



SAMUEL TERRY  
ASSET MANAGEMENT

PRESENTATION

ASX: KAR

# Karoon Energy

Current voting intentions for the May 2024 AGM

MAY 2024

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# Karoon – Remuneration structure and Board Renewal

Samuel Terry believes the following high-level problems are affecting Karoon’s current performance:

## **1. We believe three long term incumbent directors:**

- Have shown systematic and pervasive lack of care for shareholder value over their tenure
- Have tolerated persistent conflicts of interest<sup>1</sup>, during the Hosking period<sup>2</sup>
- Have continued to tolerate conflicts of interest<sup>1</sup>
- Are over-tenured:
  - Two may now be considered by some organisations to have ceased to be independent, due to their tenure
  - By remaining on the board, stand in the way of board renewal and reaching the board’s diversity targets

## **2. We believe Karoon’s Short Term Incentives are flawed:**

- Lack a thoughtful framework
- Incentive weightings are illogical and not aligned with shareholder value creation
- Important performance hurdles lack accountability:
  - Acquisitions are encouraged without requiring them to be value accretive
  - Spending on Carbon Sequestration is encouraged without regard to the efficacy of those investments

1. See slide 10 “Conflict of interest during Davey, Turnbull and Rachid tenure” for further information regarding these conflicts of interest.

# Poor performance: Samuel Terry believes incentives are illogical

Karoon Corporate Scorecard For the year ended June 30, 2023

## Financial & Operational Objectives:

Current Operations	STI % Weight	
Oil Production	17.5%	23.5% STI weight to production
Group Operating Expenses	5.0%	
Other controllable corporate costs	7.5%	
Baúna Capex	5.0%	
<b>Sub Total</b>	<b>35.0%</b>	
<b>Baúna/Patola growth capex</b>		
Achieve Baúna & Patola development capex targets	14.0%	20.0%
Baúna intervention production	3.0%	
Patola production	3.0%	
<b>Sub Total</b>	<b>20.0%</b>	
<b>Neon</b>		
Neon Drilling cost	10.0%	15.0%
Neon resource increase	4.0%	
Complete Neon evaluation study, analysis of well results and updated field development plan	1.0%	
<b>Sub Total</b>	<b>15.0%</b>	

## Strategic Objectives:

<b>Growth</b>		
Acquire a substantial second production asset	15.0%	30% STI weight to growth
<b>ESG</b>		
Limit group-wide voluntary staff turnover to a level below FY22 (% of workforce)	2.5%	15.0%
Identify additional carbon reduction project in operations	2.5%	
Advance carbon sequestration project (enter at least 1 project)	10.0%	
<b>Sub Total</b>	<b>15.0%</b>	

- Baúna accounted for 100% of Karoon's cash generation, yet operating it only attracted 35% of the STI
- Theoretically, if the US\$300m Capex came in within budget, but did not produce any extra oil, the Key Management Personnel could still have received 94% of their STI
- Neon is questionable commercially, would not produce until 2028 at the earliest and the drilling expense was 1/5th the size of the Baúna & Patola program, yet it attracted 75% as much STI<sup>1</sup> weight
- Acquiring a 2nd production asset attracted almost as much STI as Controlling Baúna Opex + Corporate costs + Baúna capex combined
- Identifying and entering a carbon sequestration project attracted 12.5% of the STI. 89% as much STI as coming in within the \$300m+ Baúna & Patola capex target could have attracted

30% of STI is awarded for growth activity, while production affects only 23.5% of STI

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Majority of NPV was driven by current production, yet only 35% of STI was weighted to production and cost/capex control.

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US\$300m was spent on Baúna/Patola, but if the development failed to produce any additional oil, KMP could still have earned 94% of their STI.

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12.5% of STI was awarded for Carbon reduction activity/projects, which may be unnecessary if oil production was allowed to follow its natural field decline.

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*“STI” refers to Short Term Incentives*

Footnote: 1. Neon attracted 15% STI weight vs Bauna and Patola attracting 20% STI weight (15/20 = 75%)

# TY'23 STI weight analysis

Samuel Terry believes STI weights are out of proportion with possible value creation for Karoon shareholders

MEASURE	FULL YEAR WEIGHTING	PERFORMANCE			OUTCOME	WEIGHTED OUTCOME
		THRESHOLD	TARGET	STRETCH		
<b>FINANCIAL AND OPERATIONAL OBJECTIVES</b>						
Safety (% improvement)	5.0%	No improvement	10% improvement	20% improvement	100.0%	2.50%
Production (MMbbl)	20.0%	5.00	5.23	6.00	51.5%	5.15%
Normalise relationship with Altera & Ocyan (A&O)	10.0%	Qualitative assessment			50.0%	2.50%
Production Costs (US\$m)	10.0%	73.8	67.0	60.3	100.0%	5.00%
Capex Budget (US\$m)	2.5%	14.4	13.1	11.8	100.0%	1.25%
Other controllable corporate costs (US\$m)	2.5%	15.8	14.4	12.9	50.0%	0.63%
"OneKaroon" culture evident	5.0%	Qualitative assessment			80.0%	2.00%
<b>PROJECT OBJECTIVES</b>						
Neon strategy	10.0%	Complete Neon Foundation Project Decision Gate 1 and Neon ADP			100.0%	5.00%
Re-financing (US\$)	3.0%	Increase funding facility to >US\$300m			100.0%	3.00%
Change in financial year	2.0%	Qualitative assessment			100.0%	2.00%
<b>STRATEGIC OBJECTIVES</b>						
Acquire a substantial second production asset	20.0%	Acquire asset			100.0%	20.00%
ESG: advance carbon sequestration project	10.0%	Enter at least one project			0.0%	0.00%
<b>Total Weighting</b>	<b>100.0%</b>	<b>Corporate Scorecard Outcome</b>				<b>49.03%</b>

In our view, production is the single most important factor capable of driving shareholder value, yet only attracts 20% of STI weight.

Repairing the A&O relationship is important (now), but if management were properly incentivised to focus on production, would the relationship have deteriorated to such an extent in the first place?

Neon is currently not considered feasible without a greater resource or lower capex costs. It may never produce and would not produce until 2028 at the earliest...  
... yet it is given half the STI weight of production?

No accountability (see next slide)

# Poor performance: Incentives without proper measurement

Capital spending performance hurdles do not require value accretion or efficacy to be demonstrated

## Acquisitions rewarded without regard to value accretion:

- Even during the Hosking period,<sup>2</sup> the then board considered that it was necessary to prove that an acquisition was value-accretive in order to award STI's (see below from the Karoon 2019 annual report).

*Performance Hurdles and STI Outcomes for the Financial Year Ended 30 June 2019*

The table below outlines the Company-wide Operational Objectives for the financial year ended 30 June 2019:

Criteria	Hurdle
Safety	TRIR of < 2 required for any award to proceed.
Acquisition Strategy	<b>Revenue and sustainability</b> Successfully complete the acquisition of a production (or near-production) asset as evidenced by: <ul style="list-style-type: none"> <li>• execution of a legally binding sale and purchase agreement; and</li> <li>• value-accretion in the Karoon share price of not less than 20%, sustained for a period of not less than 30 days following the ASX announcement of the transaction.</li> </ul>

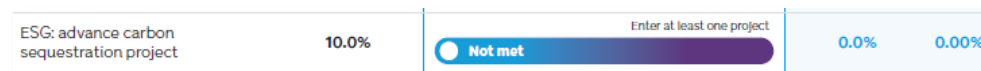
- Versus this (below from the Karoon TY23 Annual Report)

STRATEGIC OBJECTIVES				
Acquire a substantial second production asset	20.0%	Acquire asset Completed	100.0%	20.00%
ESG: advance carbon sequestration project	10.0%	Enter at least one project Not met	0.0%	0.00%
<b>Total Weighting</b>	<b>100.0%</b>	<b>Corporate Scorecard Outcome</b>		<b>49.03%</b>

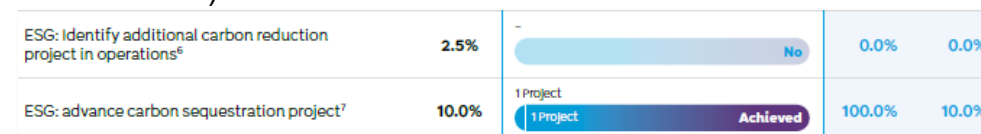
- **Has the board's focus on value accretion decreased since the Hosking era?**

## Carbon investments rewarded without regard to efficacy:

- The incentives below (taken from the TY23 Annual Report corporate scorecard), only appears to require "advancement".



- .. And this (taken from the FY 2023 Annual Report "corporate scorecard")



"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 CO2e footprint; and b) to provide options to the Company for further CO2e mitigation."

(Footnote from same page of Annual Report)

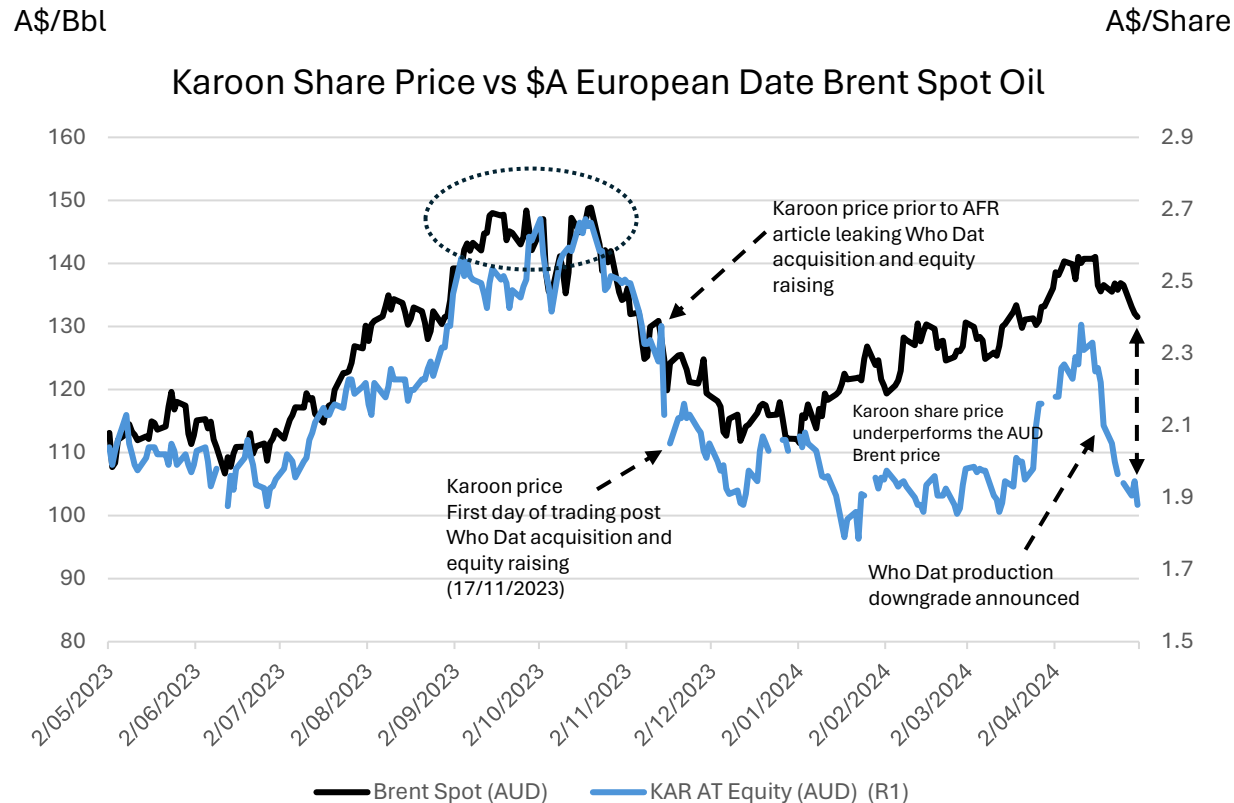
- 10% of total STI appears to be a heavy weight for merely 'advancing' a carbon sequestration project in the TY23 period.
- In the FY2023 period, management appear to be encouraged to "enter" (spend funds on) a carbon sequestration project without having to demonstrate that any carbon offsets have been created.
- The hurdle for STIs to vest does not appear to align with the goal.

Footnotes:

2. Hosking period, defined as the years during which Robert Hosking was Managing Director of Karoon

# Market reaction post the Who Dat acquisition

## Karoon share price performance



- Prior to 14<sup>th</sup> November 2023, the Karoon share price (blue, RHS) closely tracked the AUD Brent price (black, LHS).
- Post the AFR article on 15<sup>th</sup> Nov 2023 and subsequent announcement of the Who Dat acquisition and equity raising, Karoon's performance has lagged the AUD Brent price.
- In Sept and Oct 2023, when the AUD Brent price was last near current levels (as at 1 May 2024), the Karoon share price was significantly higher than current trading prices (as at 1 May 2024).
- Who Dat production downgrade (-24% at the mid point) announced less than 4 months after completing the acquisition.
- Under the 2019 performance hurdles regarding acquisitions, would Who Dat have satisfied the STI hurdle?

Source: Bloomberg; Karoon ASX announcements

# Karoon's Historical Production Issues

Bauna production issues highlight why we consider incentives should always focus heavily on the basics of production

- 3<sup>rd</sup> Quarter 2022

  - Baúna intervention complete  
Production improves from 13-14k bopd to ~24k bopd
- 1<sup>st</sup> Quarter 2023

  - Patola field begins production  
Total Brazil production >40k bopd (the "Flush")
- 28 March 2023

  - FPSO equipment failure results in 6 week unplanned shutdown
- 9 May 2023

  - Production resumes, peaking at c.40k bopd, natural field decline then resumes
- 9 January 2024

  - FPSO equipment failure results in constrained production and failure of well SPS-88
- 15 January 2024

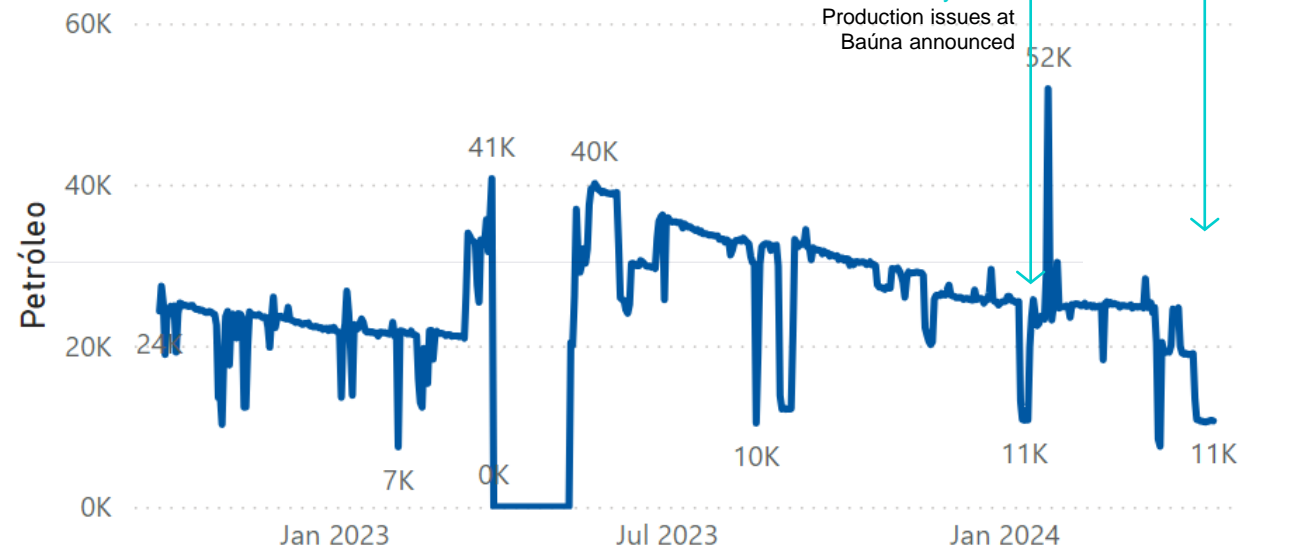
  - Barrenjoey research highlights apparent production issue (seen in ANP data) at Baúna
- 23 January 2024

  - Karoon releases production update and revised guidance:
    - Production guidance downgraded by 800k-1MMbbl for CY 2024
    - Production from Brazil averaged 23,622 bopd since resumption on 16th Jan, 2024
    - Failed well (SPS-88) is expected to resume production in 4Q CY 2024, after an intervention to repair it

Production from Baúna FPSO (Baúna-Patola) thousands of barrels per day

## Petróleo by Data and Instalação

Instalação ● FPSO CIDADE DE ITAJAÍ

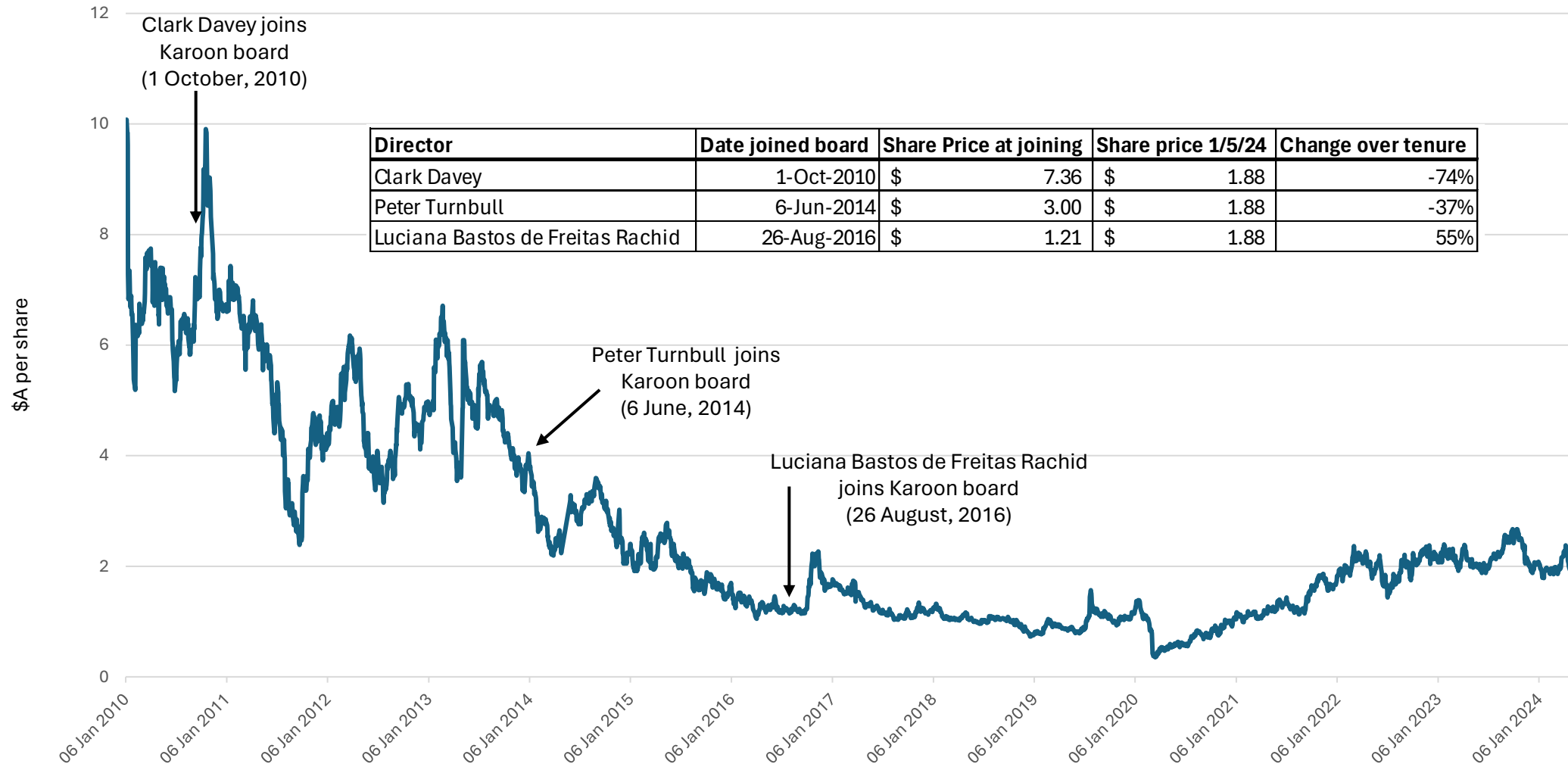


Source: Agência Nacional do Petróleo (ANP) website (accessed 1 May 2024)



# Karoon's demonstrated poor performance in building shareholder value

Karoon Share Price

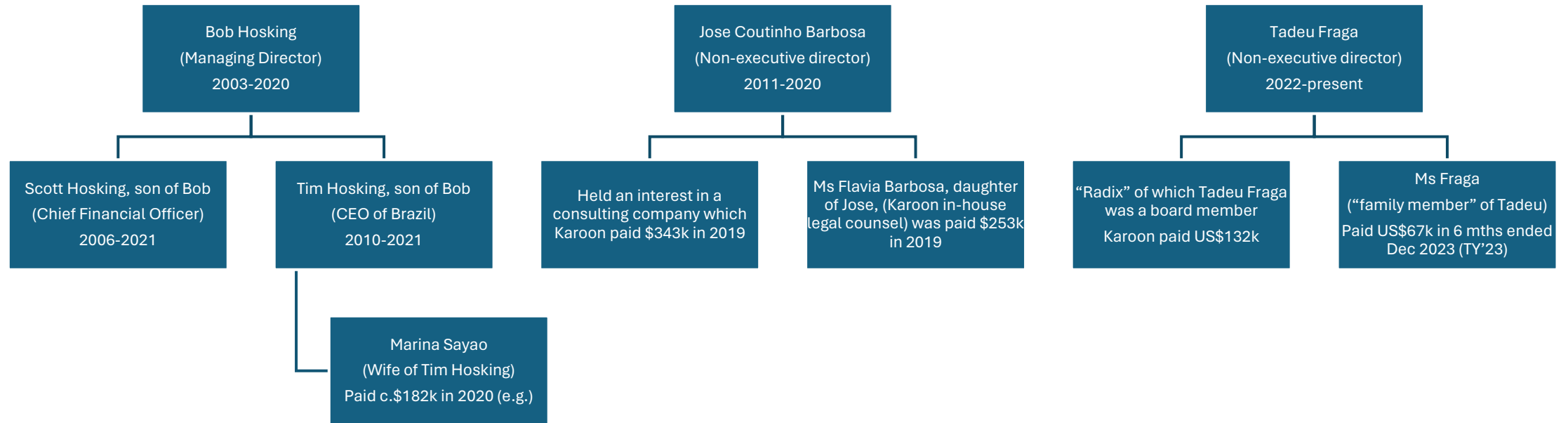


Source: Bloomberg and Karoon 2023 Annual Report

# Conflicts of interest...

...during Mr Davey's, Mr Turnbull's and Ms Rachid's tenure

Clark Davey – appointed 1/10/2010  
Peter Turnbull – appointed 6/6/2014  
Luciana Rachid – appointed 26/8/2016



*Samuel Terry believes that the pattern of employing, or sourcing services from, close family members of the management team is inconsistent with good corporate governance for an ASX listed entity and raises serious questions as to whether of conflicts of interest and principles of corporate accountability have been properly considered and managed by the Karoon board.*

# Karoon Annual General Meeting

23 May, 2024 at 10:00am AEST

# Samuel Terry's current voting intentions

23 May 2024 – Karoon Annual General Meeting

	<b>Resolution</b>	<b>Vote</b>
Item 1	Election of Ms Melissa Holzberger as a Director	UNDECIDED
Item 2	Election of Ms Joanne Palmer as a Director	UNDECIDED
Item 3	Re-election of Mr Peter Turnbull as a Director	AGAINST
Item 4	Re-election of Mr Carlos Tadeu da Costa as a Director	FOR
Item 6	Adoption of Remuneration Report	AGAINST
Item 7	Increase to Aggregate Fee Pool for Non-Executive Directors	AGAINST
Item 8	Issue of Performance Rights to Dr Julian Fowles	AGAINST
Item 9	Refresh of Placement Capacity	AGAINST

# Proposed board composition and our intention to vote

Name	Role	Gender	Appointed	Tenure	Independence	Skills	Other directorships	Our vote
Peter Botten	Chair	Male	1 Oct 2020	3	Yes	Oil and gas	AMI, CRD	n/a
Julian Fowles	CEO and MD	Male	27 Nov 2020	3	No (executive)	Executive oil & gas	-	n/a
Clark Davey	NED	Male	1 Oct 2010	13	No (tenure)	Tax, strategy, risk, natural resources	-	n/a
Peter Turnbull	NED	Male	6 Jun 2014	9	Yes	Regulatory and public policy, governance	CXL	<b>AGAINST – ongoing governance concerns whilst considered a governance expert; Poor company performance; Chair of the RemCom – incentives misaligned</b>
Luciana Rachid	NED	Female	26 Aug 2016	7	Yes	Oil and gas	-	n/a
Carlos Fraga	NED	Male	26 Aug 2022	1	Yes	Oil and gas	-	<b>FOR</b>
Melissa Holzberger	NED	Female	Apr 2024	0	Yes	Legal, risk and compliance	PDN, ARG	<b>UNDECIDED</b>
Joanne Palmer	NED	Female	Apr 2024	0	Yes	Audit and assurance	PDN, SBM	<b>UNDECIDED</b>
<b>TOTAL</b>		<b>37.5%</b>			<b>75%</b>			

# Intention to vote AGAINST Peter Turnbull

- Mr Turnbull became a director of Karoon on 6 June, 2014
- We believe Mr Turnbull permitted years of negative cashflow, resulting in poor share price performance.
- We consider that Mr Turnbull tolerated poor governance (conflicts of interest) during the period when the Hosking family ran Karoon:
  - The conflicts did not cease and Mr Turnbull did not resign, he was therefore complicit.
- In our view, Mr Turnbull presided over the setting of illogical incentives for management in his role as the Chair of the People and Culture committee of the board.
- Therefore, we believe Mr Turnbull should be removed in order to make way for board members focused on improving governance, diversity, capital discipline and shareholder returns.

## Peter Turnbull bio



### MR PETER TURNBULL AM

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

Independent Non-Executive Director  
(Appointed 6 June 2014)

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

Mr Turnbull 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. Mr Turnbull also has expertise in the commercialisation and scaling of new technologies.

In addition, Mr Turnbull 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.

Mr Turnbull'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, Mr Turnbull 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.

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.

Source: Karoon Transition Year 2023 Annual Report

# Case Study

Horizon Oil

**Samuel Terry believes Karoon today is very similar to Horizon in 2021.**

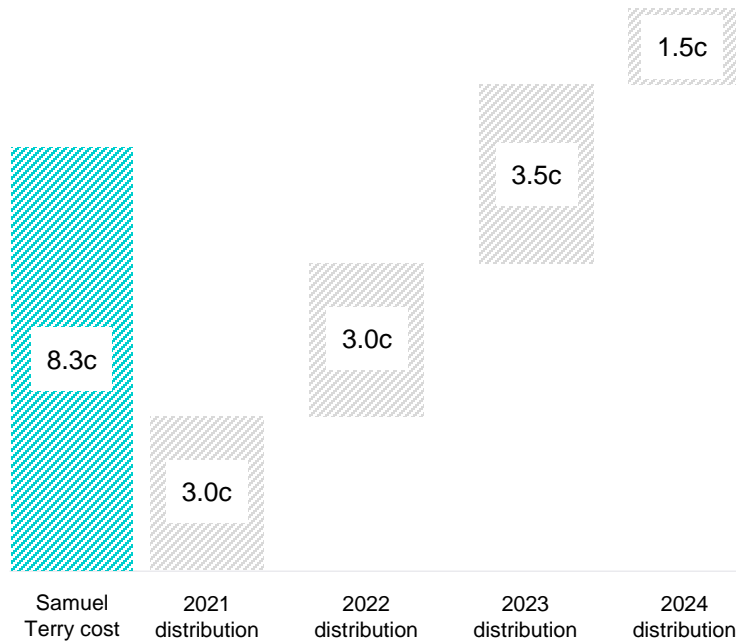
## Case Study

# Horizon Oil Limited

\$250m Market Cap.



### Horizon continues to generate free cash flow



Source: Bloomberg

Horizon oil is an ASX listed oil producer with minority interests in producing assets located in New Zealand and China.

The company produces over 1.2m barrels of oil per year at a break-even operating cost of about USD 20 per barrel.

Samuel Terry owns 20% of the company, mostly bought in May 2021.

At the time of our acquisition, Horizon had a poor track record of capital allocation and had never paid a dividend. Consequently, its shares consistently traded at very low valuations relative to its assets and cash flow. The company had a stated strategy of using its cash flow to grow oil reserves.

Nigel Burgess, a director of Samuel Terry, became a director of Horizon on 1<sup>st</sup> July 2021. Soon after Nigel joined the Board, the company began returning capital to shareholders, streamlining management and reducing costs. Its strategy is now to:

- Maximise Free Cash Flow and return as much cash as possible to shareholders.
- Only invest in new business opportunities if they will add to cash distributions per share.

Shareholders like that strategy, which is reflected in the share price doubling in the last three years to 18 cents, or more than tripling if you include dividends, which have totalled 11 cents per share.

Horizon is well placed to benefit from any mid-term strength in oil prices. It has no net debt and continues to generate cash.

**We believe Karoon today is very similar to Horizon in 2021.**



## Case Study

# Horizon Oil Limited

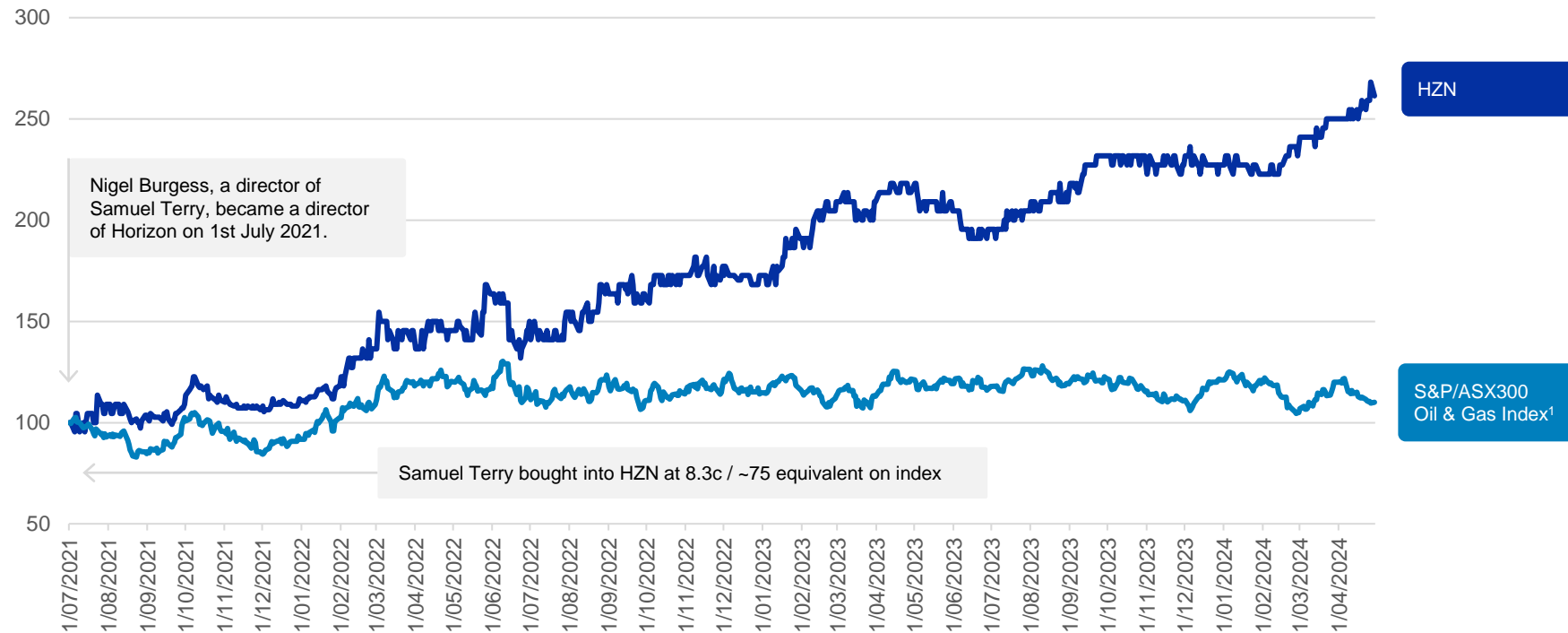
\$250m Market Cap.



## Horizon Oil vs index of ASX300 oil and gas stocks (equally weighted)

All share prices adjusted to include distributions (Total Returns)

A\$/share



Source: Bloomberg.

1. Equally Weighted Index comprised of Woodside, Santos, Beach Petroleum, Strike Energy and Cooper Energy. Index scaled to start at 100 on 1 July, 2021