EVP President Karoon Brazil can each earn up to 75% of their fixed remuneration.

FORM OF INCENTIVE

The quantum of performance rights received was determined by dividing the LTI opportunity for each executive by the value weighted average price of Karoon Energy ordinary shares for the 20 trading days post 25 August 2022 (being the date on which Karoon's 2022 full year financial results were released to the market).

Performance rights do not have a strike price. Each performance right provides the participant with the right to receive one fully paid ordinary share in Karoon, or its equivalent value, for no consideration.

Under the rules of the 2022 PRP, ordinary shares issued or provided as a result of the exercise of vested and converted performance rights may be issued as new ordinary shares or ordinary shares acquired on-market.

PERFORMANCE PERIOD

3 years.

PERFORMANCE CONDITIONS

The LTI performance hurdles for the period commencing 1 July 2022 and ending 30 June 2025 are split 50% relative to TSR performance as assessed against a list of closely comparable and representative industry peer group companies, whose business models and/or regions of operations are similar to those of Karoon (Industry Peer Group); and 50% Absolute TSR (based on compound annual growth rate (CAGR)), which is set at a range of 10% to 18%.

INDUSTRY PEER GROUP

AUSTRALIAN MARKET PEERS

- Australis Oil & Gas Limited
- Beach Energy Limited
- Carnarvon Petroleum Limited
- Horizon Oil Limited
- Santos Limited
- Woodside Petroleum Limited
- Strike Energy Limited
- Central Petroleum Limited
- Cooper Energy Limited

GLOBAL PEERS

- Cairn Energy plc
- GeoPark Limited
- Gran Tierra Energy Inc
- Kosmos Energy Ltd
- New Zealand Oil & Gas Ltd
- Enauta Participações S.A.
- Pharos Energy plc
- Tullow Oil plc
- Petro Rio
- Jadestone Energy Inc

Vesting consideration details for the industry peer group companies is outlined below:

PERFORMANCE AGAINST INDUSTRY PEER GROUP	PROPORTION OF PERFORMANCE RIGHTS VESTING
Less than 50th percentile	Nil%
At 50th percentile	50%
Between 50th and 75th percentile	50% plus 2% for each additional percentile ranking above the 50th percentile
At or above 75th percentile	100%
At 100% percentile	100%

Vesting consideration details for the Absolute TSR measure are set out below:

ABSOLUTE TSR (CAGR)	PROPORTION OF PERFORMANCE RIGHTS VESTING
Less than 10%	Nil%
At 10%	50%
Between 10.01% and 17.99%	50% plus 6.25% for each additional percentage point above the 10% threshold
At or above 18.00%	100%

Companies that are no longer part of the Industry Peer Group at the end of the performance period (for instance, due to acquisition or delisting) may be removed from the Peer Group calculation.

GRANT DATE	Grant date occurs following the offer and acceptance of performance rights. However, any performance rights offered and accepted by the Chief Executive Officer and Managing Director are subject to shareholder approval at the next Annual General Meeting prior to issue.
EXERCISE PERIOD	Performance rights will remain exercisable for a period of one year following vesting.
WHAT HAPPENS AT THE END OF EMPLOYMENT?	Unvested (and unconverted) performance rights will lapse on cessation of employment with Karoon, subject to the nature and circumstances of the termination and the discretion of the Board of Directors.
IF THERE IS A CHANGE OF CONTROL	On a change of control, the Board of Directors may determine that a portion of the individual's unvested performance rights will vest, based on pro-rata achievement of the performance conditions. Adjustments to an individual's unvested performance right may also occur in the event of a Company reconstruction and certain share issuances.
LINK BETWEEN PERFORMANCE AND REWARD	The Board of Directors and People and Culture Committee considers it important to link remuneration to share price performance relative to Karoon's industry peer group companies and overall share price performance over the long-term. In the case where performance does not reach the 50th percentile, no incentive will be paid.

B. Executive Remuneration Outcomes

Relationship between the Executive Remuneration Framework and Company Performance

Karoon has a transparent performance-based remuneration structure in place that provides a direct link between Company performance and remuneration in the short and long-term. As part of this structure, executive rewards are directly linked to operational, safety and financial performance metrics along with relative market and absolute performance. 'At Risk' remuneration is only awarded if pre-determined Company building milestones are achieved or the Company outperforms an industry peer group of companies or achieves a minimum level of absolute return in the long term.

The tables below set out summary information about the Company's earnings, net assets and movements in shareholder wealth from 1 July 2018 to 30 June 2023.

FINANCIAL YEAR ENDED	30 JUNE 2023	30 JUNE 2022	30 JUNE 2021	30 JUNE 2020	30 JUNE 2019[A]
	US$M	US$M	US$M	US$M	US$M
Revenue	**566.5**	385.1	170.8	–	–
Profit/(loss) before income tax	**216.2**	(89.8)	(27.9)	(86.8)	(11.4)
Profit/(loss) for financial year	**163.0**	(64.4)	4.4	(86.2)	(13.3)
Net assets at end of financial year	**473.6**	276.2	380.3	359.5	298.8

FINANCIAL YEAR ENDED	30 JUNE 2023	30 JUNE 2022	30 JUNE 2021	30 JUNE 2020	30 JUNE 2019[A]
Share price at beginning of financial year	**A$1.74**	A$1.33	A$0.61	A$0.96	A$1.13
Share price at end of financial year	**A$1.97**	A$1.74	A$1.33	A$0.61	A$0.96
Basic earnings per ordinary share (US$)	**0.2899**	(0.1159)	0.0079	(0.1936)	(0.0550)
Diluted earnings per ordinary share (US$)	**0.2859**	(0.1159)	0.0077	(0.1936)	(0.0550)

A. The comparative financial information for the financial year ended 30 June 2019 has been restated for the voluntary change in presentation currency from A$ to US$ at the prevailing average exchange rates for the profit or loss and year-end rate for the balance sheet for each respective year.

Performance Hurdles and STI Outcomes for the Financial Year Ended 30 June 2023

The table below outlines the Company-wide Objectives, known as the Corporate Scorecard, for the financial year ended 30 June 2023:

MEASURE, RATIONALE AND PERFORMANCE	WEIGHT	TARGETS AND OUTCOMES				RESULT (% MAX)	CONTRI-BUTION
		THRESHOLD	TARGET	STRETCH	OUTCOME		
FINANCIAL AND OPERATIONAL OBJECTIVES							
Oil Production (kbbl)	**17.5%**	7,000	8,100	8,910	**7,037**	**2.0%**	**0.4%**
Group operating expenses[1] (US$m)	**5.0%**	180.0	150.2	135.2	**134.9**	**100.0%**	**5.0%**
Other controllable corporate costs[2] (US$m)	**7.5%**	23.8	22.6	21.4	**20.9**	**100.0%**	**7.5%**
Baúna Capex (US$m)	**5.0%**	9.4	8.6	7.8	**3.3**	**100.0%**	**5.0%**
Achieve Baúna intervention & Patola development capex targets[3] (US$m)	**14.0%**	> 325		<325	**301**	**100.0%**	**14.0%**
Baúna intervention production (bopd) Achieve the target production rate over 30 continuous days	**3.0%**	–		>20,000	**>20,000**	**100.0%**	**3.0%**
Patola production (bopd) Achieve the target production rate over 30 continuous days	**3.0%**	–		>30,000	**–**	**0.0%**	**0.0%**
Neon drilling (US$m)[4] Neon-1 and Neon-2 Capex. Target values exclude contingencies This target was also subject to achieving minimum resource estimates.	**10.0%**	64.7		54.4	**48.0**	**100.0%**	**10.0%**
Neon evaluation studies result in an increase in resource estimated[5] (MMbbl)	**4.0%**	1C min econ.	50	60	**60.1**	**100.0%**	**4.0%**
Neon Drilling & Evaluation Complete Neon evaluation study as well as analysis of Neon well results and updated field development plan	**1.0%**	Complete			**Completed**	**100.0%**	**1.0%**
STRATEGIC OBJECTIVES							
Growth Acquire a substantial second production asset	**15.0%**	Asset			**No**	**0.0%**	**0.0%**
ESG Limit group-wide voluntary staff turnover to a level below FY22 (% of total 30 June workforce)	**2.5%**	–			**–**	**0.0%**	**0.0%**
ESG: Identify additional carbon reduction project in operations[6]	**2.5%**	–			**No**	**0.0%**	**0.0%**
ESG: advance carbon sequestration project[7]	**10.0%**	1 Project			1 Project **Achieved**	**100.0%**	**10.0%**
Overall Corporate Performance Outcome	**100.0%**	0		100	**60**		**60%***

1. Adjusted to exclude contingencies and adjust for fuel price inflation/deflation during FY23.
2. Defined as 'corporate other costs' in monthly accounts adjusted for Board approved additional costs (e.g. D&O insurance & change to budget assumptions with regard to time writing on acquisitions).
3. Capex spend adjusted for fuel price inflation/deflation during FY23.
4. This target was also subject to achieving minimum resource estimates.
5. A third party supports Contingent Resource estimates.
6. Identify and screen potential short term and long term emission reduction projects.
7. Identify, screen and enter at least one carbon sequestration project in Brazil or elsewhere to: a) achieve carbon neutrality by offsetting our remaining current CO_2e footprint; and b) to provide options to the Company for further CO_2e mitigation.

* Total may not add up due to rounding to zero decimal places.

Based on actual results, in respect of the:

- Current Chief Executive Officer and Managing Director, a total of 60% of the available STI opportunity, payable 50% in cash and 50% via a grant of performance rights (with such performance rights subject to a one year employment retention), satisfied the requisite STI performance targets outlined above.
- Other KMP, between 58% and 65% of the available STI opportunity satisfied requisite performance targets (based on the results of role-specific performance targets).

Performance rights (associated with the FY2023 STI award) once granted will have a 1-year retention period ending 30 June 2024 before they become exercisable and convertible into fully paid ordinary shares. The 2023 STI performance rights expire on 30 June 2025.

LTI Outcomes

Karoon's 2021 LTI performance conditions of achieving an absolute total shareholder return ('TSR') of 18% per annum and a minimum 50th percentile against the Company's Relative TSR when compared with a select group of peer companies over the period from 1 July 2020 to 30 June 2023 was met. Karoon was at the 80th percentile when compared against the relevant industry peer group and, accordingly, 100% of the 2021 LTI entitlement vested.

Voluntary Information: 2023 'Remuneration Received' (Non-IFRS Information)

The amounts disclosed below reflect the actual benefits received by each executive during the financial year ended 30 June 2023 and have been translated into US$ from local currencies using the average exchange rate for the 2023 financial year. The average rate used for A$/US$ was 0.6735 and R$/US$ was 0.1937. The amounts disclosed below include the actual value of any equity-settled and/or cash-settled award received from STI and/or LTI.

The amounts disclosed in the table below are not the same as the statutory remuneration expensed in relation to each executive in accordance with Australian Accounting Standards shown in the statutory table in Section 5 of the Remuneration Report. The remuneration values disclosed below have been determined as follows:

Short-term Incentives

Includes cash bonuses and the equity-settled and/or cash-settled award received from STI by executives, subject to achievement of performance conditions. The value of STI equity-settled and cash-settled awards received reflects the amounts disclosed to the relevant tax authorities during the financial year ended 30 June 2023.

Long-term Incentives

Includes the equity-settled award received from LTI by executives. The value of LTI equity-settled awards received reflects the amounts disclosed to the relevant tax authorities during the financial year ended 30 June 2023.

	FIXED REMUNERATION	SHORT-TERM INCENTIVES	LONG-TERM INCENTIVES	TOTAL REMUNERATION RECEIVED
	US$	US$	US$	US$
Executive Directors				
Dr Julian Fowles	622,149	178,489	–	800,638
Other KMP (Group)			–	
Mr Ray Church	499,102	105,823	–	604,925
Mr Antonio Guimarães	476,374	75,983	–	552,357

The Board of Directors believes that 'remuneration received' is relevant to shareholders for the following reasons:

- the statutory remuneration expensed through as share-based payments (Performance rights) is based on fair value at grant date and does not reflect the value of equity-settled and/or cash-settled amounts when they are actually received;
- the statutory remuneration shows benefits before they are actually received by executives;
- where performance rights do not vest because a market-based performance condition is not satisfied (for example, an increase in Karoon's share price), Karoon must still recognise the full amount of the share-based payments expense even though the executives do not receive the benefit; and

- share-based payment awards are treated differently under Australian Accounting Standards depending on whether the performance conditions are market conditions (no reversal of share-based payments expense) or non-market conditions (reversal of share-based payments expense when performance rights fail to vest), even though the benefit received by the executive is the same ($Nil where the performance right fail to vest).

C. Executive Agreements

Remuneration and other terms of employment for the executives are formalised in employment agreements. Each of these agreements provide for participation, when eligible, in the Company's PRP. Other major provisions of the agreements relating to remuneration are set out below.

Termination payments for executives, if any, are agreed by the Board and/or People and Culture Committee in advance of employment and stated in the relevant employment agreements. On retirement, executives are paid employee benefit entitlements accrued to the date of retirement.

Details of existing employment agreements between the Company and the Executive Director and other KMP are as follows:

NAME	TERM	EXPIRY	NOTICE/TERMINATION PERIOD	TERMINATION PAYMENTS	PERFORMANCE RIGHT ELIGIBLE
Executive Directors					
Dr Julian Fowles	From 27 November 2020, ongoing	Ongoing	In writing six months	Not applicable.	Yes
Other KMP					
Mr Ray Church	From 27 September 2021, ongoing	Ongoing	In writing six months	Not applicable.	Yes
Mr Antonio Guimarães	From 1 October 2021, ongoing	Ongoing	In accordance with Brazilian labour legislation	Not applicable (statutory entitlements).	Yes

All termination payments for Australian employees are subject to the limits prescribed under Section 200B of the *Corporations Act 2001.*

The employment agreements of executives are on a continuing basis, the terms of which are not expected to change in the immediate future.

Section 4. Independent Non-Executive Chair and Non-Executive Directors

Fees and payments to the independent Non-Executive Chair and other Non-Executive Directors reflect the demands which are placed on, and the responsibilities of the Directors of Karoon. The Company reviews Independent Non-Executive Chair and other Non-Executive Director remuneration annually and assesses the change to the Company's activities and overall responsibilities of each Non-Executive Director.

Following a review in July 2022, it was resolved to increase the fees paid to Non-Executive Directors' as follows:

- a 5% fee increase be applied to the base fee of the non-executive chair, increasing the fee by A$11,000 to A$231,000;
- a 5% fee increase be applied to the base fee of the non-executive directors, increasing the fee by A$5,000 to A$105,000;
- a A$5,000 increase be applied to the committee fees payable to the chair of each Board committee, taking the fee from A$25,000 to A$30,000; and
- a 5% increase be applied to committee member fees, increasing the fees payable:
  - to members of the Audit, Risk and Governance Committee by A$1,000 to A$21,000.
  - to members of the People and Culture Committee and the Sustainability and Operational Risk Committee by A$750 to A$15,750.

The fee increases approved were based on market comparators, the length of time since the last fee increase, the existing fee pool limit and the potential impact on future director recruitment.

The table at the end of this section provides a summary of Karoon's Non-Executive Director fee schedule for the 2023 financial year.

Superannuation contributions are paid, in accordance with Australian superannuation guarantee legislation, on Directors' fees paid to Australian resident Non-Executive Directors. An increase in fees consistent with the statutory increase in superannuation contributions of 0.5% was paid to Australian resident Non-Executive Directors from 1 July 2022.

Non-Executive Director fees are determined within an aggregate Directors' fee pool limit, which is periodically approved by shareholders. The maximum aggregate amount, including superannuation contributions, that may be paid to Non-Executive Directors of the Company as remuneration for their services per annum is A$1,200,000, as approved by shareholders at the Company's 2015 Annual General Meeting. For the financial year ended 30 June 2023, the total fees paid to Non-Executive Directors was A$995,336.

Share-based Remuneration

Non-Executive Directors do not receive performance-related remuneration. The Company has determined that it will not grant bonus or incentive related share-based remuneration to Non-Executive Directors. Non-Executive Directors will continue to be encouraged to purchase ordinary shares in the Company on-market in accordance with the Director Minimum Shareholding Policy.

Retirement Allowance for Directors

Karoon does not provide any Non-Executive Director with a retirement allowance.

Non-Executive Director Fees for the Financial Year Ended 30 June 2023

Non-Executive Directors' fees for the financial year ended 30 June 2023 (excluding superannuation contribution) are outlined in the following table:

	FY2023	FY2022
Base fee		
Non-Executive Chairman*	**A$231,000**	A$220,000
Non-Executive Directors	**A$105,000**	A$100,000
Committee member fees		
Audit, Risk and Governance Committee		
Chair	**A$30,000**	A$25,000
Member	**A$21,000**	A$20,000
People and Culture Committee		
Chair	**A$25,000**	A$20,000
Member	**A$15,750**	A$15,000
Sustainability and Operational Risk Committee		
Chair	**A$25,000**	A$20,000
Member	**A$15,750**	A$15,000

* Non-Executive Chairman base fee includes compensation for the appointment to relevant Committees.

Section 5. Statutory and Share-based Reporting

Details of the Remuneration of the Directors and Other Key Management Personnel

Details of the remuneration of the Directors and other KMP of the Group for the financial year and previous financial year are set out in the following tables. For all remuneration reporting stated in US$, exchange rates of AU$/US$ 0.6735 (2022: 0.7259) and R$/US$ 0.1937 (2022: 0.1909) have been used.

Financial Year Ended 30 June 2023

	Short-term Benefits			Post-employment Benefits		Leave Benefits*	Share-based Payments Expense		
NAME	CASH SALARY AND FEES US$	OTHER US$	CASH STI/BONUS US$	SUPER-ANNUATION/ PENSION CONTRIBUTIONS US$	SOCIAL SECURITY & INDEMNITY FUND CONTRIBUTIONS US$	LEAVE ENTITLEMENTS US$	PERFORMANCE RIGHTS US$	PERFORMANCE BASED REMUNERATION** %	TOTAL REMUNERATION US$
Executive Directors									
Dr Julian Fowles	568,173	–	141,309	53,976	–	42,387	694,983	55.7	1,500,828
Non-Executive Directors									
Mr Bruce Phillips	155,578	–	–	16,336	–	–	–	–	171,914
Ms Luciana Rachid	87,555	–	–	–	–	–	–	–	87,555
Mr Clark Davey	101,530	–	–	10,661	–	–	–	–	112,191
Mr Peter Turnbull	112,306	–	–	11,792	–	–	–	–	124,098
Mr Peter Botten	95,469	–	–	10,024	–	–	–	–	105,493
Mr Tadeu Fraga	69,108	–	–	–	–	–	–	–	69,108
Total Directors' remuneration	1,189,719	–	141,309	102,789	–	42,387	694,983		2,171,187
Other KMP (Group)									
Mr Ray Church	441,485	40,582	131,609	17,034	–	30,160	299,529	44.9	960,399
Mr Antonio Guimarães	323,390	75,920	86,914	28,153	48,911	6,601	198,603	37.2	768,492
Total other KMP remuneration (Group)	764,875	116,502	218,523	45,187	48,911	36,761	498,132		1,728,291
Total KMP remuneration (Group)	1,954,594	116,502	359,832	147,976	48,911	79,148	1,193,115		3,900,078

* Leave benefits include annual leave and long service leave entitlements. The prior financial year included long service leave entitlements only.

** The percentage of total remuneration consisting of performance rights, based on the value of performance rights expensed in the consolidated statement of profit or loss and other comprehensive income during the financial year.

Financial Year Ended 30 June 2022

	Short-term Benefits			Post-employment Benefits		Long-term Benefits	Share-based Payments Expense		
NAME	CASH SALARY AND FEES US$	OTHER US$	CASH STI/BONUS US$	SUPER-ANNUATION/ PENSION CONTRIBUTIONS US$	SOCIAL SECURITY & INDEMNITY FUND CONTRIBUTIONS US$	LONG SERVICE LEAVE US$	PERFORMANCE RIGHTS US$	PERFORMANCE BASED REMUNERATION %	TOTAL REMUNERATION US$
Executive Directors									
Dr Julian Fowles	561,302	–	156,176	53,324	–	3,253	513,533	52.0	1,287,588
Non-Executive Directors									
Mr Bruce Phillips	159,698	–	–	15,970	–	–	–	–	175,668
Ms Luciana Rachid	87,108	–	–	–	–	–	–	–	87,108
Mr Clark Davey	101,626	–	–	10,163	–	–	–	–	111,789
Mr Peter Turnbull	112,515	–	–	11,251	–	–	–	–	123,766
Mr Peter Botten	97,997	–	–	9,800	–	–	–	–	107,797
Total Directors' remuneration	**1,120,246**	**–**	**156,176**	**100,508**	**–**	**3,253**	**513,533**		**1,893,716**
Other KMP (Group)									
Mr Ray Church (commenced 27 September 2021)	327,493	29,590	193,164	14,257	–	508	162,454	38.9	727,466
Mr Antonio Guimarães (commenced 1 October 2021)	187,518	13,879	180,428	22,908	41,095	–	92,229	30.5	538,057
Total other KMP remuneration (Group)	**515,011**	**43,469**	**373,592**	**37,165**	**41,095**	**508**	**254,683**		**1,265,523**
Total KMP remuneration (Group)	**1,635,257**	**43,469**	**529,768**	**137,673**	**41,095**	**3,761**	**768,216**		**3,159,239**

* The percentage of total remuneration consisting of performance rights, based on the value of performance rights expensed in the consolidated statement of profit or loss and other comprehensive income during the financial year.

The amounts disclosed for the remuneration of Directors and other KMP include the assessed fair values of performance rights granted during the financial year, at the date they were granted, with the exception of performance rights for the FY2023 STI award, where the fair value is equivalent to the STI opportunity achieved based on a percentage of fixed remuneration. Performance rights for the FY2023 award will be granted following the release of the Company's 2023 full year results. The value attributable to performance rights is allocated to the relevant vesting period of the award in accordance with AASB 2 *'Share-based Payment'*, which requires the value of a performance right at grant date to be allocated equally over the vesting period, adjusted for not meeting the vesting condition. For performance rights that vest immediately, the value is disclosed as remuneration immediately, in accordance with the accounting policy described in Note 1(s) of the consolidated financial statements. In addition, acceleration of vesting occurs for performance rights up to the end of an employee's respective service period, where the rights are retained post cessation of employment.

With the exception of long-term performance rights granted during the current financial year, the fair value of performance rights was based on the Company's closing share price at grant date. Long-term performance rights granted during the current financial year, which are subject to market-based performance conditions, have been valued using a Monte Carlo simulation approach.

The relative percentage proportions of remuneration that are linked to performance conditions, those that are not and those that are fixed are as follows:

	Not Related to Performance Conditions				Related to Performance Conditions					
	Fixed Remuneration		Cash Bonus		Cash Bonus		STI (Performance Rights)		LTI (Performance Rights)	
NAME	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Executive Director										
Dr Julian Fowles	**44.3%**	48.0%	**–**	–	**9.4%**	12.1%	**4.7%**	3.7%	**41.6%**	36.2%
Non-Executive Directors										
Mr Bruce Phillips	**100%**	100%	**–**	–	**–**	–	**–**	–	**–**	–
Ms Luciana Rachid	**100%**	100%	**–**	–	**–**	–	**–**	–	**–**	–
Mr Clark Davey	**100%**	100%	**–**	–	**–**	–	**–**	–	**–**	–
Mr Peter Turnbull	**100%**	100%	**–**	–	**–**	–	**–**	–	**–**	–
Mr Peter Botten	**100%**	100%	**–**	–	**–**	–	**–**	–	**–**	–
Mr Tadeu Fraga	**100%**	100%	**–**	–	**–**	–	**–**	–	**–**	–
Other KMP (Group)										
Mr Ray Church	**55.1%**	51.1%	**–**	10.0%	**13.7%**	16.6%	**6.8%**	8.3%	**24.4%**	14.0%
Mr Antonio Guimarães	**62.8%**	49.3%	**–**	20.2%	**11.3%**	13.3%	**5.6%**	6.7%	**20.3%**	10.5%

Further information on performance rights is set out in Note 29 of the consolidated financial statements.

Amounts disclosed for remuneration of Directors and other KMP exclude insurance premiums paid by the Company in respect of Directors' and officers' liability insurance contracts, as the contracts do not specify premiums paid in respect of individual Directors and officers. Information relating to insurance contracts is set out in this Directors' Report.

Share-based Remuneration

As at 30 June 2023, there were 9,063,068 performance rights issued under the 2019 PRP and 2022 PRP respectively, representing approximately 1.61% of the Company's total number of shares issued. Subsequent to year end, 2,883,931 performance rights have been exercised as outlined on page 45.

The terms and conditions of each grant of performance rights over unissued ordinary shares in the Company affecting remuneration in the current or a future financial year are as follows:

GRANT DATE	DATE VESTED AND EXERCISABLE	EXPIRY DATE	EXERCISE PRICE PER PERFORMANCE RIGHT	FAIR VALUE PER PERFORMANCE RIGHT AT GRANT DATE	% VESTED	PERFORMANCE CONDITION ACHIEVED
Performance rights						
25 September 2020	1 July 2023	30 June 2024	$–	A$0.587	100	2023 Performance Condition
27 November 2020	1 July 2023	30 June 2024	$–	A$1.572	100	2023 Performance Condition
23 March 2022	1 July 2024	30 June 2025	$–	A$1.815	–	To be determined
6 May 2022	1 July 2024	30 June 2025	$–	A$1.525	–	To be determined
24 November 2022	1 July 2025	30 June 2026	$–	A$1.707	–	To be determined
24 November 2022	1 July 2023	30 June 2024	$–	A$2.300	100	2022 Performance Condition
16 December 2022	1 July 2025	30 June 2026	$–	A$1.559	–	To be determined
16 December 2022	1 July 2023	30 June 2024	$–	A$2.160	100	2022 Performance Condition
31 March 2023	1 July 2025	30 June 2026	$–	A$1.508	–	To be determined
30 June 2023*	1 July 2025	30 June 2026	$–	A$1.332	–	To be determined

* Performance rights associated with the 2023 Long Term incentive that are subject to shareholder approval at the 2023 Annual General Meeting.

Performance rights are granted for no consideration. Performance rights granted carry no dividend or voting rights.

Number of Performance Rights Provided as Remuneration During the Financial Year

Details of performance rights over unissued ordinary shares in the Company provided as remuneration to each Director and each of the other KMP, including their personally related parties, are set out below:

NAME	NUMBER OF PERFORMANCE RIGHTS GRANTED DURING FINANCIAL YEAR	FAIR VALUE PER PERFORMANCE RIGHT AT GRANT DATE*	VALUE OF PERFORMANCE RIGHTS AT GRANT DATE*	NUMBER OF PERFORMANCE RIGHTS VESTED DURING FINANCIAL YEAR	NUMBER OF PERFORMANCE RIGHTS FORFEITED	VALUE OF PERFORMANCE RIGHTS FORFEITED
Executive Directors						
Dr Julian Fowles						
– Performance rights (LTI)	432,577	A$1.707	A$738,409	–	–	–
– Performance rights (LTI)**	12,649	A$1.332	A$16,848	–	–	–
– Performance rights (STI)	62,891	A$2.30	A$144,649	–	–	–
Other key management personnel (Group)						
Mr Ray Church						
– Performance rights (LTI)	230,014	A$1.559	A$358,592	–	–	–
– Performance rights (LTI)	16,083	A$1.508	A$24,253	–	–	–
– Performance rights (STI)	75,730	A$2.160	A$163,577	–	–	–
Mr Antonio Guimarães						
– Performance rights (LTI)	160,788	A$1.559	A$250,668	–	–	–
– Performance rights (LTI)	18,720	A$1.508	A$28,230	–	–	–
– Performance rights (STI)	51,251	A$2.160	A$110,702	–	–	–
Total key management personnel – Performance rights	**1,060,703**		**A$1,835,928**	**–**	**–**	**–**

* The value at grant date, calculated in accordance with AASB 2, of performance rights granted during the financial year as part of their remuneration.

** Performance rights associated with the 2023 Long Term incentive that are subject to shareholder approval at the 2023 Annual General Meeting.

No performance rights over unissued ordinary shares in the Company, held by any Director or other KMP, lapsed during the financial year.

Details of Remuneration – Performance Rights

For each grant of performance rights in the current or previous financial years which resulted in a share-based payment expense to Directors and other KMP, the percentage of the grant that vested and percentage that was forfeited because the individual did not meet the service and/or pre-determined performance conditions is set out below:

NAME	FINANCIAL YEAR END GRANTED	VESTED %	FORFEITED %	FINANCIAL YEARS IN WHICH SHARE OPTIONS OR PERFORMANCE RIGHTS MAY VEST	MAXIMUM TOTAL VALUE OF GRANT YET TO VEST US$
Executive Director					
Dr Julian Fowles					
– Performance rights (LTI)	30 June 2022	–	–	30 June 2025	198,089
– Performance rights (LTI)	30 June 2023	–	–	30 June 2026	339,631
– Performance rights (STI)*	30 June 2024	–	–	30 June 2025	70,826
Other KMP (Group)					
Mr Ray Church					
– Performance rights (LTI)	30 June 2022	–	–	30 June 2025	94,878
– Performance rights (LTI)	30 June 2023	–	–	30 June 2026	172,156
– Performance rights (STI)*	30 June 2024	–	–	30 June 2025	66,074
Mr Antonio Guimarães					
– Performance rights (LTI)	30 June 2022	–	–	30 June 2025	52,405
– Performance rights (LTI)	30 June 2023	–	–	30 June 2026	125,413
– Performance rights (STI)*	30 June 2024	–	–	30 June 2025	43,243

* Performance rights for the deferred portion of the FY2023 award will be granted following the release of the Company's 2023 full year results. The number of performance rights will depend on the Company's weighted average share price in the 20-trading day period after the release of the Company's 2023 full year financial results.

No performance rights will vest if the service and/or pre-determined performance conditions are not met, therefore the minimum value of the performance right yet to vest is $Nil.

The maximum value of performance rights yet to vest was determined as the amount of the grant date fair value of the performance rights that is yet to be expensed in the consolidated statement of profit or loss and other comprehensive income. For the FY2023 award, the maximum value yet to vest is equivalent to the STI opportunity achieved, based on a percentage of fixed remuneration, to be expensed over the remaining vesting period.

Performance Rights over Unissued Ordinary Shares in the Company as at 30 June 2023

During the financial year 1,060,703 performance rights over unissued ordinary shares in the Company were issued to Directors and other KMP, including their personally related parties.

The movement of performance rights over unissued ordinary shares in the Company held by Directors and other KMP, including their personally related parties, during the financial year was as follows:

	BALANCE AS AT 1 JULY 2022	GRANTED AS REMUNERATION	VESTED AND CONVERTED PERFORMANCE RIGHTS	PERFORMANCE RIGHTS FORFEITED	OTHER	BALANCE AS AT 30 JUNE 2023	TOTAL VESTED AND EXERCISABLE AS AT 30 JUNE 2023	TOTAL UNVESTED AS AT 30 JUNE 2023
Executive Director								
Dr Julian Fowles								
– Performance rights	1,080,041	508,117	–	–	–	1,588,158	–	1,588,158
Non-Executive Directors								
Mr Bruce Phillips								
Ms Luciana Rachid	–	–	–	–	–	–	–	–
Mr Clark Davey	–	–	–	–	–	–	–	–
Mr Peter Turnbull	–	–	–	–	–	–	–	–
Mr Peter Botten	–	–	–	–	–	–	–	–
Mr Tadeu Fraga	–	–	–	–	–	–	–	–
Other KMP								
Mr Ray Church								
– Performance rights	276,389	321,827	–	–	–	598,216	–	598,216
Mr Antonio Guimarães								
– Performance rights	152,660	230,759	–	–	–	383,419	–	383,419
Total key management personnel – Performance rights	**1,509,090**	**1,060,703**	**–**	**–**	**–**	**2,569,793**	**–**	**2,569,793**

All performance rights granted during the financial year were issued under the 2022 PRP.

The number of ordinary shares held by Directors and other KMP, including their personally related parties, as at 30 June 2023 was as follows:

	BALANCE AS AT 1 JULY 2022	RECEIVED AS REMUNERATION	EXERCISED (SHARE OPTIONS)/VESTED AND CONVERTED (PERFORMANCE RIGHTS)	SHARES PURCHASED	ORDINARY SHARES SOLD	BALANCE AS AT 30 JUNE 2023
Executive Director						
Dr Julian Fowles	107,659	–	–	–	–	**107,659**
Non-Executive Directors						
Mr Bruce Phillips	1,750,000	–	–	–	–	**1,750,000**
Mr Clark Davey	147,214	–	–	–	–	**147,214**
Mr Peter Turnbull	146,269	–	–	26,731	–	**173,000**
Ms Luciana Rachid	52,960	–	–	–	–	**52,960**
Mr Peter Botten	–	–	–	–	–	**–**
Mr Tadeu Fraga	–	–	–	–	–	**–**
Other KMP						
Mr Ray Church	–	–	–	–	–	**–**
Mr Antonio Guimarães	–	–	–	–	–	**–**
Total KMP	**2,204,102**	**–**	**–**	**26,731**	**–**	**2,230,833**

None of the ordinary shares are held nominally by any Director or any of the other key management personnel. 'Held nominally' refers to the situation where the ordinary shares are in the name of the Director or other key management person, but they are not the beneficial owner.

Other Transactions with Directors and Other KMP

A formal Related Party Protocol requires the approval by the People and Culture Committee and, thereafter, the Board of Directors of all new related party transactions.

During the financial year, Mr Tadeu Fraga, a Non-Executive Director, had an interest in Radix Engenharia e Software (Radix), that provided engineering consulting services to the Group at market prices. The contract value for these services from Mr Fraga's appointment on 26 August 2022 to 30 June 2023 was US$171,190. Mr Fraga's interest in Radix commenced on 1 March 2023, post the execution of the contract.

During the financial year, Ms Carolina Fraga, a family member of Mr Tadeu Fraga, a Non-Executive Director, who was appointed on 26 August 2022, remained employed by the Group as HR Co-ordinator in Brazil. The total value of her remuneration (including share-based payments expense) from 26 August 2022 to 30 June 2023 was US$89,841. Ms Fraga has been an employee of the Group since 2021. Ms Fraga's employment with the Karoon group commenced prior to the appointment of the relevant Non-Executive Director.

Loans to Directors and Other KMP

There were no loans to Directors or other KMP during the financial year.

Rounding

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

This Directors' Report, incorporating the Remuneration 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 August 2023

Auditor's Independence Declaration

As lead auditor for the audit of Karoon Energy Ltd for the year ended 30 June 2023, 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 audit; and

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

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

Graeme McKenna
Partner
PricewaterhouseCoopers

Melbourne
23 August 2023

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CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023

Karoon Energy Ltd (the 'Company') is a public company limited by shares and is listed on the ASX. It is incorporated and domiciled in Australia.

The registered office and principal place of business of Karoon Energy Ltd is Suite 3.02, Level 3, 6 Riverside Quay, Southbank VIC 3006.

The consolidated financial statements are for the consolidated entity consisting of the Company and its subsidiaries.

The consolidated financial statements are presented in United States dollars.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Financial Year Ended 30 June 2023

	NOTE	CONSOLIDATED 2023 US$M	CONSOLIDATED 2022 US$M
Revenue	4(a)	**566.5**	385.1
Cost of Sales	5(a)	**(283.2)**	(191.7)
Gross Profit		**283.3**	193.4
Other income	4(b)	**5.7**	0.8
Business development and transition costs	5(b)	**(3.7)**	(3.4)
Exploration expenses	5(c)	**(3.9)**	(3.2)
Finance costs	5(d)	**(25.4)**	(22.7)
Net foreign currency gains/(losses)		**(0.8)**	6.2
Other expenses	5(e)	**(33.8)**	(33.8)
Change in fair value of contingent consideration	22(ii)	**(5.2)**	(227.1)
Profit/(Loss) before income tax		**216.2**	(89.8)
Income tax (expense)/benefit	6	**(53.2)**	25.4
Profit/(Loss) for financial year attributable to equity holders of the Company		**163.0**	(64.4)
Other comprehensive income, 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		**(1.5)**	(4.3)
Net change in fair value of cash flow hedges and cost of hedging	23	**33.3**	(41.3)
Other comprehensive income/(loss) for financial year, net of income tax		**31.8**	(45.6)
Total comprehensive income/(loss) for financial year attributable to equity holders of the Company, net of income tax		**194.8**	(110.0)
Earnings per share attributable to equity holders of the Company:			
Basic earnings per ordinary share (cents per share)	9	**28.99**	(11.59)
Diluted earnings per ordinary share (cents per share)	9	**28.59**	(11.59)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		CONSOLIDATED	
	NOTE	2023 US$M	2022 US$M
Current assets			
Cash and cash equivalents	10	**74.8**	157.7
Receivables	11	**71.1**	56.4
Inventories	12	**8.7**	19.4
Security deposits	13	**0.4**	0.3
Other financial assets	22	**3.0**	–
Other assets	14	**9.2**	11.8
Total current assets		**167.2**	245.6
Non-current assets			
Deferred tax assets	6	**124.7**	123.0
Inventories	12	**8.3**	5.8
Oil and gas assets	15	**798.7**	733.0
Property, plant and equipment	16	**2.7**	13.3
Intangible assets		**0.1**	–
Exploration and evaluation assets	17	**85.7**	40.9
Security deposits	13	**2.3**	1.3
Other assets	14	**0.7**	1.3
Total non-current assets		**1,023.2**	918.6
Total assets		**1,190.4**	1,164.2
Current liabilities			
Trade and other payables	18	**57.2**	68.3
Current tax liabilities		**5.6**	9.6
Other financial liabilities	22	**86.0**	125.4
Lease liabilities	20	**47.2**	43.7
Provisions	19	**0.2**	0.4
Total current liabilities		**196.2**	247.4
Non-current liabilities			
Trade and other payables	18	**5.8**	6.8
Borrowings	21	**28.1**	27.1
Other financial liabilities	22	**133.0**	222.0
Lease liabilities	20	**200.4**	245.2
Provisions	19	**153.3**	139.5
Total non-current liabilities		**520.6**	640.6
Total liabilities		**716.8**	888.0
Net assets		**473.6**	276.2
Equity			
Contributed equity	23	**907.5**	907.5
Accumulated losses		**(315.8)**	(478.8)
Reserves		**(118.1)**	(152.5)
Total equity		**473.6**	276.2

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Financial Year Ended 30 June 2023

CONSOLIDATED	NOTE	CONTRIBUTED EQUITY US$M	ACCUMULATED LOSSES US$M	SHARE-BASED PAYMENTS RESERVE US$M	FOREIGN CURRENCY TRANSLATION RESERVE US$M	HEDGING RESERVES US$M	TOTAL EQUITY US$M
Balance as at 1 July 2021		905.1	(414.4)	50.2	(160.7)	–	380.2
Loss for financial year		–	(64.4)	–	–	–	(64.4)
Other comprehensive loss		–	–	–	(4.3)	(41.3)	(45.6)
Total comprehensive income/(loss) for financial year		–	(64.4)	–	(4.3)	(41.3)	(110.0)
Transactions with owners in their capacity as owners:							
Exercise of options	23(b)	2.4	–	–	–	–	2.4
Share-based payments expense	29(c)	–	–	3.6	–	–	3.6
Balance as at 30 June 2022		**907.5**	**(478.8)**	**53.8**	**(165.0)**	**(41.3)**	**276.2**
Profit for financial year		**–**	**163.0**	**–**	**–**	**–**	**163.0**
Other comprehensive income (loss)		**–**	**–**	**–**	**(1.5)**	**33.3**	**31.8**
Total comprehensive income/(loss) for financial year		**–**	**163.0**	**–**	**(1.5)**	**33.3**	**194.8**
Transactions with owners in their capacity as owners:							
Share-based payments expense	29(c)	**–**	**–**	**2.6**	**–**	**–**	**2.6**
		–	**–**	**2.6**	**–**	**–**	**2.6**
Balance as at 30 June 2023		**907.5**	**(315.8)**	**56.4**	**(166.5)**	**(8.0)**	**473.6**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Financial Year ended 30 June 2023

	NOTE	CONSOLIDATED 2023 US$M	CONSOLIDATED 2022 US$M
Cash flows from operating activities			
Receipts from customers		**552.9**	362.9
Payments to suppliers and employees		**(135.2)**	(116.5)
Payments for exploration and evaluation expenditure expensed		**(4.0)**	(3.5)
Payments for legal settlement		**–**	(9.6)
Payments for cash flow hedges		**(13.4)**	(20.8)
Interest received		**4.2**	–
Borrowing and other costs of finance paid		**(19.8)**	(18.9)
Income taxes paid		**(78.8)**	(39.4)
Net cash flows from operating activities	28(a)	**305.9**	154.2
Cash flows from investing activities			
Payments for plant and equipment and computer software		**(2.5)**	(5.1)
Acquisition of oil and gas assets		**(84.5)**	(43.6)
Payments for oil and gas assets		**(222.5)**	(59.6)
Borrowing costs paid for qualifying assets		**(2.7)**	(5.8)
Payments for exploration and evaluation expenditure capitalised		**(43.1)**	–
Payment for security deposits		**(0.9)**	(0.3)
Proceeds from disposal of non-current assets		**–**	1.4
Net cash flows used in investing activities		**(356.2)**	(113.0)
Cash flows from financing activities			
Principal elements of lease payments		**(34.1)**	(44.6)
Proceeds from issue of ordinary shares		**–**	2.4
Proceeds from borrowings		**–**	30.0
Debt facility costs		**(0.1)**	(3.3)
Net cash flows used in financing activities		**(34.2)**	(15.5)
Net increase/(decrease) in cash and cash equivalents		**(84.5)**	25.7
Cash and cash equivalents at beginning of financial year		**157.7**	133.3
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies		**1.6**	(1.3)
Cash and cash equivalents at end of financial year	10	**74.8**	157.7

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are for the consolidated entity consisting of the Company and its subsidiaries (the 'Group'). Information on the nature of the operations and principal activities of the Group are described in the Directors' Report.

The following is a summary of significant accounting policies adopted by the Group in the preparation of these consolidated financial statements. The accounting policies have been consistently applied to all the financial years presented, unless otherwise stated.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (the 'AASB') and the *Corporations Act 2001* (Cth). The Company is a for-profit entity for the purpose of preparing financial statements.

The financial statements have been prepared on a going concern basis. For further details please refer to the liquidity risk section in Note 3(d).

Rounding

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

Historical Cost Convention

The consolidated financial statements have been prepared on an accrual basis under the historical cost convention as modified, when relevant, by the revaluation of selected financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Significant Accounting Estimates, Assumptions and Judgements

The preparation of financial statements requires the use of certain significant accounting estimates. It also requires management to exercise its judgement in the process of applying Group accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

Compliance with International Financial Reporting Standards

Compliance with Australian Accounting Standards ensures that the consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Climate Change

In preparing the financial statements, the impact of climate change and current climate-related legislation has been considered.

The impact of climate change is considered in the significant judgements in a number of areas in the financial statements not limited to:

- Impairment of oil and gas assets (refer Note 2(a)); and
- Provision for restoration (refer Note 2(c)).

The Group continues to monitor climate related policy and its impact on the financial statements.

New, Revised or Amended Australian Accounting Standards and Interpretations that are First Effective in the Current Reporting Period

The Group has adopted all of the new, revised and/or amended Australian Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the financial year ended 30 June 2023:

New and revised Australian Accounting Standards and amendments thereof and Interpretations effective for the financial year include:

- *AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments.*

The initial adoption of the amendments listed above has not resulted in any changes to the Group's accounting policies and has had no effect on either the amounts reported for the current or previous years.

New standards and interpretations not yet adopted

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(b) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2023 and the results of all subsidiaries for the financial year then ended.

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Interests in subsidiaries are set out in Note 24.

All subsidiaries have a financial year end of 30 June, with the exception of: Karoon Petróleo & Gás Ltda; Karoon Peru Pty Ltd, Sucursal del Peru; and KEI (Peru Z38) Pty Ltd, Sucursal del Peru which have a financial year end of 31 December in accordance with relevant Brazilian and Peruvian tax and accounting regulations respectively.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies applied by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.

(c) Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for assessing performance and in determining the allocation of resources of the operating segments, has been identified as the Group's Executive Management Team.

(d) Revenue

Revenue from contracts with customers is recognised when the performance obligations are considered met, which is when control of the products or services provided are transferred to the customer. Revenue is recognised at an amount that reflects the consideration the Group expects to be entitled to, net of goods and services tax or similar taxes.

Where part or all of the transaction price is variable, revenue is recognised only to the extent that it is highly probable that a significant reversal of revenue will not occur.

Oil sales

Performance obligations are satisfied when the control of oil is transferred to the customer at the despatch point to the offtake vessel. The transaction price for oil sales may not be finalised at the date the customer takes control of the product. In such cases, a provisional transaction price is used until a final transaction price can be determined. The difference between the provisional and the final transaction price is recognised at the point when the final price is determined.

Credit terms for crude cargoes are between 30 and 45 days.

Interest Income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of profit or loss and other comprehensive income as other income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of the relevant financial asset, except for financial assets that subsequently become credit impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(e) Foreign Currency Transactions and Balances

Functional and Presentation Currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary or branch operates (the 'functional currency').

The functional currency of the Company is Australian dollars. The Group's Brazilian & Peruvian subsidiaries have a functional currency of US$.

The presentation currency of the consolidated financial statements is US$.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income, except when they are attributable to part of the net investment in a foreign operation.

Non-monetary items measured at historical cost continue to be carried at the foreign exchange rate at the date of the transaction. Foreign exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise foreign exchange differences are recognised in the consolidated statement of profit or loss and other comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income on a net basis within other income or expenses.

Group Companies

The results and financial position of entities within the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the foreign exchange rates prevailing at the end of each reporting period;
- income and expenses are translated at the average foreign exchange rates for the financial period (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 dates of the transactions); and
- all resulting foreign exchange differences are recognised in other comprehensive income.

On consolidation, foreign exchange differences arising on translation of foreign currency financial statements are transferred directly to the foreign currency translation reserve in the consolidated statement of financial position. The relevant differences are recognised in the consolidated statement of profit or loss and other comprehensive income during the financial period when the investment in the entity is disposed.

(f) Income Taxes and Other Taxes

Current Tax

Current tax (expense)/benefit is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the financial period. It is calculated using income tax rates and tax laws that have been enacted or are substantively enacted by the end of each reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Current tax for current and previous financial periods is recognised as a liability (or asset) to the extent that it is unpaid or refundable.

Deferred Tax

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax base of an asset or liability is the amount attributed to that asset or liability for income taxation purposes.

No deferred tax is recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are enacted or substantively enacted by the end of the financial period and are expected to apply to the financial period when the asset is realised, or liability is settled. Deferred tax is credited in the consolidated statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary tax differences or unused tax losses and tax offsets can be utilised.

Deferred tax assets and tax liabilities are offset when there is a legally enforceable right to offset current tax assets and tax liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

Tax Consolidation

The Company and its wholly owned Australian subsidiaries are part of an income tax-consolidated group under Australian taxation law. The Company is the head entity in the income tax-consolidated group. Tax (expense)/benefit, deferred tax liabilities and deferred tax assets arising from temporary tax differences of the members of the income tax-consolidated group are recognised in the separate financial statements of the members of the income tax-consolidated group using the 'stand-alone taxpayer' approach, by reference to the carrying amounts in the separate financial statements of each company and the tax values applying under tax consolidation. Current tax liabilities and tax assets and deferred tax assets arising from unused tax losses and tax credits of members of the income tax-consolidated group are recognised by the Parent Company (as head entity of the income tax-consolidated group).

Due to the existence of a tax funding agreement between the companies in the income tax-consolidated group, each company contributes to the income tax payable or receivable in proportion to their contribution to the income tax-consolidated group's taxable income. Differences between the amounts of net tax assets and tax liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to, the head entity.

Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office ('ATO'). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or equity or as part of an item of expense.

Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO, is included as current receivables or payables respectively in the consolidated statement of financial position.

Cash flows are included on a gross basis in the consolidated statement of cash flows. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

(g) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of financial position and for presentation in the consolidated statement of cash flows comprise cash at bank and on hand (including share of joint operation cash balances) and short-term bank deposits that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(h) Receivables

Receivables, which normally have 30-45 day terms, are generally non-interest-bearing amounts. They are recognised initially at the amount of the consideration that is unconditional unless they contain significant financing components, when they are recognised initially at fair value. The Group holds receivables with the objective to collect the contractual cash flows. They are presented as current assets unless collection is not expected for more than 12 months after reporting date. For receivables expected to be settled within 12 months, these are subsequently measured at amortised cost using the effective interest method, less any loss allowance. For receivables expected to be settled later than 12 months, these are subsequently measured at amortised cost based on discounted cash flows using an effective interest rate, less any loss allowance.

Cash flows relating to non-current receivables are not discounted if the effect of discounting would be immaterial. Refer Note 3(c) for a description of the Group's receivable impairment policies.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost for petroleum products, which comprise extracted crude oil stored in the FPSO, are valued using the absorption cost method.

Other inventories are represented by assets acquired from third parties, in the form of casing and other drilling inventory to be consumed or used in exploration and evaluation activities or production activities. They are presented as current assets unless inventories are not expected to be consumed or used in exploration and evaluation activities within 12 months. The cost of casing and other drilling inventory includes direct materials, direct labour and transportation costs.

(j) Security Deposits

Certain financial assets have been pledged as security for performance guarantees, bank guarantees and bonds related to exploration tenements and operating lease rental agreements. Their realisation may be restricted subject to terms and conditions attached to the relevant exploration tenement agreements or operating lease rental agreements.

Security deposits are non-derivative financial assets that are not quoted in an active market. Security deposits are initially recognised at fair value. Such assets are subsequently carried at amortised cost using the effective interest method, less any loss allowance. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Security deposits are derecognised when the terms and conditions attached to the relevant exploration tenement agreements or lease rental agreements have expired or been transferred.

Refer Note 3(c) for a description of the Group's security deposit impairment policies.

(k) Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income as incurred.

Commencing from the time the plant and equipment is held ready for use, depreciation expense is calculated on a straight-line basis to allocate their cost amount, net of their residual values, over their estimated useful lives ranging from 2 to 10 years.

Plant and equipment residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with the net carrying amount. These gains and losses are included in the consolidated statement of profit or loss and other comprehensive income.

Property, plant and equipment are tested for impairment in accordance with the accounting policy described in Note 1(p).

(l) Oil and Gas Assets

Production assets

Production assets are stated at cost less accumulated amortisation and impairment charges. Production assets include the costs to acquire, construct, install or complete production and infrastructure facilities, capitalised borrowing costs, transferred exploration and evaluation assets, development wells and the estimated cost of dismantling and restoration. Subsequent capital costs, including major maintenance, are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured.

Assets in development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated and approval of commercial development occurs, the field enters its development phase. The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When the committed development expenditure programs are completed and commercial production commences, these costs are subject to amortisation.

Amortisation of production assets

Amortisation is calculated using the units of production method for an asset or group of assets from the date of commencement of production.

(m) Intangibles

Computer Software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Computer software costs have a finite life.

Commencing from the time the computer software is held ready for use, amortisation expense is calculated on a straight-line basis to allocate their cost amount, net of their residual values, over their estimated useful lives ranging from 2 to 2.5 years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at the end of each reporting period. Computer software is tested for impairment in accordance with the accounting policy described in Note 1(p).

(n) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(o) Exploration and Evaluation Expenditure

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Expenditure in respect of each area of interest is accounted for using the 'successful efforts' method of accounting. The 'successful efforts' method requires all exploration and evaluation expenditure in relation to an area of interest to be expensed in the period it is incurred, except the cost of successful wells, the costs of acquiring interests in new exploration assets, and appraisal costs relating to determining development feasibility, which are capitalised as exploration and evaluation assets.

Exploration and evaluation assets are recognised in relation to an area of interest when the rights to tenure of the area of interest are current and either:

- it is expected to be recovered through sale or successful development and exploitation of the area of interest; or
- relates to an exploratory discovery for which at balance date a reasonable assessment of the existence or otherwise of economically recoverable reserves is not yet complete, or additional appraisal work is underway or planned.

All exploration expenditure in relation to directly attributable general administration costs, geological and geophysical costs, seismic and pre-tenure costs is expensed in the consolidated statement of profit or loss and other comprehensive income as incurred.

For exploration wells, costs directly associated with drilling the wells are initially capitalised on a well-by-well basis pending the evaluation of whether potentially economic reserves of hydrocarbons have been discovered. If no recoverable hydrocarbons are identified, or discoveries are deemed non-commercial, then the capitalised costs are expensed.

As capitalised exploration and evaluation expenditure is not available for use, it is not amortised.

Cash flows associated with exploration and evaluation expenditure expensed are classified as operating activities in the consolidated statement of cash flows. Whereas cash flows associated with capitalised exploration and evaluation expenditure are classified as investing activities.

When the technical feasibility and commercial viability of extracting economically recoverable reserves have been demonstrated, any related capitalised exploration and evaluation expenditure is reclassified as development expenditure in the consolidated statement of financial position. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Petroleum tenement acquisition costs are capitalised, along with licence costs paid in connection with a right to explore in an existing exploration area.

Farm-out

The Group does not record any exploration and evaluation expenditure made by a farmee, including any carries incurred by the farmee to earn an ownership interest.

Any cash consideration received on sale or farm-out of an area within an exploration area of interest is recognised as revenue in the consolidated statement of profit or loss and other comprehensive income, unless any of the consideration is attributable to capitalised exploration and evaluation expenditure. Cash consideration received in relation to capitalised exploration and evaluation expenditure is offset against the carrying value of the capitalised exploration and evaluation expenditure. Where the total carrying value has been recouped in this manner, the balance of the proceeds is brought to account as income as a gain on disposal.

Impairment of Capitalised Exploration and Evaluation Expenditure

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the asset level whenever facts and circumstances (as defined in AASB 6 *'Exploration for and Evaluation of Mineral Resources'*) suggest that the carrying amount of the asset may exceed its recoverable amount. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written-down to its recoverable amount. Impairment losses are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

(p) Impairment of Assets (Other than Capitalised Exploration and Evaluation Expenditure)

All other current and non-current assets (other than receivables, inventories, security deposits and deferred tax assets) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

At the end of each reporting period, the Group conducts an internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written down to its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Impairment losses are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income. Assets that suffered impairment are tested for possible reversal of the impairment loss whenever events or changes in circumstances indicate that the impairment may have reversed.

(q) Trade and Other Payables

Trade and other payables are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. They are presented as current liabilities unless payment is not due within twelve months from the reporting date.

(r) Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

For purposes of subsequent measurement, financial liabilities are classified in two categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost (loans and borrowings).

The Group's financial liabilities include trade and other payables, borrowings, derivative financial instruments designated as cash flow hedges, and a derivative financial instrument relating to contingent consideration for the acquisition of an asset.

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 recognised 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 recognised 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 recognised 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 relation to time value of money is separately accounted for as a cost of hedging and recognised 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 22.

(s) Employee Benefits

Wages, Salaries, Annual Leave and Personal Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the reporting period in which the employees render the related services are recognised in respect of employees' services up to the end of the reporting period. They are measured at the amounts expected to be paid when the liabilities are settled plus related on-costs. Expenses for non-vesting personal leave are recognised when the leave is taken and are measured at the rates paid or payable.

The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Share-based Payments

Share-based remuneration benefits are provided to Executive Directors and employees via the Company's PRP (refer Note 29). The Group issues equity-settled and cash-settled share-based payments to certain employees.

The fair value of performance rights granted is recognised as a share-based payments expense in the consolidated statement of profit or loss and other comprehensive income. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions, but excludes the impact of any service and non-market performance vesting conditions. Non-market performance vesting conditions are included in assumptions about the number of performance rights that are expected to vest.

The fair value is measured at grant date. For equity-settled share-based payments the corresponding credit is recognised directly in the share-based payments reserve in equity. For cash-settled share-based payments a liability is recognised based on fair value of the payable earned by the end of the reporting period. The liability is re-measured to fair value at each reporting date up to, and including the vesting date, with changes in fair value recognised in share-based payments expense. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of performance rights that are expected to vest based on the non-market performance vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss and other comprehensive income.

The fair value of performance rights, granted for $nil consideration, at grant date is based on the Company's closing share price at that date, with the exception of long-term performance rights granted during the current financial year.

Long term performance rights granted during the current financial year, which are subject to market-based performance conditions, have been valued using a Monte Carlo simulation approach.

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Restoration Costs

A provision for restoration is provided by the Group where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the estimated costs of decommissioning and removing an asset and restoring the site. These costs are capitalised within the cost of the associated assets and the provision is stated in the consolidated statement of financial position at total estimated present value. These costs are based on judgements and assumptions regarding removal dates, technologies, industry practice and relevant legislation. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the consolidated statement of comprehensive income through amortisation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is included as an accretion charge within finance costs.

Long Service Leave

A provision has been recognised for employee entitlements relating to long service leave measured at the discounted value of estimated future cash outflows. In determining the provision, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. The cash outflows are discounted using market yields with terms of maturity that match the expected timing of cash outflows.

Employee entitlements relating to long service leave are presented as a current provision in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(u) Contributed Equity

Ordinary shares are classified as equity.

Transaction costs directly attributable to the issue of new ordinary shares, share options or performance rights are shown in equity as a deduction, net of any related income tax, from the proceeds. Transaction costs are the costs that are incurred directly in connection with the issue of new ordinary shares, and which would not have been incurred had those ordinary shares not been issued. These directly attributable transaction costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and marketing costs.

Where the Company acquires its own ordinary shares, as a result of a share buy-back, those ordinary shares are cancelled. No gain or loss is recognised, and the consideration paid to acquire the ordinary shares, including any transaction costs directly attributable, net of any related income tax, is recognised directly as a reduction from equity.

(v) Interests in Joint Operations

A joint operation is a joint arrangement whereby the participants that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises assets, liabilities, revenues and expenses according to its share in the assets, liabilities, revenues and expenses of a joint operation or similar as determined and specified in contractual arrangements (joint operating agreements). These have been incorporated in the consolidated financial statements under the appropriate headings.

(w) Leases

The Group has lease contracts for property, an FPSO vessel and other equipment used in its operations.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments expected to be paid over the lease term, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Group's estimated incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The lease liability is further remeasured if the estimated future lease payments change as a result of index or rate changes, residual value guarantees or likelihood of exercise of purchase, extension or termination options.

The Group has applied judgement to determine the lease term for lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the measurement of lease liabilities and right-of-use assets recognised.

Right-of-use assets

The right-of-use asset is initially measured at cost (present value of the lease liability plus deemed cost of acquiring the asset), and subsequently at cost less any accumulated depreciation, impairment losses and adjustment for remeasurement of the lease liability.

Property leases generally have terms between 2 and 5 years. The FPSO vessel lease has a fixed term to February 2026 with renewal options available.

(x) Earnings Per Share

Basic Earnings Per Share

Basic earnings per ordinary share is calculated by dividing the profit or loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the financial year.

Diluted Earnings Per Share

Diluted earnings per ordinary share adjusts the figures used in the determination of basic earnings per ordinary share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(y) Parent Company Financial Information

The financial information for the Parent Company, Karoon Energy Ltd, disclosed in Note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below:

Investments in Subsidiaries

Investments in subsidiaries are accounted for at cost in the Parent Company's financial statements.

The Parent Company does not designate any investments in subsidiaries as being subject to the requirements of Australian Accounting Standards specifically applicable to financial instruments. They are held for strategic and not trading purposes.

Investments in subsidiaries and receivables from subsidiaries are tested for impairment in accordance with the accounting policy described in Note 1(p).

Share-based Payments

The grant by the Company of equity-settled performance rights over its ordinary shares to the employees of subsidiary companies in the Group is treated as a capital contribution to that subsidiary company. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity.

(z) New Australian Accounting Standards and Interpretations for Application in Future Financial Years

There are no relevant new Australian Accounting Standards or Interpretations that are not yet effective and that are expected to have a material impact on the Group in the current or future financial years and on foreseeable future transactions.

(aa) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current period.

NOTE 2. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Revenues and expenses and the carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In applying the Group's significant accounting policies, the Board of Directors and management evaluate estimates and judgements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group.

Significant estimates, assumptions and/or judgements made by the Board of Directors and management in the preparation of the consolidated financial statements were:

(a) Impairment of oil and gas assets

The Group assesses whether oil and gas assets are impaired at least on a semi-annual basis. This requires review of the indicators of impairment and/or an estimation of the recoverable amount of the cash-generating unit to which the assets belong. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. Current climate change legislation is also considered in relation to oil price forecasts and the cash generating unit's useful life. Future uncertainty around climate change risks continue to be monitored.

(b) Capitalised Exploration and Evaluation Expenditure

Capitalised exploration and evaluation expenditure is carried forward on the basis that exploration and evaluation operations in the areas of interest have not at the end of the reporting period reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related exploration tenement itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors that could affect the future recoverability include the level of economically recoverable reserves, future technological changes which could impact the cost of development, future legal changes (including changes to environmental and restoration obligations) and changes to commodity prices. To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, the relevant capitalised amount will be impaired in the consolidated statement of profit or loss and other comprehensive income and net assets will be reduced during the financial period in which this determination is made.

Information on the reasonable existence or otherwise of economically recoverable reserves is progressively gained through geological analysis and interpretation, drilling activity and prospect evaluation during a normal exploration tenement term. A reasonable assessment of the existence or otherwise of economically recoverable reserves can generally only be made, therefore, at the conclusion of those exploration and evaluation activities.

NOTE 2. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS CONTINUED

(c) Provision for Restoration

Restoration costs are a normal consequence of operating in the oil and gas industry. A provision has been recognised for the Group's restoration obligations for the Baúna field.

In determining an appropriate level of provision, consideration is given to the expected future costs to be incurred, the timing of these expected future costs, the estimated future level of inflation and appropriate discount rate. The ultimate costs of restoration are uncertain and cost estimates could be subject to revisions in subsequent years due to many factors including changes to the relevant legal and legislative requirements, the emergence of new restoration techniques or experience at other fields. Risks associated with climate change also continue to be monitored. Likewise, the appropriate future discount rates used in the calculation are subject to change according to the risks inherent in the liability. The discount rate used to determine the restoration obligation at 30 June 2023 was based on applicable government bond rates with a tenure aligned to the tenure of the liability.

Changes to any of the estimates could result in a significant change to the level of provisioning required, which would in turn impact future financial results.

(d) Estimates of reserves quantities

The estimated quantities of Proved plus Probable ("2P") hydrocarbon reserves reported by the Group are integral to the calculation of amortisation expense and to the assessment of impairment or impairment reversals.

Estimated reserves quantities are based on management's interpretations of geological and geophysical models, reservoir engineering and production engineering analyses and models, and assessments of the technical feasibility and commercial viability of producing the reserves, taking into consideration reviews by an independent third party. An external reserves assessment is planned to be undertaken at least every 3 years.

Assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The Group prepares its reserves estimates in accordance with the Petroleum Resources Management System (PRMS 2018) published by the Society of Petroleum Engineers and the Australian Securities Exchange Listing rules. All estimates of reserves reported by the Group are prepared by, or under the supervision of, a qualified petroleum reserves and resources evaluator.

Estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. These changes may impact depreciation, amortisation, asset carrying values, restoration provisions and deferred tax balances. If proved and probable reserves estimates are revised downwards, earnings could be affected by a higher depreciation and/or amortisation charge or immediate write-down of the assets carrying value.

(e) Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The fair value of the contingent consideration (refer to Note 22) is based on the Group's internal assessment of future oil prices, which considers industry consensus and observable prices, inflation and an appropriate risk-free rate. Changes in assumptions relating to these factors could affect the reported fair value of the financial instrument.

(f) Share-based Payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the performance right, volatility and dividend yield and making assumptions about them at grant date. The fair value of long-term performance rights issued during the current financial year are valued using a Monte Carlo simulation approach taking into account the terms and conditions on which the performance rights were granted. The cumulative share-based payments expense recognised reflects the extent, in the opinion of management, to which the vesting period has expired and the number of and performance rights granted that will ultimately vest or be settled in cash. At the end of each reporting period, the unvested performance rights and cash-settled share-based payment liability are adjusted by the number forfeited during the reporting period to reflect the actual number of performance rights outstanding and cash liability to be settled. In addition, the fair value of cash-settled share-based payments are remeasured, up to the date of settlement, to reflect the cash liability at the end of each reporting period with changes in the fair value recognised in the profit or loss.

(g) Income Tax

The Group is subject to income taxes in Australia, Brazil and other jurisdictions where it has foreign operations. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the relevant tax laws. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax balances in the financial period in which such determination is made.

Assessing the future utilisation of tax losses and temporary tax differences requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future utilisation of these tax losses and temporary tax differences becomes probable, this could result in significant changes to deferred tax assets recognised, which would in turn impact future financial results.

(h) Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include renewal options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The Group included the renewal periods as part of the lease term for the FPSO right-of-use asset as there will be a significant negative effect on production if a replacement asset is not readily available.

NOTE 3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk); commodity price risk; credit risk; and liquidity risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure the different types of financial risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange, interest rates and commodity prices.

The overall financial risk management strategy of the Group is governed by the Board of Directors through the Audit, Risk and Governance Committee and is primarily focused on ensuring that the Group is able to finance its business plans, while minimising potential adverse effects on financial performance. The Board of Directors provides written principles for overall financial risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate, commodity price and credit risks, use of derivative financial instruments and investment of excess cash. Financial risk management is carried out by the Company's finance function under policies approved by the Board of Directors. The finance function identifies, evaluates and if necessary, hedges financial risks in close co-operation with the Chief Executive Officer and Managing Director. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group activities.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 1.

The Group's financial instruments consist of cash and cash equivalents, receivables, security deposits, trade and other payables, lease liabilities, borrowings, derivative financial instruments designated as cash flow hedges, and embedded derivatives.

NOTE 3. FINANCIAL RISK MANAGEMENT CONTINUED

The totals for each category of financial instruments in the consolidated statement of financial position are as follows:

		CONSOLIDATED	
	NOTE	2023 US$M	2022 US$M
Financial assets			
Cash and cash equivalents	10	**74.8**	157.7
Receivables	11	**71.1**	56.4
Other financial assets	22	**3.0**	–
Security deposits	13	**2.7**	1.6
Total financial assets		**151.6**	215.7
Financial liabilities			
Trade and other payables (refer note (i) below)		**61.4**	73.6
Borrowings (refer note (ii) below)	21	**30.0**	30.0
Other financial liabilities (refer note (iii) below)	22	**219.0**	347.4
Lease liabilities	20	**247.6**	288.9
Total financial liabilities		**558.0**	739.9

(i) Trade and other payables above exclude amounts relating to annual leave liabilities, which are not considered a financial instrument.

(ii) Borrowings exclude transaction costs which are not considered a financial instrument.

(iii) Other financial liabilities relate to the contingent consideration payable to Petrobras as part of the acquisition of Baúna. (refer Note 22).

(a) Market Risk

(i) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the Company's functional currency.

The Group's revenue, significant operating expenditure including the FPSO charter lease and a large component of capital obligations are predominantly denominated in US$.

The Group's remaining foreign exchange risk exposures relate to administrative and business development expenditures incurred at the corporate level in A$; and operating and capital expenditures incurred by the Group in relation to operating the Baúna production asset in Brazil in Brazilian REAL. These items are translated to US$ equivalents at each period end, and the associated gain or loss is taken to the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

The Group manages foreign exchange risk at the corporate level by monitoring forecast cash flows in currencies other than US$ and ensuring that adequate Brazilian REAL and A$ cash balances are maintained. Foreign currencies are bought on the spot market in excess of immediate requirements. Where currencies are purchased in advance of requirements, these balances do not usually exceed 3 months' requirements. The appropriateness of A$ and Brazilian REAL holdings are reviewed regularly against future commitments and current $A and Brazil REAL market expectations.

Periodically, sensitivity analysis is conducted to evaluate the potential impact of unfavourable exchange rates on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. The Group will hedge when it is deemed the most appropriate risk mitigation tool to be used. Foreign currency hedging transactions were not entered into during the financial year or previous financial year.

The Group is not exposed to material translation exposures at the end of the current financial year as the majority of its financial assets and liabilities are denominated in US$ and as such, no foreign currency sensitivity analysis has been disclosed.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of financial assets and financial liabilities will fluctuate because of changes in market interest rates. Interest rate risk is managed on a Group basis at the corporate level. This risk is managed through the use of cash flow forecasts supplemented by sensitivity analysis.

As at 30 June 2023 and 30 June 2022, there was no interest rate hedging in place.

The Group's interest rate risk arises from long-term borrowings at floating rates and cash and cash equivalents and security deposits which earn interest at floating rates. As long-term borrowings and the majority of cash and cash equivalents are held in US$'s, the primary exposure is to US$ interest rates.

An analysis of the Group's exposure to interest rate risk for financial assets and financial liabilities at the end of the financial year is set out below:

	CONSOLIDATED					
2023	WEIGHTED AVERAGE INTEREST RATE % P.A.	FLOATING INTEREST RATE US$M	FIXED INTEREST RATE US$M	NON-INTEREST BEARING US$M	FAIR VALUE US$M	CARRYING AMOUNT US$M
Financial assets						
Cash and cash equivalents	1.39	27.0	–	47.8	74.8	74.8
Receivables	–	–	–	71.1	71.1	71.1
Other financial assets	–	–	–	3.0	3.0	3.0
Security deposits	9.07	2.6	0.1	–	2.7	2.7
Total financial assets		29.6	0.1	121.9	151.6	151.6
Financial liabilities						
Trade and other payables	–	–	–	61.4	61.4	61.4
Borrowings	8.22	30.0	–	–	30.0	30.0
Other financial liabilities	2.00	–	219.0	–	219.0	219.0
Lease liabilities	–	–	–	247.6	247.6	247.6
Total financial liabilities		30.0	219.0	309.0	558.0	558.0

	CONSOLIDATED					
2022	WEIGHTED AVERAGE INTEREST RATE % P.A.	FLOATING INTEREST RATE US$M	FIXED INTEREST RATE US$M	NON-INTEREST BEARING US$M	FAIR VALUE US$M	CARRYING AMOUNT US$M
Financial assets						
Cash and cash equivalents	–	47.0	–	110.7	157.7	157.7
Receivables	–	–	–	56.4	56.4	56.4
Security deposits	7.09	1.5	0.1	–	1.6	1.6
Total financial assets		48.5	0.1	167.1	215.7	215.7
Financial liabilities						
Trade and other payables	–	–	–	73.6	73.6	73.6
Borrowings	5.95	30.0	–	–	30.0	30.0
Other financial liabilities	2.00	–	298.3	49.1	347.4	347.4
Lease liabilities	–	–	–	288.9	288.9	288.9
Total financial liabilities		30.0	298.3	411.6	739.9	739.9

NOTE 3. FINANCIAL RISK MANAGEMENT CONTINUED

Interest Rate Sensitivity Analysis

The following table details the Group's sensitivity to a 1% p.a. increase or decrease in interest rates, with all other variables held constant. The sensitivity analysis is based on the balance of floating interest rate amounts held at the end of the financial year.

The sensitivity analysis is not fully representative of the inherent interest rate risk, as the financial year end exposure does not necessarily reflect the exposure during the course of a financial year. These sensitivities should not be used to forecast the future effect of movements in interest rates on future cash flows.

	CONSOLIDATED	
	2023 US$M	2022 US$M
Change in profit(loss) before income tax		
– Increase of interest rate by 1% p.a.	–	0.4
– Decrease of interest rate by 1% p.a.	–	(0.1)
Change in financial instruments		
– Increase of interest rate by 1% p.a.	–	0.4
– Decrease of interest rate by 1% p.a.	–	(0.1)

(b) Commodity Price Risk

The Group is exposed to commodity price fluctuations associated with the production and sale of oil. Commodity price risk is managed on a Group basis at the corporate level. To mitigate commodity price risk, during the prior year, the Group entered into Brent oil price cash flow hedges, via a collar structure consisting of bought put and sold call options covering the period from December 2021 to March 2024. During the financial year, approximately 37% of actual production volume was hedged. At reporting date, the Group held hedging financial instruments with a net asset carrying value of $3.0m (refer Note 22).

Commodity Price Sensitivity Analysis – Cash Flow Hedges

The following table details the Group's sensitivity to a 10% increase or decrease in the Brent oil price, with all other variables held constant.

	CONSOLIDATED	
	2023 US$M	2022 US$M
Change in reserves (in accordance with hedge accounting application)		
– Increase of oil price by 10%	–	(47.8)
– Decrease of oil price by 10%	–	47.8
Change in financial liabilities		
– Increase of oil price by 10%	–	(47.8)
– Decrease of oil price by 10%	–	47.8

Commodity Price Sensitivity Analysis – Contingent Consideration

As part of the acquisition of Baúna, the Group agreed to pay Petrobras contingent consideration of up to $285 million plus interest of 2% per annum accruing from 1 January 2019. The fair value of the contingent consideration has been accounted for as an embedded derivative and estimated by calculating the present value of the future expected cash outflows. The estimates are based on the Group's internal assessment of future oil prices. A discount rate of 3.42% and 2% inflation factor has also been applied. Refer to Note 22 for more details.

The following table details the Group's sensitivity to a 10% increase or decrease in its internal assessment of future oil prices on the contingent consideration payable to Petrobras. At 30 June 2023, with the US$70 per barrel threshold triggered over calendar years 2022-2026, the maximum contingent consideration payable has been recognised and as such a 10% increase in the oil price would have no impact on the financial statements.

	CONSOLIDATED	
	2023 US$M	2022 US$M
Change in profit/(loss) before income tax		
– Increase of oil price by 10%	**–**	–
– Decrease of oil price by 10%	**30.4**	43.1
Change in financial liabilities		
– Increase of oil price by 10%	**–**	–
– Decrease of oil price by 10%	**(30.4)**	(43.1)

(c) Credit Risk

The maximum exposure to credit risk at the end of the financial year is the carrying amount of the financial assets as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents and security deposits held with banks, financial institutions and joint operators, as well as credit exposures to customers, including outstanding receivables and refundable tax credits.

Credit risk is managed on a Group basis at the corporate level. To minimise credit risk, the Group has adopted a policy of only dealing with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result being the Group's exposure to bad debts is minimised. The Group does not currently hold collateral, nor does it securitise its receivables.

The Group has policies in place to ensure that services are made to customers with an appropriate credit history.

Cash and cash equivalents and security deposit counterparties are limited to credit quality banks and financial institutions. For banks and financial institutions in Australia, only independently rated counterparties with a minimum rating of Aa3/A2 are accepted. For banks and financial institutions in Brazil, only independently rated counterparties with a minimum rating of Baa1 are accepted. For banks and financial institutions in Brazil, with independently rated counterparty ratings below Baa1, exposure cannot exceed the short-term country specific cash requirements unless they are associated banks of an International Bank with a higher credit rating. Cash and cash equivalents are held offshore by the Group's Brazilian subsidiary out of London with an International Bank with a rating of Baa1. The Group's credit exposure and external credit ratings of its counterparties are monitored on a periodic basis. Where commercially practical, the Group seeks to limit the amount of credit exposure to any one bank or financial institution.

(i) Impairment of Financial Assets

The Group has two types of financial assets that are subject to AASB 9's 'expected credit loss' model: receivables and security deposits. The Group has applied the AASB 9 general model approach to measuring expected credit losses for all receivables and security deposits.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was considered not significant given the counterparties and/or the short maturity.

Expected Credit Loss

When required, the carrying amount of the relevant financial asset is reduced through the use of a loss allowance account and the amount of any loss is recognised in the consolidated statement of profit or loss and other comprehensive income. When measuring expected credit losses, balances are reviewed based on available external credit ratings, historical loss rates and the days past due.

Security Deposits

The Group's security deposits held in Australia are considered to have low credit risk on the basis that there is a low risk of default with the relevant bank counterparty. Management considers 'low credit risk' for security deposits with banks and financial institutions to be an investment grade credit rating with at least 1 major rating agency.

The Group is exposed to credit risk in relation to a security deposit of $2.1m (30 June 2022: $1.2m) held with Itau Unibanco SA in Brazil. The Group provided the ANP (the Brazilian oil and gas regulator) a letter of credit to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The letter of credit is fully funded by way of payment of a security deposit (refer Note 13(b)), which will be released once the work program is met.

NOTE 3. FINANCIAL RISK MANAGEMENT CONTINUED

The credit rating of Itau Unibanco SA is Ba2 (30 June 2022: Ba2), which is a non-investment grade rating that carries credit risk. The credit rating of Itau Unibanco SA in Brazil is monitored on a periodic basis for credit deterioration. In addition, Management continually monitors Brazilian macro-economic factors for any deterioration which directly impacts the credit ratings of Brazilian financial institutions as bank credit ratings will be limited by the sovereign rating. As there has not been a significant increase in credit risk since initial recognition of this security deposit, which is predominantly impacted by negative macro-economic factors in Brazil, any impairment test uses a 12-month expected credit loss model measure.

As at 30 June 2023, there were $Nil (30 June 2022: $Nil) security deposits past due. The loss allowance recognised during the financial year for security deposits was $Nil. Accordingly, interest income has been calculated on the gross carrying amount during the financial year.

Receivables

The Group's receivables relating to Brazil and Australia are considered to have low credit risk on the basis that there is a low risk of default and the debtor has a strong (robust) capacity to meet its obligations in the short-term. Accordingly, for receivables any impairment test uses a 12-month expected credit loss model measure.

The Group is exposed to credit risk in relation to an interest receivable of $165k (30 June 2022: $318k) predominantly related to the security deposit held with Itau Unibanco SA in Brazil. As there has not been a significant increase in credit risk since initial recognition of the security deposit, which is predominantly impacted by negative macro-economic factors in Brazil, any impairment test uses a 12-month expected credit loss model measure.

As at 30 June 2023, there were $Nil (30 June 2022: $Nil) receivables past due. The loss allowance for receivables recognised during the financial year was $Nil (30 June 2022: $Nil).

(d) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by ensuring that there are sufficient funds available to meet financial obligations on a day-to-day basis and to meet unexpected liquidity needs in the normal course of business. Emphasis is placed on ensuring there is sufficient funding in place to meet the ongoing operational requirements of the Group's production activities, exploration, evaluation and development expenditure, and other corporate initiatives.

The following mechanisms are utilised to manage liquidity risk:

- preparing and maintaining rolling forecast cash flows in relation to operational, investing and financing activities;
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets;
- managing credit risk related to financial assets;
- when necessary, utilising short-term and long-term loan facilities;
- investing surplus cash only in credit quality banks and financial institutions; and
- maintaining a reputable credit profile.

At the end of the financial year, the Group held cash and cash equivalents at call of $74.8m (30 June 2022: $157.7m) that are expected to readily generate cash inflows for managing liquidity risk. The Group had external borrowings of $30.0m (30 June 2022: $30.0m).

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2023 US$M	2022 US$M
Floating rate		
– Expiring beyond one year (syndicated loan facility and accordion facility)	**180.0**	180.0

An analysis of the Group's financial liabilities contractual maturities at the end of the financial year is set out in the tables below. The amounts disclosed in the table are the contractual undiscounted cash flows comprising principal and interest repayments.

	CONSOLIDATED					
2023	LESS THAN 6 MONTHS US$M	6-12 MONTHS US$M	1-3 YEARS US$M	3-5 YEARS US$M	OVER 5 YEARS US$M	TOTAL US$M
Financial liabilities						
Non-derivative financial liabilities						
Trade and other payables	**58.4**	**3.0**	**10.4**	**–**	**–**	**71.8**
Borrowings	**–**	**–**	**30.0**	**–**	**–**	**30.0**
Lease liabilities	**30.2**	**29.9**	**119.8**	**103.2**	**–**	**283.1**
Derivative financial liabilities						
Contingent consideration – embedded derivative	**–**	**86.0**	**128.8**	**17.5**	**–**	**232.3**
Total financial liabilities	**88.6**	**118.9**	**289.0**	**120.7**	**–**	**617.2**
2022						
Financial liabilities						
Non-derivative financial liabilities						
Trade and other payables	69.3	3.3	8.0	–	–	80.6
Borrowings	–	–	30.0	–	–	30.0
Lease liabilities	29.8	29.4	119.0	118.4	43.1	339.7
Derivative financial liabilities						
Derivative financial instruments – cash flow hedges	20.6	20.2	8.3	–	–	49.1
Contingent consideration – embedded derivative	–	84.6	174.4	59.1	–	318.1
Total financial liabilities	119.7	137.5	339.7	177.5	43.1	817.5

(e) Fair Value Estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 30 June 2023 and 30 June 2022 are presented in the table under Note 3(a)(ii) and can be compared to their carrying values as presented in the consolidated statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values estimated for disclosure purposes are based on information that is subject to judgement, where changes in assumptions may have a material impact on the amounts estimated.

The following summarises the significant methods and assumptions used in estimating fair values of financial assets and financial liabilities for disclosure purposes:

Cash and Cash Equivalents

The carrying amount is fair value due to the liquid nature of these assets.

Receivables

The carrying amounts of current receivables are assumed to approximate their fair values due to their short-term nature.

NOTE 3. FINANCIAL RISK MANAGEMENT CONTINUED

Security Deposits

The carrying amounts of security deposits are assumed to represent their fair values based on their likely realisability profile.

Trade and Other Payables

Due to the nature of these financial liabilities, their carrying amounts are a reasonable approximation of their fair values.

Lease Liabilities

Fair value is calculated based on the present value of the lease payments expected to be paid over the lease term, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Group's estimated incremental borrowing rate.

Derivative Financial Instruments – 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.

Other Financial Liabilities – Embedded Derivative

The fair value of the contingent consideration was estimated by 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. A discount rate of 3.42% and 2% inflation factor has also been applied.

Fair value measurement

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 which are observable for the asset or liability, either directly or indirectly; and
- Level 3: fair value measurements are those derived from valuation techniques which include inputs for the asset or liability that are not based on observable market data.

All of the Group's financial instruments were valued using the Level 2 valuation technique.

NOTE 4. REVENUE AND OTHER INCOME

	CONSOLIDATED	
	2023 US$M	2022 US$M
(a) Revenue		
Crude oil sales	**566.5**	385.1
Total revenue from contracts with customers	**566.5**	385.1
(b) Other Income		
Interest income	**4.0**	0.2
Write-back of inventory impaired	**1.6**	–
Sundry income	**0.1**	0.6
Total other income	**5.7**	0.8

NOTE 5. EXPENSES

	CONSOLIDATED	
	2023 US$M	**2022 US$M**
(a) Cost of sales		
Operating costs	**62.0**	57.2
Royalties and other government take	**66.7**	41.5
Depreciation and amortisation – oil and gas assets	**143.0**	99.4
Change in inventories	**11.5**	(6.4)
Total cost of sales	**283.2**	191.7
(b) Business development and other project costs		
Business development and other project costs	**3.7**	3.4
Total Business development and other project costs	**3.7**	3.4
(c) Exploration expenses		
Exploration and evaluation expenditure expensed	**3.9**	3.2
Total exploration and evaluation expenditure expensed	**3.9**	3.2
(d) Finance costs		
Finance charges on lease liabilities	**15.5**	16.9
Discount unwinding on net present value of provision for restoration	**5.0**	2.4
Interest expense	**2.1**	2.1
Other finance costs	**2.8**	1.3
Total finance costs	**25.4**	22.7
(e) Other expenses		
Corporate	**20.7**	15.4
Realised losses on cash flow hedges	**7.1**	11.8
Depreciation and amortisation – non-oil and gas assets	**0.9**	0.7
Share-based payments expense	**3.1**	5.7
Social investments/sponsorships	**1.9**	–
Loss on disposal of non-current assets	**0.1**	–
Other expenses	**–**	0.2
Total other expenses	**33.8**	33.8

NOTE 6. INCOME TAX

	NOTE	CONSOLIDATED 2023 US$M	CONSOLIDATED 2022 US$M
(a) Income Tax Recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income			
Tax income (expense) comprises:			
Current income tax		**(74.0)**	(39.3)
Deferred income tax		**20.8**	64.7
Total income tax (expense)/benefit		**(53.2)**	25.4
The prima facie tax on profit/(loss) before income tax is reconciled to tax (expense)/benefit as follows:			
Prima facie tax (expense)/benefit on profit/(loss) before income tax, calculated at the Brazilian tax rate of 34%[i]		**(73.5)**	30.5
(Add)/subtract the tax effect of:			
Share-based payments expense (non-cash)		**(0.7)**	(0.9)
Other non-deductible items		**(1.4)**	(3.4)
Social investments/sponsorships[ii]		**1.1**	–
Tax losses and temporary tax differences not recognised		**–**	(0.2)
Difference in overseas tax rates		**(0.4)**	(0.3)
Foreign exchange differences		**21.7**	(0.3)
Total income tax (expense)/benefit		**(53.2)**	25.4
(b) Amounts Recognised Directly in Equity			
Aggregate current and deferred tax arising during the financial year and not recognised in net profit or loss, but directly debited or credited in equity:			
Deferred tax – (debited)/credited directly in hedging reserves	23(d)(iii)	**(16.9)**	21.2

(i) In prior years, the reconciliation of prima facie tax (expense)/benefit on profit/(loss) before income tax to tax (expense)/benefit has been calculated at the Australian tax rate of 30%. Due to the current operations of the Company being predominantly located in Brazil, the Company has determined that the Brazilian tax rate of 34% provides the most meaningful information to users of the financial statements. The prior year comparatives in Note 6(a) have been restated.

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

	BALANCE AS AT 1 JULY 2022 US$M	CHARGED (CREDITED) TO PROFIT OR LOSS US$M	CHARGED (CREDITED) DIRECTLY TO EQUITY US$M	TAX LOSSES UTILISED US$M	BALANCE AS AT 30 JUNE 2023 US$M
(c) Deferred Tax Balances					
Temporary differences					
Provisions and accruals	19.6	11.4	–	–	**31.0**
Equity raising transaction costs	0.2	(0.1)	–	–	**0.1**
Unrealised foreign currency (gains)/losses	(12.7)	(8.0)	–	–	**(20.7)**
Translation adjustment	14.2	24.6	–	–	**38.8**
Fair value movement of financial liabilities	79.6	(18.2)	–	–	**61.4**
Farm-out expenditures	0.1	–	–	–	**0.1**
Right-of-use assets	(95.4)	15.5	–	–	**(79.9)**
Lease liabilities	98.2	(3.6)	–	–	**94.6**
Hedge premium	(4.5)	(0.8)	–	–	**(5.3)**
Net changes of cash flow hedges	21.2	–	(16.9)	–	**4.3**
Other	0.3	–	–	–	**0.3**
Total temporary differences	120.8	20.8	(16.9)	–	**124.7**
Unused tax losses					
Tax losses	2.2	–	–	(2.2)	**–**
Total unused tax losses	2.2	–	–	(2.2)	**–**
Net deferred tax assets/(liabilities)	123.0	20.8	(16.9)	(2.2)	**124.7**
Presented in the consolidated statement of financial position as follows:					
Deferred tax assets	123.0				124.7

	CONSOLIDATED 2023 US$M	CONSOLIDATED 2022 US$M
(d) Unrecognised Deferred Tax Assets		
A deferred tax asset has not been recognised in the consolidated statement of financial position as the benefits of which will only be realised if the conditions for deductibility set out in Note 1(f) occur:		
Unrecognised temporary tax differences relating to deferred tax assets at a tax rate of 34%	**16.5**	18.0
Tax losses: Peruvian operating losses at a tax rate of 32%	**6.4**	6.4
Potential tax income	**22.9**	24.4

NOTE 7. REMUNERATION OF EXTERNAL AUDITORS

	CONSOLIDATED	
	2023 US$'000	2022 US$'000
Remuneration received or due and receivable by the external auditor of the Company for:		
(a) PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	**190**	181
Other assurance services	**27**	36
Total remuneration for audit and other assurance services	**217**	217
(ii) Other services		
All other services	**–**	–
Total remuneration of PricewaterhouseCoopers Australia	**217**	217
(b) Related Practices of PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	**151**	130
Total remuneration for audit and other assurance services of related practices of PricewaterhouseCoopers Australia	**151**	130
Total remuneration of external auditors	**368**	347

NOTE 8. DIVIDENDS

There were no ordinary dividends declared or paid during the financial year by the Group (2022: $Nil).

	CONSOLIDATED	
	2023 US$M	2022 US$M
Balance of franking account available for subsequent reporting periods	**14.4**	12.4

The above amount is calculated from the balance of the Company's franking account as at the end of the financial year. Franking credits are based on the Australian tax rate of 30%.

NOTE 9. EARNINGS PER SHARE

	CONSOLIDATED	
	2023 US$M	2022 US$M
Profit/(loss) for the financial year used to calculate basic and diluted earnings per ordinary share:	**163.0**	(64.4)
(a) Basic earnings per ordinary share (cents per share)	**28.99**	(11.59)
(b) Diluted earnings per ordinary share (cents per share)*	**28.59**	(11.59)
Weighted average number of ordinary shares on issue during the financial year used in calculating basic earnings per ordinary share:	**562,290,221**	555,904,067
Weighted average number of potential ordinary shares:	**7,816,439**	12,154,223
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per ordinary share:	**570,106,660**	568,058,290

* Diluted loss per ordinary share equates to basic loss per ordinary share in the prior financial year because a loss per ordinary share is not considered dilutive for the purposes of calculating earnings per share pursuant to AASB 133 *'Earnings per Share'*.

Potential ordinary shares

Performance rights over unissued ordinary shares of the Company outstanding at the end of the financial year are considered to be potential ordinary shares and have been included in the determination of diluted earnings per ordinary share to the extent to which they are dilutive. The potential ordinary shares have not been included in the determination of basic earnings per ordinary share.

NOTE 10. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2023 US$M	2022 US$M
Cash at bank and on hand	**74.8**	157.7
Total cash and cash equivalents	**74.8**	157.7

NOTE 11. RECEIVABLES

	CONSOLIDATED	
	2023 US$M	2022 US$M
Trade debtors – crude oil sales	**69.6**	56.0
Other receivables	**1.5**	0.4
Total current receivables	**71.1**	56.4

(a) Financial Risk Management

Information concerning the Group's exposure to financial risks on receivables is set out in Note 3.

NOTE 12. INVENTORIES

	CONSOLIDATED	
	2023 US$M	2022 US$M
Current		
Petroleum inventories	**5.8**	17.3
Casing and other drilling inventory	**2.9**	2.1
Total current inventories	**8.7**	19.4
Non-current		
Casing and other drilling inventory	**8.3**	5.8
Total non-current inventories	**8.3**	5.8

NOTE 13. SECURITY DEPOSITS

	CONSOLIDATED 2023 US$M	CONSOLIDATED 2022 US$M
Current		
Karoon Petróleo & Gás Ltda (refer note (a) below)	**0. 4**	0.3
Total current security deposits	**0.4**	0.3
Non-current		
Karoon Petróleo & Gás Ltda (refer note (b) below)	**2.1**	1.2
Karoon Energy Ltd (refer note (c) below)	**0.2**	0.1
Total non-current security deposits	**2.3**	1.3

(a) Bonds

Cash deposits are held as bonds predominately for the Group's compliance with its obligations in respect of agreements for the guarantee (refer Note 26) of payment obligations for office premises in Brazil.

(b) Guarantee Bond

The Group has provided the ANP a letter of credit (refer Note 26) to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work program is met.

(c) Bank Guarantees

Cash deposits are held as security against bank guarantee facilities for bank guarantees (refer Note 26) given to lessors for the Group's compliance with its obligations in respect of lease rental agreements for office premises in Australia.

(d) Financial Risk Management

Information concerning the Group's exposure to financial risks on security deposits is set out in Note 3.

NOTE 14. OTHER ASSETS

	CONSOLIDATED 2023 US$M	CONSOLIDATED 2022 US$M
Current		
Prepayments	**7.2**	9.3
Sundry assets	**2.0**	2.5
Total current other assets	**9.2**	11.8
Non-current		
Prepayments	**0.7**	1.3
Total non-current other assets	**0.7**	1.3

NOTE 15. OIL AND GAS ASSETS

	NOTE	PRODUCTION ASSET US$M	DEVELOPMENT ASSET US$M	RIGHT OF USE ASSETS US$M	CONSOLIDATED TOTAL US$M
Financial year ended 30 June 2022					
Balance at beginning of financial year		411.7	19.0	305.7	736.4
Additions	25(c)	69.3	22.7	–	92.0
Remeasurement of lease arrangements		–	–	20.8	20.8
Borrowing costs capitalised(i)		–	4.8	–	4.8
Depreciation expense		(55.0)	–	(44.4)	(99.4)
Impact of increase in discount rate on provision for restoration at year end	19(b)	(21.6)	–	–	(21.6)
Carrying amount at end of financial year		404.4	46.5	282.1	733.0
At 30 June 2022					
At cost		496.2	46.5	354.7	897.4
Accumulated depreciation		(91.8)	–	(72.6)	(164.4)
Carrying amount at end of financial year		404.4	46.5	282.1	733.0
Financial year ended 30 June 2023					
Balance at beginning of financial year		404.4	46.5	282.1	733.0
Additions	25(c)	63.0	127.9	–	190.9
Transfers from property, plant and equipment		12.0	–	–	12.0
Remeasurement of lease arrangements		–	–	(5.7)	(5.7)
Borrowing costs capitalised(i)		–	2.7	–	2.7
Depreciation expense		(85.5)	–	(57.5)	(143.0)
Net increase in provision for restoration(ii)	19(b)	8.8	–	–	8.8
Completions and transfers		177.1	(177.1)	–	–
Carrying amount at end of financial year		**579.8**	**–**	**218.9**	**798.7**
At 30 June 2023					
At cost		**757.1**	**–**	**349.0**	**1,106.1**
Accumulated depreciation		**(177.3)**	**–**	**(130.1)**	**(307.4)**
Carrying amount at end of financial year		**579.8**	**–**	**218.9**	**798.7**

(i) The capitalised borrowing costs relate to an apportionment of the fees incurred in connection with the syndicated loan facility (refer Note 21) relating to the Patola development, which met the definition of a qualifying asset.

(ii) Includes the addition of restoration obligations relating to the Patola wells, offset by an increase in the discount rate on total restoration provisions (refer Note 19).

NOTE 16. PROPERTY, PLANT AND EQUIPMENT

	NOTE	PLANT AND EQUIPMENT US$M	RIGHT OF USE ASSETS US$M	CONSOLIDATED TOTAL US$M
At 30 June 2022				
At cost		13.7	2.4	16.1
Accumulated depreciation		(1.8)	(1.0)	(2.8)
Carrying amount at end of financial year		11.9	1.4	13.3
Financial year ended 30 June 2023				
Balance at beginning of financial year		11.9	1.4	13.3
Additions	25(c)	2.7	–	2.7
Disposals		(0.5)	–	(0.5)
Transfer to Oil and Gas Assets		(12.0)	–	(12.0)
Depreciation expense		(0.4)	(0.4)	(0.8)
Carrying amount at end of financial year		**1.7**	**1.0**	**2.7**
At 30 June 2023				
At cost		**3.9**	**2.4**	**6.3**
Accumulated depreciation		**(2.2)**	**(1.4)**	**(3.6)**
Carrying amount at end of financial year		**1.7**	**1.0**	**2.7**

NOTE 17. EXPLORATION AND EVALUATION ASSETS

	NOTE	CONSOLIDATED 2023 US$M	2022 US$M
The reconciliation of exploration and evaluation expenditure carried forward is set out below:			
Balance at beginning of financial year		**40.9**	40.9
Additions	25(c)	**44.8**	1.4
Transfer to development assets		**–**	(1.4)
Total exploration and evaluation expenditure carried forward		**85.7**	40.9

NOTE 18. TRADE AND OTHER PAYABLES

	CONSOLIDATED 2023 US$M	2022 US$M
Current		
Trade payables	**47.8**	60.9
Sundry payables and accruals	**8.1**	5.3
Cash-settled share-based payments	**1.3**	2.1
Total current trade and other payables	**57.2**	68.3
Non-current (unsecured)		
Sundry payables and accruals	**5.8**	5.7
Cash-settled share-based payments	**–**	1.1
Total non-current trade and other payables	**5.8**	6.8

Financial Risk Management

Information concerning the Group's exposure to financial risks on trade and other payables is set out in Note 3.

NOTE 19. PROVISIONS

	CONSOLIDATED	
	2023 US$M	2022 US$M
Current		
Provision for long service leave (refer note (a) below)	**0.2**	0.4
Total current provision	**0.2**	0.4
Non-current		
Provision for restoration (refer note (b) below)	**153.3**	139.5
Total non-current provisions	**153.3**	139.5

(a) Provision for Long Service Leave

A provision was recognised for employee entitlements relating to long service leave. The measurement and recognition criteria relating to long service leave entitlements are as described in Note 1(t).

The current portion of this provision includes all the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

(b) Reconciliation of provision for restoration

	CONSOLIDATED	
	2023 US$M	2022 US$M
Balance at beginning of financial year	**139.5**	158.7
Additions (refer note (i) below)	**23.8**	–
Discount unwinding on provision for restoration	**5.0**	2.4
Impact of increase in discount rate at year-end	**(15.0)**	(21.6)
Total provision for restoration	**153.3**	139.5

(i) A provision was recognised during the year for Brazilian restoration obligations relating to the Patola wells. The measurement and recognition criteria relating to restoration obligations are as described in Note 1(t).

(ii) A Parent Company guarantee totalling Brazilian REALS 117.7 million (US$24.4 million equivalent as at 30 June 2023) was provided to the ANP in respect of existing decommissioning obligations relating to the Baúna field.

NOTE 20. LEASES

	CONSOLIDATED	
	2023 US$M	2022 US$M
Current	**47.2**	43.7
Non-current	**200.4**	245.2
Total lease liabilities	**247.6**	288.9
Reconciliation		
Balance at beginning of financial year	**288.9**	312.8
Remeasurement of lease arrangements	**(5.7)**	20.8
Additions	**–**	0.9
Disposals	**–**	(0.2)
Adjustment to fixed lease payments	**(1.6)**	(0.8)
Accretion of interest	**15.5**	16.9
Payments	**(49.6)**	(61.4)
Net foreign currency differences	**0.1**	(0.1)
Total lease liabilities	**247.6**	288.9

NOTE 21. BORROWINGS

	CONSOLIDATED	
	2023 US$M	2022 US$M
Non-current		
Syndicated loan facility – secured	**30.0**	30.0
Less transaction costs(i)	**(1.9)**	(2.9)
Total non-current borrowings	**28.1**	27.1

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

During November 2021, Karoon Energy Ltd's wholly owned subsidiary, Karoon Petróleo & Gás Ltda, reached financial close on a 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. In April 2022, an additional accordion facility, contemplated by the syndicated loan facility, was established.

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

The total available amount under the facility, including the accordion, is $210 million. At 30 June 2023, $30 million has been drawn down, with $180m remaining undrawn.

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

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

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

NOTE 22. OTHER FINANCIAL ASSETS AND LIABILITIES

	CONSOLIDATED 2023 US$M	2022 US$M
Assets		
Current		
Derivative financial instruments – cash flow hedges(i)	**3.0**	–
Total assets	**3.0**	–
Liabilities		
Current		
Derivative financial instruments – cash flow hedges(i)	**–**	40.8
Embedded derivative – contingent consideration payable(ii)	**86.0**	84.6
Total current other financial liabilities	**86.0**	125.4
Non-current		
Derivative financial instruments – cash flow hedges(i)	**–**	8.3
Embedded derivative – contingent consideration payable(ii)	**133.0**	213.7
Total non-current other financial liabilities	**133.0**	222.0
Total other financial liabilities	**219.0**	347.4

(i) The Group has entered into Brent oil price derivative hedges, via a collar structure consisting of bought put and sold call options covering the period from December 2021 to March 2024. The purpose of the hedges is to protect operating cash flows from a portion of crude oil sales against the risk of lower oil prices while retaining significant exposure to oil price upside. The hedges are also a requirement of the syndicated loan facility (refer Note 21).

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 and costs of hedging of $52.2m pre-tax ($33.3m net of tax) have been recognised in the hedging reserves within equity (refer Note 23), which includes $2.0m pre-tax that has been reclassified to profit or loss. No losses were recognised in profit or loss for hedge ineffectiveness during the period.

At 30 June 2023, 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)
2024	65	2,040	91.8	1,578
		2,040		**1,578**

(ii) Reconciliation of contingent consideration payable

	CONSOLIDATED	
	2023 US$M	2022 US$M
Balance at beginning of financial year	**298.3**	71.2
Payments	**(84.5)**	–
Unrealised fair value changes recognised in profit or loss during the period	**5.2**	227.1
Total contingent consideration payable at fair value	**219.0**	298.3

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

At 30 June 2023, based on the Group's internal assessment of future oil prices and industry consensus, the amount payable continues to accrue at the maximum amount payable plus interest. $84.5m, the amount payable in respect of the 2022 calendar year, was paid in January 2023. The fair value of the total amount payable has been revised upwards by $5.2m due to a revision in the discount rate.

A discount rate of 3.42% and 2% interest per annum has been applied in the calculation of the present value at 30 June 2023. The fair value of the contingent consideration is estimated by calculating the present value of the future expected cash outflows.

NOTE 23. CONTRIBUTED EQUITY AND RESERVES WITHIN EQUITY

(a) Contributed Equity

	CONSOLIDATED		CONSOLIDATED	
	2023 NUMBER	2022 NUMBER	2023 US$M	2022 US$M
Ordinary shares, fully paid	**563,359,327**	558,085,352	**907.5**	907.5
Total contributed equity	**563,359,327**	558,085,352	**907.5**	907.5

Ordinary shares have no par value, and the Company does not have a limited amount of authorised capital.

Voting rights of shareholders are governed by the Company's Constitution. In summary, on a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and on a poll each such attending shareholder is entitled to one vote for every fully paid ordinary share held.

Ordinary shares participate in dividends as declared from time to time and the proceeds on winding up of the Company in proportion to the number of fully paid ordinary shares held.

NOTE 23. CONTRIBUTED EQUITY AND RESERVES WITHIN EQUITY CONTINUED

(b) Movement in Ordinary Shares

DATE	DETAILS	NOTE	NUMBER OF ORDINARY SHARES	US$M
1 July 2021	Opening balance in previous financial year		553,770,529	905.1
	Exercise of options		2,383,899	2.4
	Performance rights conversion	29(a)	1,930,924	–
30 June 2022	Balance at end of financial year		558,085,352	907.5
	Performance rights conversion	29(a)	5,273,975	–
30 June 2023	Balance at end of financial year		**563,359,327**	**907.5**

(c) Capital Management

The Board of Directors controls the capital of the Company in order to ensure that the Group can fund its operations and continue as a going concern. The aim is to maintain a capital structure that ensures the lowest cost of capital to the Company.

The Chief Executive Officer and Managing Director manages the Company's capital by monitoring future rolling cash flows and adjusting its capital structure, as required, in consultation with the Board of Directors to meet Group business objectives. As required, the Group will balance its overall capital structure through the issue of new ordinary shares, share buy-backs and utilising short-term and long-term loan facilities when necessary.

There were no externally imposed capital management restrictions on the Group during the financial year.

(d) Reserves Within Equity

(i) Share-based Payments Reserve

The share-based payments reserve is used to recognise the grant date fair value of equity-settled share-based payments to Executive Directors, other key management personnel and employees as part of their remuneration, as described in Note 1(s).

(ii) Foreign Currency Translation Reserve

The foreign currency translation reserve is used to recognise exchange differences arising from the translation of financial statements into the presentation currency as described in Note 1(e). The relevant amounts included in the foreign currency translation reserve will be recognised in the consolidated statement of profit or loss and other comprehensive income when each relevant investment in the entity is disposed.

(iii) Hedging Reserves

During the prior year, the Group entered into Brent oil price derivative hedges. Refer to Note 22(i) for more details.

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 recognised in a cost of hedging reserve within equity.

The following is a reconciliation of the movement of the hedging reserves:

	COST OF HEDGING RESERVE US$M	INTRINSIC VALUE OF OPTIONS US$M	TOTAL HEDGING RESERVES US$M
Balance at beginning of financial year	39.4	(80.7)	(41.3)
Change in fair value of cash flow hedges and cost of hedging recognised in OCI	(70.0)	122.2	52.2
Reclassified from OCI to profit or loss – included in other expenses	(2.0)	–	(2.0)
Deferred tax	24.6	(41.5)	(16.9)
Balance at end of financial year	(8.0)	–	(8.0)

NOTE 24. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

NAME	COUNTRY OF INCORPORATION OR REGISTRATION	BUSINESS ACTIVITIES CARRIED ON IN	PERCENTAGE OF EQUITY AND VOTING INTERESTS HELD BY THE GROUP 2023 %	2022 %
Parent Company:				
Karoon Energy Ltd	Australia	Australia		
Unlisted subsidiaries of Karoon Energy Ltd:				
Karoon Energy International Pty Ltd	Australia	Australia	**100**	100
Karoon Gas Browse Basin Pty Ltd	Australia	Australia	**100**	100
Karoon Gas (FPSO) Pty Ltd	Australia	Australia	**100**	100
Unlisted subsidiaries of Karoon Energy International Pty Ltd:				
KEI (Brazil Santos) Pty Ltd	Australia	Australia	**100**	100
Karoon Peru Pty Ltd	Australia	Australia	**100**	100
KEI (Peru Z38) Pty Ltd	Australia	Australia	**100**	100
Unlisted subsidiary of KEI (Brazil Santos) Pty Ltd:				
Karoon Petróleo & Gás Ltda	Brazil	Brazil	**100**	100
Branch of KEI Peru Pty Ltd:				
Karoon Peru Pty Ltd, Sucursal del Peru	Peru	Peru	**100**	100
Branch of KEI (Peru Z38) Pty Ltd:				
KEI (Peru Z38) Pty Ltd, Sucursal del Peru	Peru	Peru	**100**	100

NOTE 25. SEGMENT INFORMATION

(a) Description of Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Group's Executive Management Team (identified as the 'chief operating decision maker') in assessing performance and in determining the allocation of resources.

The operating segments are based on the Group's geographical location of its operations.

The Group has identified operating segments based on the following two geographic locations:

- Australia – in which the Group was involved in the exploration and evaluation of hydrocarbons in an offshore exploration permit area: WA-482-P. This permit was surrendered in September 2022; and
- Brazil – in which the Group is currently involved in the exploration, development and production of hydrocarbons in four offshore blocks: Block BM-S-40, Block S-M-1037, Block S-M-1101, and Block S-M-1537.

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

The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

Segment revenues and results do not include transfers between segments as intercompany balances are eliminated on consolidation.

Segment revenue is derived from an external customer who markets to a range of end customers.

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.

NOTE 25. SEGMENT INFORMATION CONTINUED

The amounts provided to the chief operating decision maker with respect to total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements. Reportable segment assets and segment liabilities are equal to consolidated total assets and total liabilities respectively. These assets and liabilities are allocated in accordance with the operations of the segment.

(b) Operating Segments

SEGMENT PERFORMANCE	AUSTRALIA US$M	BRAZIL US$M	ALL OTHER SEGMENTS US$M	CONSOLIDATED US$M
Result for financial year ended 30 June 2023				
Revenue	–	566.5	–	566.5
Other income	0.4	5.3	–	5.7
Total segment revenue	0.4	571.8	–	572.2
Expenses				
Business development and transition costs	(1.5)	(2.2)	–	(3.7)
Cost of sales	–	(283.2)	–	(283.2)
Depreciation and amortisation expense				
– non-oil and gas assets	(0.3)	(0.6)	–	(0.9)
Exploration expenses	–	(3.9)	–	(3.9)
Finance costs	–	(25.4)	–	(25.4)
Realised losses on cash flow hedges	–	(7.1)	–	(7.1)
Social investments/sponsorships	–	(1.9)	–	(1.9)
Corporate expenses	(12.4)	(8.2)	(0.1)	(20.7)
Net foreign currency gains/(losses)	1.4	(2.2)	–	(0.8)
Change in fair value of contingent consideration	–	(5.2)	–	(5.2)
Share-based payments expense	(2.3)	(0.8)	–	(3.1)
Other	–	(0.1)	–	(0.1)
Profit/(loss) before income tax	(14.7)	231.0	(0.1)	216.2
Income tax (expense)/benefit	3.3	(56.5)	–	(53.2)
Profit/(loss) for financial year	(11.4)	174.5	(0.1)	163.0

SEGMENT PERFORMANCE	AUSTRALIA US$M	BRAZIL US$M	ALL OTHER SEGMENTS US$M	CONSOLIDATED US$M
Result for financial year ended 30 June 2022				
Revenue	–	385.1	–	385.1
Other income	0.1	0.2	0.5	0.8
Total segment revenue	0.1	385.3	0.5	385.9
Expenses				
Business development and transition costs	(0.4)	(3.0)	–	(3.4)
Cost of sales	–	(191.7)	–	(191.7)
Depreciation and amortisation expense				
– non-oil and gas assets	(0.3)	(0.4)	–	(0.7)
Exploration expenses	(0.3)	(2.8)	(0.1)	(3.2)
Finance costs	–	(22.7)	–	(22.7)
Realised losses on cash flow hedges	–	(11.8)	–	(11.8)
Corporate expenses	(10.9)	(3.6)	(0.9)	(15.4)
Net foreign currency gains/(losses)	4.6	2.1	(0.5)	6.2
Change in fair value of contingent consideration	–	(227.1)	–	(227.1)
Share-based payments expense	(3.7)	(2.0)	–	(5.7)
Other	–	(0.1)	(0.1)	(0.2)
Profit/(loss) before income tax	(10.9)	(77.8)	(1.1)	(89.8)
Income tax benefit	2.4	23.0	–	25.4
Profit/(loss) for financial year	(8.5)	(54.8)	(1.1)	(64.4)

FINANCIAL YEAR ENDED 30 JUNE 2023	AUSTRALIA US$M	BRAZIL US$M	ALL OTHER SEGMENTS US$M	CONSOLIDATED US$M
Total segment assets	**29.3**	**1,161.1**	**–**	**1,190.4**
Total segment liabilities	**1.1**	**715.7**	**–**	**716.8**

FINANCIAL YEAR ENDED 30 JUNE 2022	AUSTRALIA US$M	BRAZIL US$M	ALL OTHER SEGMENTS US$M	CONSOLIDATED US$M
Total segment assets	49.3	1,114.7	0.2	1,164.2
Total segment liabilities	4.8	883.1	0.1	888.0

NOTE 25. SEGMENT INFORMATION CONTINUED

(c) Other Segment Information

Additions to non-current assets, other than financial assets (refer Note 3), during the reporting periods were:

FINANCIAL YEAR ENDED 30 JUNE 2023	AUSTRALIA US$M	BRAZIL US$M	ALL OTHER SEGMENTS US$M	CONSOLIDATED US$M
Property, plant and equipment^	**0.2**	**2.5**	**–**	**2.7**
Exploration and evaluation assets	**–**	**44.8**	**–**	**44.8**
Oil and gas assets	**–**	**190.9**	**–**	**190.9**

^ Includes right-of-use assets.

FINANCIAL YEAR ENDED 30 JUNE 2022	AUSTRALIA US$M	BRAZIL US$M	ALL OTHER SEGMENTS US$M	CONSOLIDATED US$M
Property, plant and equipment^	0.2	5.7	–	5.9
Oil and gas assets	–	92.0	–	92.0

^ Includes right-of-use assets.

NOTE 26. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent Liabilities

The Group has contingent liabilities as at 30 June 2023 that may become payable in respect of:

	CONSOLIDATED	
	2023 US$M	2022 US$M
(i) The Group has provided the ANP a letter of credit (refer Note 13) to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The Directors are of the opinion that the work program commitments will be satisfied. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work program is met.	**2.1**	1.2
(ii) Bank guarantees were provided in respect of rental agreements for office premises of the Group. These guarantees may give rise to liabilities in the Group if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	**0.2**	0. 1
(iii) Cash deposits (refer Note 13) are held as bonds for the Group's compliance with its obligations in respect of agreements for the guarantee of payment obligations for various accommodation in Brazil.	**0.4**	0.3

(iv) Block Acquisition

As part of the acquisition of Pacific Exploration and Production Corp's equity interest of Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 during the 2017 financial year, the Group agreed to pay Pacific Exploration and Production Corp. a deferred contingent consideration of $5.0 million payable on first production reaching a minimum of 1 million barrels of oil equivalent from the Blocks. The deferred contingent obligation has not been provided for as at 30 June 2023, as it is dependent on uncertain future events.

(v) Brazilian Local Content

The Concession Contracts for Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1537 and S-M-1166 require Karoon Petróleo & Gás Ltda to acquire a minimum proportion of goods and services from Brazilian suppliers, with the objective to stimulate industrial development, promote and diversify the Brazilian economy, encourage advanced technology and develop local capabilities. The minimum Brazilian local content requirement under the Concession Contracts during the exploration and appraisal phase is up to 55%. If Karoon Petróleo & Gás Ltda fails to comply with this minimum requirement, Karoon Petróleo & Gás Ltda may be subject to a fine by the ANP.

(vi) Joint Operations

In accordance with normal industry practice, the Group has entered into joint operations with other parties for the purpose of exploring and evaluating its exploration tenements. If a participant to a joint operation defaults and does not contribute its share of joint operation obligations, then the remaining joint operation participants are jointly and severally liable to meet the obligations of the defaulting participant. In this event, the equity interest in the exploration tenements held by the defaulting participant may be redistributed to the remaining joint operation participants.

In the event of a default, a contingent liability exists in respect of expenditure commitments due to be met by the Group in respect of the defaulting joint operation participant.

(vii) Other Matters

There are also legal claims and exposures, which arise from the Group's ordinary course of business. No material loss to the Group is expected to result.

(b) Contingent Assets

The Group has no contingent assets as at 30 June 2023 (30 June 2022: $Nil).

NOTE 27. COMMITMENTS

	CONSOLIDATED	
	2023 US$M	2022 US$M
(a) Capital and Service Expenditure Commitments		
Contracts for capital and service expenditure in relation to assets not provided for in the consolidated financial statements and payable.		
Capital commitments		
Not later than one year	**4.4**	75.9
Later than one year but not later than five years	**–**	–
Total capital commitments	**4.4**	75.9
Service commitments		
Not later than one year	**14.1**	11.5
Later than one year but not later than five years	**22.2**	31.9
Total service commitments	**36.3**	43.4
Total capital and service expenditure commitments	**40.7**	119.3
(b) Exploration Expenditure Commitments		
The Group has guaranteed commitments for exploration expenditure arising from obligations to governments to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration tenement Block S-M-1537 (30 June 2022: Block S-M-1537) not provided for in the consolidated financial statements and payable.		
Later than one year but not later than five years	**3.5**	3.5
Total guaranteed exploration expenditure commitments	**3.5**	3.5

Note, the figures above do not include any commitments in relation to 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. 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.

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, or by relinquishing exploration tenements.

NOTE 28. RECONCILIATION TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of Profit/(Loss) for Financial Year to Net Cash Flows Used in Operating Activities

	CONSOLIDATED	
	2023 US$M	2022 US$M
Profit/(loss) for financial year	**163.0**	(64.4)
Add (subtract)		
Non-cash items included in profit/(loss) for financial year:		
Depreciation and amortisation	**143.8**	100.1
Amortisation of finance costs	**1.1**	0.5
Change in fair value of derivative financial instruments	**50.2**	(62.5)
Change in fair value of contingent consideration	**5.2**	227.1
Discount unwinding on provision for restoration and deferred consideration	**5.0**	2.4
Share-based payments expense	**2.6**	3.6
Gain on disposal of right-of-use asset	**–**	(0.1)
Net foreign currency losses (gains)	**(3.0)**	(3.0)
Loss on disposal of non-current assets	**0.1**	
Write-back of inventory impaired	**(1.6)**	–
Items classified as investing/financing activities:		
Interest paid on deferred consideration	**–**	1.2
Net (gain) loss on disposal of non-current assets	**–**	(0.5)
Net foreign currency gains (losses)	**0.6**	(0.5)
Change in operating assets and liabilities:		
(Increase)/decrease in assets		
Receivables – current	**(14.7)**	(22.2)
Oil Inventories	**11.5**	(6.4)
Deferred tax assets	**(1.7)**	(86.5)
Other financial assets – derivative financial instruments	**(3.0)**	–
Other assets	**2.4**	(6.9)
Increase/(decrease) in liabilities		
Trade and other payables – current	**15.6**	0.1
Trade and other payables – non-current	**(1.0)**	2.5
Provisions – current	**(0.2)**	(0.1)
Current tax liabilities	**(4.0)**	1.3
Deferred tax liabilities	**(16.9)**	19.4
Other financial liabilities – derivative financial instruments	**(49.1)**	49.1
Net cash flows provided by (used in) operating activities	**305.9**	154.2

NOTE 29. SHARE-BASED PAYMENTS

The share-based payment plans are described below. There has been no cancellation to a plan during the financial year.

(a) Performance Rights Plan ('PRP')

The Company currently has two PRPs in place, the 2019 PRP and 2022 PRP. The 2022 PRP was approved by shareholders at the 2022 Annual General Meeting.

Under the PRP, eligible employees are offered performance rights, which subject to performance conditions, can on exercise be converted to fully paid ordinary shares in the Company, or equivalent cash value, for no consideration provided certain conditions have been met. Vesting of STI performance rights is conditional on the achievement of performance measures, over a one-year performance period, and provided the employee remains employed by the Company for an additional year. Vesting of LTI performance rights is conditional on the achievement of performance measures over a three-year performance period. In each case, the Board, on advice from the People and Culture Committee, will be responsible for assessing whether the performance measures have been achieved. When vested, each performance right is, subject to exercise, convertible into one ordinary share of the Company.

Performance rights granted carry no dividend or voting rights.

If there is a change of control of the Company, for all unexercised performance rights issued pursuant to the Company's PRP, a percentage amount of unvested performance rights may vest on the basis of the pro-rata achievement of pre-determined performance conditions.

During the financial year, the Group granted 495,468 performance rights (2022: 577,052) over unissued ordinary shares in the Company to the Chief Executive Officer and Managing Director. The performance rights were provided to the Chief Executive Officer and Managing Director and were subject to approval by shareholders at the 2022 Annual General Meeting. An additional 12,649 performance rights associated with the 2023 Long Term Incentive are subject to shareholder approval at the 2023 Annual General Meeting. Performance rights issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

The following summary reconciles the outstanding performance rights over unissued ordinary shares in the Company at the beginning and end of the financial year:

	CONSOLIDATED	
	2023 NUMBER	2022 NUMBER
Balance at beginning of financial year	**13,645,295**	14,861,486
Granted during financial year(i)	**2,813,925**	2,370,032
Vested and converted during financial year(ii)	**(5,273,975)**	(1,930,924)
Cash-settled during financial year	**(1,326,032)**	(363,452)
Forfeited during financial year	**(796,145)**	(1,291,847)
Balance at end of financial year	**9,063,068**	13,645,295

(i) The weighted average fair value of performance rights granted during the financial year was A$1.68 (2022: A$1.66). Fair values of STI performance rights were based on the Company's closing share price at grant date whereas LTI performance rights were based on a Monte Carlo simulation valuation at grant date. Refer to details at Note 29(b) below.

(ii) The weighted average exercise price of performance rights converted during the financial year was A$Nil (2022: A:$Nil).

Performance rights issued during the financial year were issued under the 2022 PRP.

NOTE 29. SHARE-BASED PAYMENTS CONTINUED

Performance rights outstanding as at 30 June 2023 had a weighted average remaining contractual life of 635 days (30 June 2022: 617 days). Details of performance rights outstanding at the end of the financial year are:

GRANT DATE	DATE OF EXPIRY	NUMBER
25 September 2020	30 June 2024	**3,677,954**
26 November 2021	30 June 2024	**502,989**
23 March 2022	30 June 2025	**928,327**
6 May 2022	30 June 2025	**1,246,439**
24 November 2022	30 June 2024	**62,891**
24 November 2022	30 June 2026	**432,577**
16 December 2022	30 June 2024	**379,360**
16 December 2022	30 June 2026	**1,726,970**
31 March 2023	30 June 2026	**105,561**
Total performance rights		**9,063,068**

(b) Fair Value of Performance Rights

The fair value of each LTI performance right issued during the financial year was estimated on grant date using the Monte Carlo valuation methodology. The Monte Carlo valuation methodology takes into account the exercise price, the term of the performance right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right. The fair value of STI performance rights issued during the current or previous financial years were based on the Company's closing share price at grant date.

The Group applied the following assumptions and inputs in estimating the weighted average fair value for LTI performance rights:

	2023	2022
Weighted average exercise price	**$A Nil**	$A Nil
Weighted average life of performance rights	**1,172 days**	1,172 days
Weighted average share price	**A$2.18**	A$2.12
Expected share price volatility	**48.40%**	60.00%
Risk free interest rate	**3.70%**	2.17%
Dividend yield	**1.39%**	–
Weighted average performance rights value	**A$1.58**	A$1.66

Historical volatility was the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate.

(c) Share-based Payments Expense

Total expenses arising from share-based payment transactions recognised during the financial year, included as part of other expenses in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	CONSOLIDATED	
	2023 US$M	2022 US$M
Performance rights issued under PRP	**2.6**	3.6
Share-based payments expense (non-cash)	**2.6**	3.6
Share-based payments expense (cash-settled)	**0.5**	2.1
Total share-based payments expense	**3.1**	5.7

NOTE 30. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties, unless otherwise stated.

(a) Subsidiaries

Interests in subsidiaries are set out in Note 24.

During the financial year, the Parent Company provided accounting, administrative and technical services to subsidiaries at cost or at cost plus a mark-up where required under relevant tax transfer pricing legislation. This allocation was based on costs recharged on a relevant time allocation of employees and consultants and associated office charges.

Other transactions that occurred were provision of funding by the Parent Company to its overseas subsidiaries via an increase in contributed equity and intercompany loans to the Australian subsidiaries. The intercompany loans provided are at a Nil% interest rate (2022: Nil%) and no fixed term for repayment and therefore will not be repaid within 12 months. Loans are unsecured and are repayable in cash.

Where equity-settled performance rights are issued to employees of subsidiaries within the Group, the transaction is recognised as an investment in the subsidiary by the Parent Company and in the subsidiary, a share-based payments expense and an equity contribution by the Parent Company.

The above transactions are eliminated on consolidation.

(b) Remuneration of Key Management Personnel

Directors and other key management personnel remuneration is summarised as follows:

	CONSOLIDATED	
	2023 US$000	2022 US$000
Short-term employee benefits	**2,380**	2,771
Post-employment benefits	**197**	221
Long-term employee benefits (non-cash)	**59**	4
Termination benefits	**–**	436
Share-based payments expense	**1,193**	2,307
Total key management personnel remuneration	**3,829**	5,739

Detailed remuneration disclosures for the Directors and other key management personnel are provided in Section 5 of the audited Remuneration Report on pages 60 to 66. Termination of the Executive Director's and other key management personnel's employment is subject to a minimum notice period as disclosed on page 58 of the audited Remuneration Report.

Apart from the details disclosed in this note, no Director or other key management personnel has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' or other key management personnel interests subsisting as at 30 June 2023.

NOTE 30. RELATED PARTY TRANSACTIONS CONTINUED

(c) Other Transactions with Directors and Other KMP

During the financial year, Mr Tadeu Fraga, a Non-Executive Director, had an interest in Radix Engenharia e Software (Radix), that provided engineering consulting services to the Group at market prices. The contract value for these services from Mr Fraga's appointment on 26 August 2022 to 30 June 2023 was US$171,190. Mr Fraga's interest in Radix commenced on 1 March 2023, post the execution of the contract.

During the financial year, Ms Carolina Fraga, a family member of Mr Tadeu Fraga, a Non-Executive Director, who was appointed on 26 August 2022, remained employed by the Group as HR Co-ordinator in Brazil. The total value of her remuneration (including share-based payments expense) from 26 August 2022 to 30 June 2023 was US$89,841. Ms Fraga has been an employee of the Group since 2021. Ms Fraga's employment with the Karoon group commenced prior to the appointment of the relevant Non-Executive Director.

NOTE 31. PARENT COMPANY FINANCIAL INFORMATION

(a) Summary Financial Information

The individual financial statements for the Parent Company show the following aggregate amounts:

	CONSOLIDATED	
	2023 US$M	2022 US$M
Statement of financial position		
Current assets	**32.8**	47.6
Non-current assets	**168.9**	169.8
Total assets	**201.7**	217.4
Current liabilities	**4.7**	3.9
Non-current liabilities	**0.2**	1.0
Total liabilities	**4.9**	4.9
Net assets	**196.8**	212.5
Contributed equity	**907.5**	907.5
Accumulated losses	**(663.9)**	(653.4)
Share-based payments reserve	**56.4**	53.8
Foreign currency translation reserve	**(103.2)**	(95.4)
Total equity	**196.8**	212.5
Profit/(Loss) for financial year	**(10.5)**	(78.6)
Total comprehensive Income/(loss) for financial year	**(15.7)**	(100.8)

(b) Contingent Liabilities of Parent Company

(i) Bank guarantees were provided in respect of lease rental agreements. These guarantees may give rise to liabilities in the Parent Company if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	0.2	0.1
(ii) The Company's present intention is to provide the necessary financial support for all Australian incorporated subsidiaries, whilst they remain wholly owned subsidiaries, as is necessary for each company to pay all debts as and when they become due.		

(c) Guarantees Entered into by Parent Company

A Parent Company guarantee was provided to Petrobras for payment of all amounts that may become payable under the SPA.

A Parent Company guarantee totalling Brazilian REALS 117.7 million (US$24.4 million equivalent as at 30 June 2023) was provided to the ANP in respect of existing decommissioning obligations relating to the Baúna field. In addition, the Parent has provided deeds of guarantee to, respectively, OOG-TKP FPSO GMBH & CO KG (the FPSO operator) and OOG-TKP Produção de Petróleo Ltda (the FPSO service provider) in relation to satisfying Karoon Petróleo & Gás Ltda's payment obligations in respect of the charter of an FPSO for Baúna and the provision of related services.

Parent Company guarantees have been provided to the ANP guaranteeing a subsidiary's obligations under Concession Agreements covering Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1537 in Brazil.

NOTE 32. SUBSEQUENT EVENTS

This Annual Report was authorised for issue by the Board of Directors on 23 August 2023. The Board of Directors has the power to amend and reissue the consolidated financial statements and notes.

Since 30 June 2023, there have been no material events that have occurred.

DIRECTORS' DECLARATION

The Directors' declare that:

(a) in the Directors' opinion, the consolidated financial statements and notes, set out on pages 69 to 115. are in accordance with the *Corporations Act 2001*, including:

   (i) complying with relevant Australian Accounting Standards and the *Corporations Regulations 2001;*

   and

   (ii) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial 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.

Note 1(a) confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Managing Director, and Executive Vice President and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This Directors' Declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors:

Mr Bruce Phillips
Independent Non-Executive Chairman

Dr Julian Fowles
Chief Executive Officer and Managing Director

23 August 2023

Independent auditor's report

To the members of Karoon Energy Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Karoon Energy Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2023
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit, we used overall Group materiality of US$10.8 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements, for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, and by component auditors under our instruction.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit, Risk and Governance Committee.

Key audit matter	How our audit addressed the key audit matter
Assessing the carrying value of oil and gas assets *(Refer to note 15)* As at 30 June 2023, the Group's consolidated statement of financial position includes oil and gas assets of US$798.7 million. Group policy is to assess for indicators of impairment annually or more frequently if indicators of impairment exist. Assessing the carrying value of oil and gas assets was a key audit matter because of the judgement involved in the Group assessing impairment indicators and the financial significance of oil and gas assets.	To assess the carrying value of oil and gas assets, we performed the following procedures, amongst others: ● Evaluated the Group's assessment of whether there were any indicators of asset impairment, including consideration of movement in oil prices, reserves and resources and asset performance over the year. ● Compared the value of the net assets of the Group at year end to the market capitalisation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon through our opinion on the financial report. We have issued a separate opinion on the remuneration report and a limited assurance conclusion on selected sustainability information in page 28 of the annual report for the year ended 30 June 2023.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 47 to 66 of the directors' report for the year ended 30 June 2023.

In our opinion, the remuneration report of Karoon Energy Ltd for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Graeme McKenna

Graeme McKenna
Partner

Melbourne
23 August 2023

ADDITIONAL SECURITIES EXCHANGE INFORMATION

Additional information required by the ASX Listing Rules and not disclosed elsewhere in the Annual Report is set out below.

The information was applicable for the Company as at 31 July 2023.

DISTRIBUTION OF SHAREHOLDING

The number of shareholders ranked by size of holding is set out below:

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF ORDINARY SHARES ON ISSUE
Less than 1,000	2,901	1,348,861
1,001 to 5,000	3,407	9,683,849
5,001 to 10,000	1,509	11,692,091
10,001 to 100,000	2,087	59,644,360
More than 100,000	256	482,723,627
Total	**10,160**	**565,092,788**

There were 886 shareholders holding less than a marketable parcel of ordinary shares to the value of A$500.

SUBSTANTIAL SHAREHOLDERS

As at 31 July 2023, no substantial shareholder notices had been received by the Company, which had not been subsequently revoked.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest shareholders of the Company's ordinary shares are listed below:

		Fully Paid Ordinary Shares	
	SHAREHOLDER	NUMBER HELD	% OF ISSUED ORDINARY SHARES
1	HSBC Custody Nominees (Australia) Limited	160,644,869	28.43
2	J P Morgan Nominees Australia Pty Limited	74,094,763	13.11
3	Citicorp Nominees Pty Limited	66,865,684	11.83
4	National Nominees Limited	54,524,582	9.65
5	BNP Paribas Noms Pty Ltd <DRP>	15,647,362	2.77
6	HSBC Custody Nominees (Australia) Limited – A/C 2	9,456,432	1.67
7	HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	8,915,455	1.58
8	BNP Paribas Nominees Pty Ltd <IB AA Noms Retail client DRP>	5,892,645	1.04
9	Ropat Nominees Pty Ltd	3,655,137	0.65
10	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,639,884	0.47
11	Mr Kenneth Joseph Hall <Hall Park A/C>	2,050,000	0.36
12	Sandhurst Trustees Ltd <JMFG Consol A/C>	1,796,200	0.32
13	Netwealth Investments Limited <Wrap Services A/C>	1,706,009	0.30
14	UBS Nominees Pty Ltd	1,535,648	0.27
15	Neweconomy Com Au Nominees Pty Limited <900 Account>	1,518,462	0.27
16	Hsbc Custody Nominees (Australia) Limited	1,478,541	0.26
17	Mr Leendert Hoeksema	1,400,000	0.25
18	Greenhill Road Investments Pty Ltd	1,350,000	0.24
19	Palm Beach Nominees Pty Limited	1,278,244	0.23
20	BNP Paribas Nominees Pty Ltd Acf Clearstream	1,265,072	0.22
Total		**417,714,989**	**73.92**

UNLISTED EQUITY SECURITIES: PERFORMANCE RIGHTS

The following performance rights over unissued ordinary shares of the Company are not quoted:

SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF UNLISTED PERFORMANCE RIGHTS ON ISSUE
Performance rights issued pursuant to Company's Performance Rights Plans	55	7,329,607
Total	**55**	**7,329,607**

VOTING RIGHTS

(a) Ordinary Shares, Fully Paid

Voting rights of shareholders are governed by the Company's Constitution. In summary, on a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and on a poll each such attending shareholder is entitled to one vote for every fully paid ordinary share held.

(b) Unlisted Performance Rights

No voting rights.

OTHER INFORMATION

The Company was incorporated as a public company on 11 November 2003.

The Company was admitted to the ASX official list during June 2004 and quotation of its ordinary shares commenced on 8 June 2004.

On 30 November 2018, the Company changed its name from Karoon Gas Australia Ltd to Karoon Energy Ltd.

The register of securities is held at Computershare Investor Services Pty Limited, GPO Box 2975 Melbourne VIC 3001 Australia. Investor enquiries can be made via telephone on 1300 850 505 (within Australia).

SCHEDULE OF INTERESTS IN PETROLEUM TENEMENTS

EXPLORATION PERMIT/BLOCK	BASIN	OPERATOR	% EQUITY INTEREST HELD
Concession BM-S-40	Santos, Brazil	Karoon	100
Block S-M-1037	Santos, Brazil	Karoon	100
Block S-M-1101	Santos, Brazil	Karoon	100
Block S-M-1537	Santos, Brazil	Karoon	100

GLOSSARY OF TERMS

TERM	DEFINITION
3D seismic	Three dimensional seismic.
A$ or **AUD**	Australian Dollars.
AASB	Australian Accounting Standards Board.
ARR	Afforestation, Reforestation and Revegetation. A nature-based solution that results in carbon sequestration i.e. a carbon removals offset.
ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
API	The American Petroleum Institute gravity, or API gravity, is a measure of how heavy or light a petroleum liquid is compared to water.
ASX	ASX Limited (ACN 008 624 691), trading as Australian Securities Exchange.
ATO	Australian Taxation Office.
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, Piracaba and Patola light oil fields in Brazil.
block	A license or concession area. It may be almost any size or shape, although usually part of a grid pattern.
bopd	Barrels of oil per day.
Carbon Neutral	Refers to firstly, reducing or avoiding operational Scope 1 and 2 greenhouse gas (GHG) emissions and, secondly, acquiring carbon offsets to balance the remaining Scope 1 and Scope 2 emissions.
Company or **Parent 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.
Current financial year	Financial year ended 30 June 2023
Director	A Director of Karoon Energy Ltd.
discovery well	The first successful well on a new prospect.
E&P	Exploration and production.
ESP	Electric submersible pump (downhole equipment).
EVP	Executive Vice President.
Executive	The Chief Executive Officer and Managing Director and other KMP of the Group
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.
FID	Final Investment Decision.
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.
Fixed remuneration	Relates to fixed cash remuneration consisting of base salary and superannuation contributions/ pension contributions.
FY or **financial year**	Financial Year
FPSO	Floating production, storage and off-loading facility.
GHG	Greenhouse gas.
GST	Goods and Services Tax in Australia.
HSSE	Health, safety, security and environment.
Karoon or **Group**	Karoon Energy Ltd and its subsidiaries.
KMP	Key Management Personnel.
lti	Lost time incident.
LTIR	Lost time incident rate.

TERM	DEFINITION
LTI	Long-term incentive.
m	Million.
market capitalisation	The product of a company's share price multiplied by the total number of ordinary shares issued by the company.
MMbbl	Millions of barrels (1,000,000 barrels).
Net Zero	Refers to reducing Scope 1 and 2 GHG emissions as far as practical and balancing the residual GHG emissions produced with GHG emissions removed from the atmosphere.
NPAT	Net Profit After Tax.
Other KMP	Mr Ray Church and Mr Antonio Guimarães
Other benefits	Relates to benefits not included in the fixed remuneration which include any salary sacrifice items or non-monetary benefits including health insurance, motor vehicles, expatriate travel, certain membership and associated fringe benefits tax, depending on each individual's respective employment arrangements.
OMS	Operating Management System.
Operator	One joint operation participant that has been appointed to carry out all operations on behalf of all the joint operation participants.
performance rights	Performance rights issued under the PRP.
permit	A hydrocarbon tenement, lease, licence, concession or block.
Petrobras	Petróleo Brasileiro SA.
previous financial year	Financial year ended 30 June 2022.
prospect	A geological or geophysical anomaly that has been surveyed and defined to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.
REAL or **R$**	Brazilian currency.
REDD+	Reducing emissions from deforestation and forest degradation, as well as forest conservation, sustainable management of forests and enhancement of forest carbon stocks.
reserves	Those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. • 1P – Denotes low estimate of Reserves. • 2P – Denotes best estimate of Reserves. • 3P – Denotes high estimate of Reserves.
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.
risk	Prospect risk or geologic risk is the assessed chance that the drilling of the prospect will be successful in finding significant volumes of hydrocarbons. The risk is calculated by multiplying the chance of success of each of the petroleum system elements involved in the prospect.
Scope 1 Emissions	GHGs released directly from operations within Karoon's control. This includes emissions from stationary combustion (for example in generator turbines onboard the FPSO), mobile combustion (for example in supply vessels and fleet cars), fugitive emissions (for example from general leaks) and process emissions (for example from flaring).
Scope 2 Emissions	Indirect GHGs released from the energy purchased at offices and shorebases.
Scope 3 Emissions	Other indirect GHG emissions, accounting for emissions in Karoon` s upstream and downstream supply chains.
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 and form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
SOFR	Secured Overnight Financing Rate.
STI	Shortterm incentive.
Total remuneration	Fixed remuneration plus variable remuneration
TRIR	Total Recordable Incident Rate.
tCO_2e	Tonnes of carbon dioxide equivalent.
US$	United States dollars.
Variable remuneration	Short term incentive and long term incentive
VER	Verified Emission Reduction. A type of traded carbon offset certification

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Mr Bruce Phillips
Independent Non-Executive Chairman

Dr Julian Fowles
Chief Executive Officer and Managing Director

Mr Peter Turnbull
Independent Non-Executive Director

Ms Luciana Rachid
Independent Non-Executive Director

Mr Clark Davey
Independent Non-Executive Director

Mr Peter Botten
Independent Non-Executive Director

Mr Tadeu Fraga
Independent Non-Executive Director

COMPANY SECRETARY

Mr Daniel Murnane

AUDIT, RISK AND GOVERNANCE COMMITTEE MEMBERS

Mr Clark Davey
(Chair of Committee)

Mr Peter Botten

Mr Peter Turnbull

PEOPLE AND CULTURE COMMITTEE MEMBERS

Mr Peter Turnbull
(Chair of Committee)

Mr Bruce Phillips

Mr Clark Davey

SUSTAINABILITY AND OPERATIONAL RISK COMMITTEE MEMBERS

Ms Luciana Rachid
(Chair of Committee)

Mr Peter Botten

Mr Peter Turnbull

Mr Tadeu Fraga

REGISTERED OFFICE

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Melbourne VIC 3001 Australia

Telephone 1300 555 159 (within Australia)
+ 61 3 9415 4062 (outside Australia)
Website www.computershare.com.au

SECURITIES EXCHANGE LISTING

The Company's ordinary shares are listed on the ASX.
The home exchange is Melbourne VIC.

ASX code: KAR

KAROON ENERGY