

Karooon Energy Ltd (ASX: KAR) takes Final Investment Decision (FID) to proceed with Patola Project in Brazil

Karooon has taken the Final Investment Decision to proceed with the development of the Patola Project. This decision follows comprehensive analysis and due diligence by Karoon and its independent advisers and financiers. The Patola field is located within the 100% Karoon-owned and operated BM-S-40 Production Licence in the Santos Basin, offshore Brazil and is adjacent to the producing Baúna and Piracaba accumulations. The decision to develop Patola, which will be tied back to the existing Baúna Floating Production, Storage and Offloading (FPSO) vessel, Cidade de Itajaí, is in line with Karoon's near term strategic goals to deliver safe and reliable operations and grow through the addition of value-accretive production.

The development comprises the following:

- Two near vertical subsea production wells, which will be drilled and completed using the recently contracted Maersk Developer rig immediately following the completion of the four-well Baúna intervention program.
- The design, manufacture and installation of subsea infrastructure (Christmas trees, flowlines, risers, umbilical, controls) by TechnipFMC under an integrated Engineering, Procurement, Construction and Installation (iEPCI™) contract. TechnipFMC is one of the world's leading experts in the design and installation of offshore energy infrastructure.
- Minor works to tie back the two production wells to spare riser slots on the FPSO.

The Patola development budget is US\$175 – 195 million, of which approximately US\$17 million has already been invested to ensure that long lead items are available to meet the project timeline. The remaining capital costs will be funded through a combination of a newly arranged US\$160 million reserve-based, non-recourse, syndicated facility agreement, and cash flows from operations. The key terms of the syndicated facility agreement are outlined on page 5. These include a requirement to hedge a portion of Karoon's future oil production, to protect cash flows in the event of lower oil prices. At present, it is anticipated that approximately 40% of Karoon's forecast production in year 1 of the loan and 30% of Karoon's forecast production in year 2 of the loan will be hedged. It is intended that the hedges will be structured to create a price floor at levels that protect the debt repayments but allow exposure to prices in excess of the current Brent oil price on the portion of hedged production.

Patola is expected to produce at an initial rate of more than 10,000 bopd from high quality reservoirs of the same geological age as those in the adjacent Baúna and Piracaba fields. First oil production is targeted for the first quarter of calendar year 2023.

14.7 mmbbl of 2C contingent resources, comprising 13.2 mmbbl in Patola and an additional 1.5 mmbbl in Baúna resulting from injecting Patola gas into the Baúna reservoir, will be accessed by the planned Patola development infrastructure (see page 4). Karoon anticipates that Reserves will be ascribed to the Patola Project in the Company's end June 2021 Reserves and Resources assessment as a result of the FID.

Commenting on the decision to proceed with the Patola Project, Karoon Energy's Chief Executive Officer and Managing Director, Dr Julian Fowles, said:

"Today's Patola FID is a major milestone in our journey to becoming a substantial oil producer. The decision to proceed with this development is testament to the hard work and strong collaboration between our teams in Brazil and Australia. Together with the Baúna intervention program, Patola is expected to add materially to our production base, with total output forecast to reach approximately 30,000 bopd in early 2023, more than double current production rates. The Patola development is a nearfield expansion and will utilise existing infrastructure, including the FPSO and facilities at Karoon's onshore base. Consequently, it is expected to be an efficient and value-accretive investment.

Our new debt facility represents a cost-competitive source of funding and, with the ability to potentially expand the facility, provides significant balance sheet flexibility for the Company. The hedging arrangements will help Karoon to manage prudently any downside risk in the oil price, as well as ensuring sufficient cash is available to fund debt repayments. Importantly, we intend to use hedging structures that retain exposure to oil price upside, while at least 60% of our production will remain unhedged.

I would like to thank Maersk Drilling, TechnipFMC and our financing consortium for their support in helping us reach today's Patola investment decision."

Karoon Energy's Chairman, Mr Bruce Phillips, commented that:

"We are proud to be undertaking this exciting new project in Brazil, where the majority of our employees and long-term assets are located. Karoon continues to enjoy an excellent relationship with the Brazilian authorities and has done so for more than a decade since its business entry into the country in 2008. The decision on the Patola Project now brings our capital expenditure commitments in Brazil to nearly US\$1 billion.

We look forward to working with all our stakeholders in Brazil to successfully execute the Patola development, which will create value for both Karoon's shareholders and the Brazilian people."

Conference call

Karoon's Chief Executive Officer and Managing Director, Dr Julian Fowles, will be holding a conference call to discuss the Patola FID today, Thursday, 3 June 2021 at 10.30am (Melbourne time). The conference call will be streamed live and can be accessed via the following link:

<https://webcast.boardroom.media/karoon-energy-ltd/20210607/NaN60b41cbcd13a960019294901>

A recording of the conference call will be available on Karoon's website later today.

Figure 1: Location Map and Patola Schematic

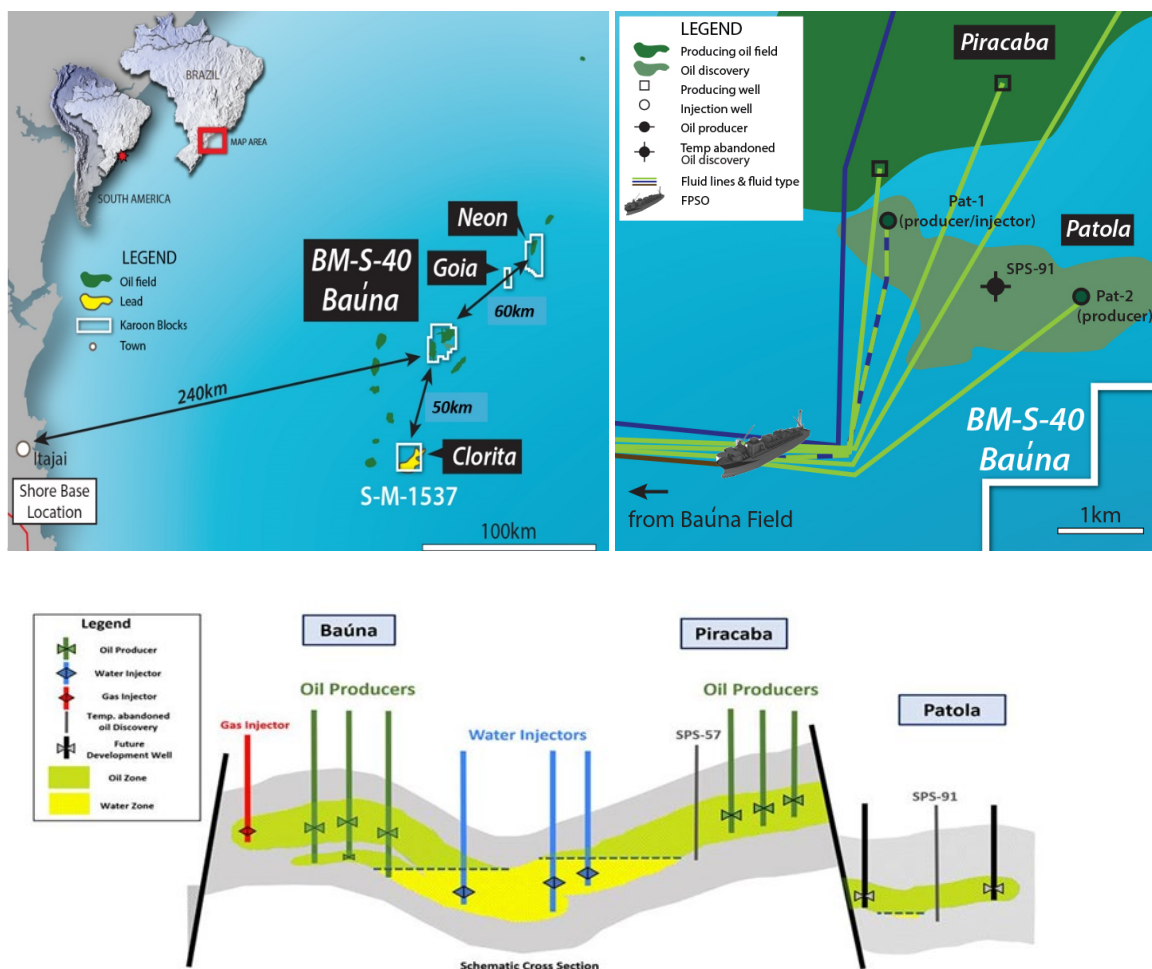


Figure 2: Contingent Resources ^(1,2)

MMbbl oil	AGR (31/12/2020)		
	1C	2C	3C
Patola development	9.6	13.2	18.6
Baúna benefit from Patola	1.2	1.5	1.6
Total	10.8	14.7	20.2

1. Contingent resource volumes are as disclosed in the ASX announcement, “Baúna Oil Reserves and Contingent Resource Update”, released on 28 January 2021.
2. Karoon is not aware of any new information or data that materially affects these resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

Figure 3: Key terms of Syndicated Facility Agreement

Borrower	Karoon Petróleo & Gás Ltda.
Lenders	Deutsche Bank, ING, Macquarie and Shell
Facility amount	US\$160 million
Margin	4.25% per annum
Security	Comprehensive security package over assets and rights of the Borrower (including, without limitation, the Baúna and Patola projects)
Conditions precedent to Closing	Corporate documentation, execution of all finance documents, material documents, due diligence, banking case and financial covenants, financial statements, work plan and budget, development plan, “know your customer” and other conditions that are customary for a facility of this nature.
Scheduled Reduction Dates and Final Maturity Date	The maximum facility amount will reduce by US\$40 million semi-annually commencing on 30 September 2023 until the Final Maturity Date (being the earlier of 31 March 2025 or the quarter date where the remaining reserves are forecast to be $\leq 25\%$ of the initial approved reserves).
Minimum oil production hedge ratios	The minimum hedge ratios under the Facility are as follows: <ul style="list-style-type: none"> • Year 1: a minimum of 40%; and • Year 2: a minimum of 30%.
Farm-outs	Farm-out of up to 49% of Baúna, Neon, Goia and Clorita permitted, subject to conditions.
Accordion facility	Ability to potentially establish additional US\$50 million accordion facility.

This announcement was authorised by the Board of Karoon Energy Ltd.

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About Karoon Energy Ltd

Karoon Energy Ltd. is an international oil and gas exploration and production company with assets in Brazil, Australia and Peru and is an ASX listed company.

Karoon aims to be an agile and sustainable global energy company delivering profits through a high-quality portfolio of production, development and exploration assets. The Company seeks to provide energy to an ever-changing world, creating value for our shareholders and the broader community.

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

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

of future performance. Such forward-looking statements speak only as of the date of this announcement.

Karoon disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.