Karoon
Gas Australia Ltd

Annual Report

2015

Cover image: Rodrigo Hill/Amago images.

Contents

2014–2015 Highlights

Exploration led growth **strategy delivers** the Echidna light oil discovery, **Santos Basin Brazil.**

Confirmed deliverability in the Kangaroo and Echidna light oil discoveries, Santos Basin. Production test results at **Echidna-1** and **Kangaroo-2** indicate horizontal production wells in each discovery can be expected to produce in excess of **10,000 bopd.**

Echidna light oil discovery provides additional contingent resources and support for an integrated production hub concept.

Interpretation of the Kraken 3D seismic data indicates the potential for oil rather than wet gas at the Elvie prospect in exploration permit WA-314-P.

5,256 sq kms of **new high resolution broadband Capreolus 3D** seismic acquired over the eastern part of exploration permit WA-482-P. Early results have significantly improved the definition of plays leading to better prospectivity in the eastern part of the permit.

Financial year closes with **$553 million** of cash following net cash proceeds received of **$659 million** on divestment of exploration permits WA-315-P and WA-398-P during the financial year.

Board of Directors restructure completed with the **appointment** of an **independent Non-Executive Chairman.**

Revised and strengthened the risk management framework, including establishment of a Risk and Governance Committee.

Chairman and Managing Director's Review

During the financial year, Karoon achieved a number of significant operational and corporate milestones. Most notable was the drilling success in the Santos Basin Brazil, delivering growing resource certainty and providing critical and positive production results, which are essential for Karoon to progress down the path towards becoming an oil producer.

The Board of Directors restructure process that began during the 2014 financial year was completed during the financial year with the appointment of an independent Non-Executive Chairman. Significant steps were also made in strengthening Karoon's governance framework and risk management practices.

Following the completion of the sale of two Browse Basin exploration permits (WA-315-P and WA-398-P), Karoon closed the 2015 financial year with a robust balance sheet including a cash balance of A$553 million.

Karoon has emerged from the financial year well positioned to take advantage of the current downturn in the oil and gas industry and to build for a sustainable future.

Despite these achievements during the financial year, the Karoon share price, and in fact oil and gas industry share prices globally, have come under enormous downward pressure following the circa 43% drop in the crude oil price during the financial year. The MSCI World Energy Index weakened by 26% over the same period, erasing US$850 billion of market capitalisation from the 107 index members worldwide.

The low crude oil price environment and current market uncertainty surrounding its duration has had a significant effect on the oil and gas industry, which responded by reducing investment in projects and divesting assets in an effort to boost free cash flows. This behaviour has had a significant effect on the appetite for risk, resulting in a more challenging farm-out market.

While these oil and gas industry fluctuations have their challenges, they also provide real opportunities. Drilling rig costs have fallen dramatically and raw material prices are declining. As a result, wells can be drilled at much lower prices and capital costs of development have decreased significantly and are expected to fall further. In addition, the current environment also creates the potential for the opportunistic acquisition of producing assets.

Karoon's success in achieving a robust cash balance means it is uniquely placed to take advantage of these opportunities.

Echidna and Kangaroo Oil Discoveries

Karoon's operational efforts in the Santos Basin in Brazil led to significant advancement in the potential to implement Karoon's vision of transitioning into an oil production company over the medium-term.

Karoon extended its exceptional exploration track record with the Echidna light oil discovery during the financial year. Importantly, the Echidna light oil discovery provides critical mass to the already discovered Kangaroo oil field in the Santos Basin, as it is located only 15 kilometres from the Kangaroo oil field. The addition of the Echidna light oil discovery brings Karoon a step closer to a potential integrated development concept.

In addition to the Kangaroo-2 appraisal well and two side tracks confirming the Kangaroo discovery, production tests at both Kangaroo-2 and Echidna-1 demonstrated deliverability of light crude from good quality reservoirs with no carbon dioxide or sulphur present. Based on these results, it is reasonable to expect a horizontal production well in each location could potentially flow at rates in excess of 10,000 bopd.

Confirmation of reservoir deliverability is an important milestone for the Santos Basin assets and for the Company as a whole. The focus of the 2016 calendar year work program will be further appraisal and pre-development activities on Echidna and Kangaroo to lift resource certainty to a point where the Board of Directors can consider approving a project development.

Capital Management

The decision to divest the two Browse Basin exploration assets in Western Australia for up to US$800 million during the previous financial year and to focus on higher returning and less capital intensive oil projects proved an excellent one in respect of timing and price, in view of the subsequent decrease in crude oil prices and the decline in the exchange rate of the Australian dollar against the United States dollar.

The sale of the Browse Basin exploration assets resulted in an injection of US$600 million in upfront cash proceeds during August 2014 and has ensured Karoon has a robust balance sheet to navigate the current oil price uncertainty and to invest in projects creating long-term value.

During the financial year, Karoon made the decision to return surplus capital to shareholders via an on-market share buy-back for up to 10% of the Company's ordinary shares on issue. A total of 3.7% of ordinary shares was purchased resulting in a reduction in the ordinary shares of Karoon on issue.

Following the exploration and appraisal successes in Brazil and given the current oil and gas industry environment, Karoon has elected to continue the on-market share buy-back and focus capital expenditure on the appraisal and potential development in the Santos Basin Brazil.

Framework for Growth

Over the last 18 months, Karoon has made significant improvements to its corporate governance structure, providing shareholders with strengthened risk management, oversight frameworks and safeguards to navigate these challenging market conditions and build for future growth.

The Board of Directors' new corporate governance plans that were commenced during the 2014 financial year were completed during the financial year, with the separation of the Chairman and Chief Executive roles. Shareholders are now represented by a Board of Directors with five independent Non-Executive Directors, including the Chairman, from a total of eight Directors. Each Committee of the Board of Directors, including the recently established Risk and Governance Committee, has a majority of independent Non-Executive Directors.

The Future

There is no question that the oil and gas industry is going through a difficult period. However, crude oil prices will eventually recover. Oil and gas industry fundamentals are healthy, with demand tied to global growth and the natural decline in production rates ensuring that reserve replacement and new production will be required in the future. Over the past 12 months, worldwide oil and gas exploration activity has declined due to the impact of lower oil and gas prices and the industry is not currently replacing existing reserves.

With a robust balance sheet and encouraging results from the latest Santos Basin drilling campaign, despite a flattening crude oil price curve, the Board of Directors sees the current environment providing an opportunity to drive shareholder value through measured and disciplined investment.

While the 2016 calendar year work program is principally focused on further appraisal and pre-development activities in Brazil, significant prospectivity remains across Karoon's Australian and Peruvian assets which, upon exploration success, will further drive shareholder value over the medium-term. The Board of Directors is confident financial exposure across the portfolio can be kept to an acceptable level through taking advantage of the lower cost environment and by way of farm-outs.

In future years to come, Karoon's shareholders will look back upon the financial year and current point in the cycle as a watershed moment in Karoon's history. This was a financial year that saw the foundations put in place to build for sustainable future growth and transition from an explorer into a development and production company.

On behalf of the Board of Directors, we would like to thank you for your continued support during the financial year, particularly during such a difficult time in the oil and gas industry. We hope you see the next few years as an opportunity for the Company like we do, and we look forward to sharing future successes with you.

We would also like to take this opportunity to personally thank the employees and contractors of Karoon who have given their best in advancing the Company's prospects for the future.

Dr David Klingner
Independent Non-Executive Chairman

8 September 2015

Mr Robert Hosking
Managing Director

8 September 2015

Where We Operate

Permit/ Block	Interest	Operator	Country	Basin	Gross Acreage	Water Depth	Discovery/ Prospect Type
WA-314-P	100%	Karoon	Australia	Browse	1,953 sq kms	500 m	Oil
WA-482-P	50%	Quadrant	Australia	Carnarvon	13,539 sq kms	400-2,000 m	Oil
S-M-1037, 1101, 1102, 1165, 1166	65%	Karoon	Brazil	Santos	549 sq kms	400 m	Oil
Z-38	75%	Karoon	Peru	Tumbes	4,750 sq kms	300-3,000 m	Oil
144	100%	Karoon	Peru	Marañón	6,836 sq kms	Onshore	Oil

* Santos Basin Block S-M-1352 has been omitted due to the Operator submitting an application to relinquish the block during the financial year.

Strategy, Strengths and Risks

Corporate Strategy

Karoon is a global independent oil and gas company which seeks to create shareholder value through an exploration led growth strategy.

The Company looks to acquire high equity interests in acreage which have large scale opportunities with the potential to deliver world class assets. The acreage is typically acquired through either bid rounds or farm-ins in underexplored early stage exploration opportunities within proven petroleum systems.

Value is created through the geotechnical work-up of the acreage, leveraging the high equity interests through farm-outs to explore and appraise these opportunities to achieve commercialisation.

While the Company's core strategy is identifying offshore early stage exploration opportunities, Karoon's longer-term strategy is to retain an equity interest into production.

The sale of the Poseidon gas resource asset (Browse Basin exploration permits WA-315-P and WA-398-P) to Origin during the financial year is a good illustration of Karoon's corporate strategy in practice. The exploration asset was acquired during 2004 through a farm-in with Liberty Petroleum Corporation and farmed out during 2006 to ConocoPhillips for a significant carry. The Poseidon gas discovery was made during 2009 and, following further exploration success, Karoon elected to monetise the asset in favour of new opportunities, completing the asset cycle.

Proceeds from the sale of the Poseidon gas resource have been reallocated in the portfolio, focusing on the continued exploration and appraisal of the Santos Basin assets where there remains significant value creation opportunity from the application of Karoon's geological, operational and commercial expertise.

Strengths

- Extensive petroleum industry and management expertise.
- Significant drilling opportunities in proven and prospective petroleum systems.
- Diversified portfolio of drilling prospects.
- Proven track record of managing equity interests to fund exploration and appraisal work programs.
- Proven track record of drilling success. Over the life of the Company, Karoon has achieved a 62% exploration drilling success rate.
- Proven track record of monetising exploration and appraisal assets.
- Application of state-of-the-art seismic techniques and leading edge exploration and analysis technology.
- Ability to attract and retain highly qualified and experienced personnel.
- Ability to create and develop strategic partnerships with key players in the petroleum industry.

Specific Risks

- Petroleum exploration and evaluation relies on the interpretation of complex and uncertain data which might not lead to a successful outcome.
- Operating risks, such as adverse weather conditions, mechanical failures, equipment and personnel availability and permitting delays can have adverse financial implications.
- Insurance coverage may be insufficient to cover all risks associated with oil and gas exploration.
- Demand for oil and gas is volatile, which may affect the ability to obtain funding on acceptable terms.
- Shift in supply side behaviour from an oil and gas industry participant(s) can have a dramatic impact on commodity prices.
- The business requires substantial capital investment and maintenance expenditures, which may be financially onerous.
- The outcome of farm-out arrangements is uncertain.
- Exchange rate fluctuations in United States dollars and Brazilian Reals.
- Social, political and geographical risks associated with multi-national operations.
- Environmental damage associated with field operations.

Resource Summary

Independently Assessed Resources – DeGolyer & MacNaughton

Block	Interest	Basin	Country	Type	NET Unrisked Prospective Resource (Undiscovered) Low	Best	High
Block Z-38	75%	Tumbes	Peru	Oil (mmbbls)	686	1,686	3,764
Block 144	100%	Marañón	Peru	Oil (mmbbls)	53	107	195
Total – Oil (mmbbls)					**739**	**1,793**	**3,959**

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. There is no certainty that any portion of the prospective resource estimated on behalf of Karoon will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources evaluated.

The prospective resource volume estimates presented for Peru have previously been announced by Karoon in the 30 April 2014 ASX announcement 'Independently Certified Net Un-risked Prospective Resource, Australia and Peru, Best Case Net to Karoon 4.5 Tcf Wet Gas and 4.2 Bn bbls Oil'. Karoon is not aware of any new information or data that materially affects the Peruvian resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement with respect to Peru continue to apply and have not materially changed.

Exploration Permit WA-314-P, Browse Basin Australia

The Kraken marine seismic survey data shot during 2013 and thermal modelling indicate that Elvie is prospective for oil. The Kraken survey has greatly improved resolution and shows amplitude anomalies on seismic which could be interpreted as hydrocarbons migrating from the kitchen area near Elvie. The previous resource estimates were based on the assumption of a wet gas only charge, commensurate with the gas fields to the south.

An updated resource estimate is expected once Karoon has had an opportunity to further consider the new data.

Exploration Permit WA-482-P, Carnarvon Basin Australia

Following the drilling of the Levitt-1 exploration well during July and August 2015, new information and data is available that could affect the prospective resource estimates assessed by DeGolyer & MacNaughton that were announced during April 2014.

The new data could materially impact the assumptions and technical parameters underpinning those previously announced prospective resource estimates and Karoon needs to interpret and consider this new data prior to publishing a revised resource estimate.

Exploration Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1166, Santos Basin Brazil

Following the drilling of the Kangaroo-2 appraisal well, Kangaroo West-1 and Echidna-1 exploration wells during the 2015 financial year, new information and data is available that could affect the previously announced contingent and prospective resource estimates.

The new data could materially impact the assumptions and technical parameters underpinning those previously announced prospective resource estimates and Karoon needs to interpret and consider this new data prior to publishing a revised resource estimate.

Forward-looking Statements

This 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 announcement. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

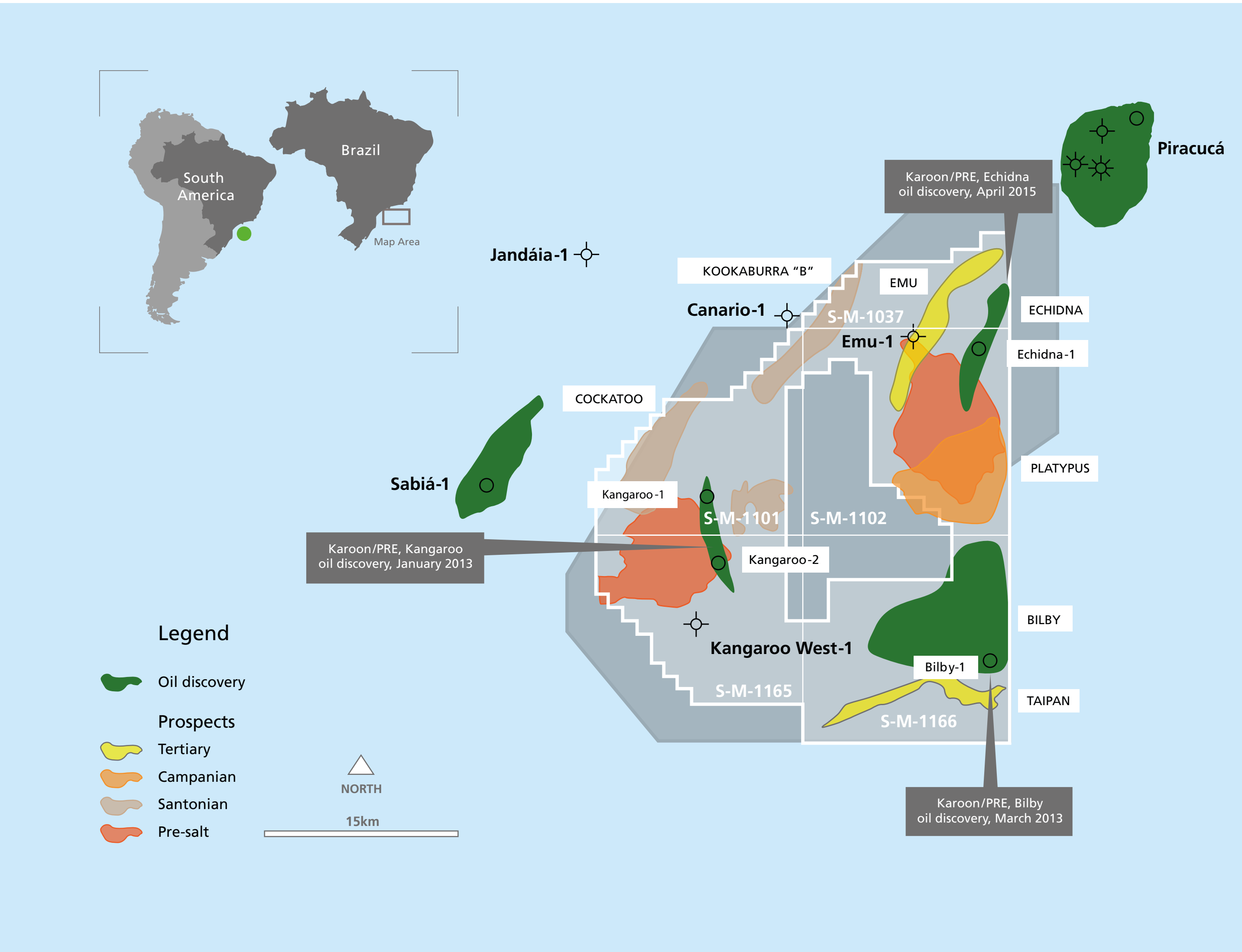
Investors are cautioned not to place undue reliance on forward-looking statements as actual outcomes may differ materially from forward-looking statements. Any forward-looking statements, opinions and estimates provided necessarily involve uncertainties, assumptions, contingencies and other factors, and unknown risks may arise, 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 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.

Santos Basin, Brazil

Key Statistics

Block	S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1166
Interest	65%
Operator	Karoon
Gross Acreage	549 sq kms
Water Depth	400 metres
Type	Oil
Status	Discovery appraisal phase



Santos Basin Blocks

Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166

During March 2008, Karoon was awarded 100% participation in 5 offshore exploration blocks in the Santos Basin, located approximately 200 kilometres off the coast of the State of Santa Catarina, Brazil. The blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 (the 'Blocks') have an average water depth of approximately 400 metres.

During September 2012, Karoon farmed out a 35% interest in the blocks to Pacific Exploration and Production Corp. ('Pacific') (formerly Pacific Rubiales Energy Corp.).

During 2013, Karoon successfully completed its inaugural drilling campaign, making the Kangaroo and Bilby oil discoveries. The follow-on work program covering the second phase drilling campaign, the Discovery Appraisal Plan (Plano de Avaliação de Descobertas or 'PAD') was approved by the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') during December 2013. The appraisal and exploration drilling campaign, defined in the PAD, commenced during November 2014.

Drill Campaign

During 2013, Karoon contracted the 'Olinda Star' semi-submersible drilling rig which was used to drill the entire second phase drilling campaign. A total of 3 vertical wells and 2 side-tracks were drilled during the financial year.

The second phase drilling campaign was focused on the appraisal of the Kangaroo oil discovery and exploration of nearby prospects, Kangaroo West and Echidna. The Kangaroo-2 appraisal well was designed to confirm the size of the oil column, reservoir continuity and properties and flow rates at the Kangaroo oil discovery.

Based on the production test results at Echidna-1 and Kangaroo-2 well locations, Karoon estimates horizontal production wells in each discovery can be expected to potentially produce in excess of 10,000 bopd.

Following completion of the drilling campaign during the financial year, Karoon has now operated a total of 6 vertical wells and 2 side-tracks across 2 drilling campaigns in the Santos Basin, with no significant safety incidents recorded.

Kangaroo-2 Appraisal Well

The Kangaroo-2 appraisal well, located in Block S-M-1165, was spudded during November 2014 and drilled to a total depth of 2,369 metres mRT. A 250 metre gross oil column was intersected (135 metres net pay) in the Paleocene and Maastrichtian age formations.

Production tests were conducted over the Maastrichtian interval reservoir sections where the maximum flow rate attained during the main 12 hour flow period was 3,700 stb/d (stabilised flow rate of 3,300 stb/d) of 38 degree API gravity oil through a 1" choke. Flowing tubing head pressure was 430 psia with a gas to oil ratio ('GOR') of 650 scf/stb, and no measureable CO_2 or H_2S was present, and no water or sand was produced.

Production tests were then conducted over the Paleocene interval reservoir sections where the maximum flow rate attained during the 12 hour main flow period was 3,700 stb/d (stabilised flow rate of 3,450 stb/d) of 33 degree API gravity oil through an 88/64" choke. Flowing tubing head pressure was 270 psia with a GOR of 540 scf/stb, and no measurable CO_2 or H_2S was present, and no water or sand was produced.

Following the completion of production testing, a decision was made to side-track the well in both a down-dip and an up-dip location so as to better define the resource size, recovery factors and also collect valuable field data to assist in assessing development concepts.

Santos Basin, Brazil continued

Kangaroo-2 Down-Dip and Up-Dip Side-Track Wells

The down-dip side-track was drilled to a total depth of 2,745 mRT and intersected a 50 metre gross oil column (18 metres net pay) in the deeper Maastrichtian reservoir accumulation on the eastern side of a fault. Reservoir fluid samples were recovered, with one sample opened at surface containing 3 litres of 38 degree API gravity oil. Pressure data confirmed the Maastrichtian reservoir accumulation intersected in the Kangaroo-2 down-dip side-track is the same accumulation as the Maastrichtian B oil reservoir in Kangaroo-2.

The up-dip side-track was drilled to a total depth of 1,960 mRT and intersected a 37 metre gross oil column (22 metres net pay) in the shallower Paleocene reservoir accumulation. Five reservoir fluid samples were recovered, with one sample opened at surface containing 2.9 litres of 39 degree API gravity oil. Pressure data indicated that the Paleocene reservoir accumulation is in a separate pressure compartment from those seen in Kangaroo-2.

The Maastrichtian reservoir in the up-dip setting was water bearing due to a second fault separating the up-dip Maastrichtian from the oil accumulations in the vertical and down-dip side-track wells. Aquifer pressure data indicates that the Maastrichtian and Campanian sections in this well, and all the previous Karoon wells, are normally pressured. This supports the presence of a common aquifer, which would likely provide water drive. This is important information for production and recovery modeling.

No gas cap was penetrated in any reservoir. The lack of a gas cap is a positive factor, as it indicates no oil has been displaced by gas in the Kangaroo reservoirs.

Kangaroo West-1 Exploration Well

Following the Kangaroo-2 appraisal well and side-track program, the Kangaroo West-1 exploration well was drilled to a total depth of 3,170 mRT. Based on mudlog and LWD petrophysical data, no hydrocarbons were intersected. The well intersected a good thick sealing unit before penetrating a thick sequence of Paleocene to Campanian aged interbedded sands and shales. The lack of hydrocarbons is attributed to a lack of oil migration charge into the structure, previously recognised as the main risk with this prospect.

Echidna-1 Exploration Well

The Echidna-1 exploration well was drilled to a depth of 2,379 mRT and intersected a 213 metre gross oil column (104 metres net pay) in the Paleocene and Maastrichtian aged reservoir intervals. Physical oil samples were recovered from the Paleocene section, which contained 40 degree API gravity oil.

A production test was conducted over the Paleocene reservoir section, where a facility constrained stabilised flow rate attained during the two hour period was 4,650 bopd of 39 degree API gravity oil through a 1” choke. Flowing well head pressure was 504 psia with a GOR of 701 scf/stb, no measurable CO_2, or H_2S was present, and no sand was produced.

3D Seismic Processing and Interpretation

Seismic processing, interpretation and quantitative inversion studies were ongoing during the financial year.

Forward Program

The second phase drilling campaign delivered important information about the continuity of the reservoir in the Kangaroo oil discovery, a further significant light oil discovery in Echidna and confirmation of reservoir productivity at both the Kangaroo and Echidna discoveries. These successes bring Karoon a step closer to a development and ultimately becoming a producer.

Updated resource numbers are anticipated once the latest drilling results have been incorporated into the reservoir models and subsurface development concept for Kangaroo and Echidna. Detailed pre-FEED (‘Front End Engineering and Design’) work, concept selection and development optimisation work will continue alongside the next drilling campaign in preparation for FEED.

A revised PAD was submitted to the ANP during June 2015 for the follow-on work program, which was subsequently approved during August 2015.

The next drilling campaign is expected to include further appraisal drilling of the Echidna and Kangaroo oil discoveries. At the end of the next drilling campaign, Karoon expects to be in a position to consider an early production system (‘EPS’).

An EPS would provide important technical information about the reservoir prior to moving to a full field development and the benefit of early cash flows.

Equity Interests

Equity interests of the participants in Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 are:

Karoon Petróleo & Gas Ltda (Operator)	65%
Pacific Exploration and Production Corp.	35%

Santos Basin Block S-M-1352

During August 2010, Karoon's wholly owned subsidiary Karoon Petróleo & Gas Ltda acquired a 20% interest in Block S-M-1352 through a farm-in deal with Petróleo Brasileiro SA ('Petrobras').

Due to the limited recoverable resource estimate of the Bauna Sul oil discovery and timing restrictions on a development decision, following a decision by the joint operation, an application to relinquish the block, in good standing, was submitted to the ANP by the Operator. Accordingly, capitalised exploration and evaluation expenditure for the block was fully written off as at 30 June 2015.

Equity Interests

Equity interests of the participants in Block S-M-1352 are:

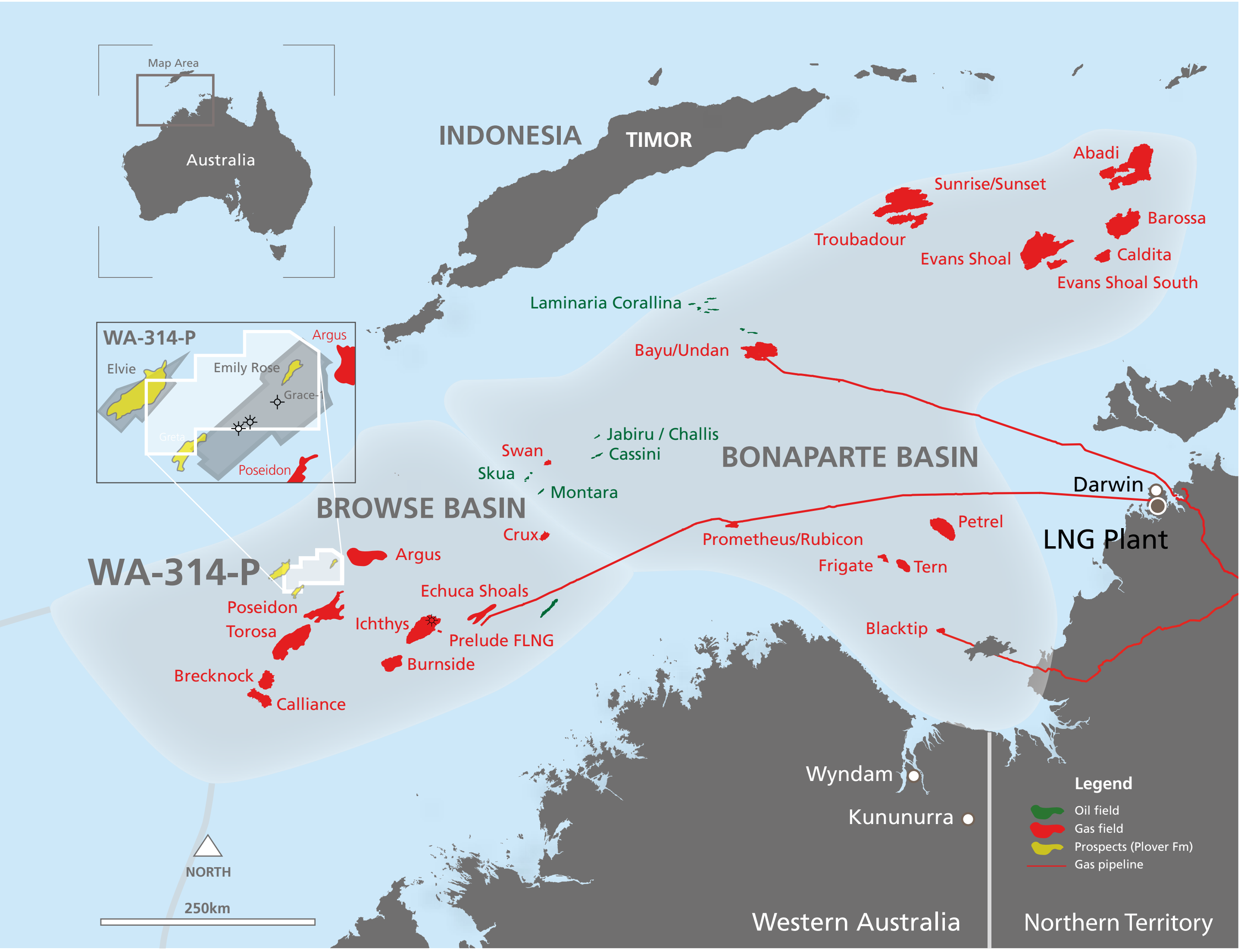
Petróleo Brasileiro SA (Operator)	80%*
Karoon Petróleo & Gas Ltda	20%*

* An application to relinquish the block was submitted to the ANP by the Operator during the financial year.

Browse Basin, Australia

Key Statistics

Permit	WA-314-P
Interest	100%
Operator	Karoon
Gross Acreage	1,953 sq kms
Water Depth	500 metres (average)
Type	Oil
Status	Exploration phase



Browse Basin Permits

During 2004, Karoon acquired a 100% interest in exploration permits WA-314-P and WA-315-P. During 2006, Karoon farmed out a 60% interest in the permits to ConocoPhillips. The Karoon/ConocoPhillips joint operation added exploration permit WA-398-P during 2007. The permits are located approximately 350 kilometres offshore from the northern part of the Western Australian coast.

Permits WA-315-P and WA-398-P

Following Karoon's exploration success with the Poseidon wet gas discovery during 2009 and subsequent delineation of additional resources through exploration drilling, Karoon announced the sale of its 40% equity interest in exploration permits WA-315-P and WA-398-P to Origin for up to US$800 million during June 2014. As per the terms of the Sale and Purchase Agreement, US$600 million of upfront cash proceeds were received on 11 August 2014 and costs relating to the Pharos-1 exploration well were also reimbursed. As at the end of the financial year, outstanding deferred milestone payments of 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 remain contingent.

The sale of the Poseidon gas resource is an excellent illustration of Karoon executing on its business strategy. It demonstrated the lifecycle of an early stage exploration asset from acquisition to monetisation, creating significant asset value along the way through the discovery, exploration and appraisal phases.

Permit WA-314-P

Karoon holds a 100% equity interest and is the Operator in exploration permit WA-314-P.

During the financial year, Karoon negotiated with NOPTA for a variation to the current permit term's Year 6 work program, where a well commitment was replaced with geological and geophysical studies.

3D Seismic Processing and Interpretation

Advanced depth processing and interpretation of the Kraken 3D marine seismic survey data acquired over the Elvie prospect was completed during the financial year.

Following interpretation of this seismic data, evidence of hydrocarbons generating from a source kitchen to the northwest of the Elvie structure suggests that the kitchen is oil prone. Previous expectations were the Elvie prospect was wet gas only. The survey data has also allowed identification of a new turbidite sandstone play in the Tertiary aged sediments at this prospect.

Forward Plan

Subsequent to the end of the financial year, Karoon submitted an exploration renewal application with NOPTA, which is currently under consideration.

Farm-out Status

Following the receipt of the final Kraken 3D marine seismic survey data during the financial year, the farm-out process recommenced. Discussions remain ongoing with a number of interested parties.

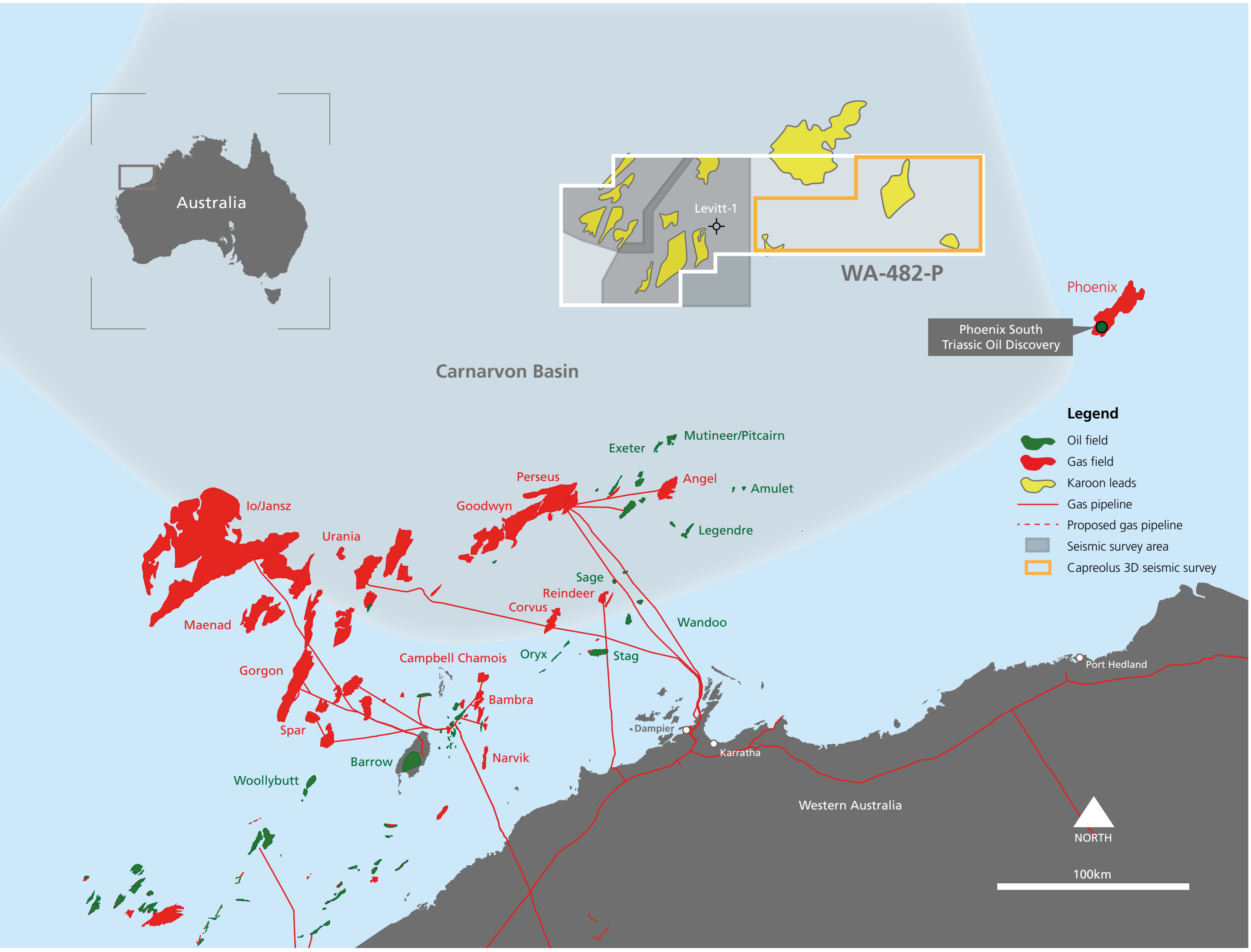
Equity Interest

Equity interest of the participant in WA-314-P is:

Karoon Gas Browse Basin Pty Ltd (Operator) 100%

Carnarvon Basin, Australia

Key Statistics	
Permit	WA-482-P
Interest	50%
Operator	Quadrant Energy Australia Limited (50% interest)
Gross Acreage	13,539 sq kms
Water Depth	400 to 2,000 metres
Type	Oil
Status	Exploration phase



Carnarvon Basin Permit WA-482-P

During September 2012, Karoon acquired a 100% interest in exploration permit WA-482-P in the Carnarvon Basin through a farm-in agreement with Liberty Petroleum Corporation. The permit is located approximately 300 kilometres offshore, from the north Western Australian coast in water depths ranging from 400 to 2,000 metres. The permit covers an area of 13,539 square kilometres.

During May 2014, Karoon farmed out a 50% interest and Operatorship in WA-482-P to Apache Northwest Pty Ltd ('Apache') formerly a wholly owned subsidiary of Apache Corporation, now part of Quadrant Energy Australia Limited ('Quadrant').

Under the terms of the farm-out, Karoon was carried for 90% of the cost of the Levitt-1 exploration well up to US$70 million.

While the permit is in a relatively underexplored part of the Basin, it covers a very large area and is prospective for hydrocarbons. A successful exploration result in this area could open up new exploration plays in the Basin.

The forward program is focused on testing the presence of a working petroleum system generating from the oil mature early Jurassic Wigmore sub-basin source kitchen. The sub-basin contains a significant thickness of Jurassic source rocks of the same age and nature known to charge petroleum accumulations elsewhere in the Basin. The exploration program will be designed to evaluate the shallower Legendre and deeper North Rankin formations, which are established highly productive reservoir units.

Drill Program

Following the selection of the well location by the joint operation during the financial year, the Levitt-1 exploration well spudded during July 2015. The 'Ocean America' semi-submersible drilling rig was used to drill the well which reached a total depth of 4,929 metres Rotary Table ('mRT') on 8 August 2015.

No hydrocarbon shows were noted while drilling. Petrophysical analysis of logging while drilling ('LWD') data indicated good quality reservoir in the Legendre and North Rankin formations, however, they were water bearing at this location.

Whilst Levitt-1 failed to intersect hydrocarbons, the well data, along with the acquired Chrysalids and Capreolus 3D marine seismic surveys over the majority of the permit, will provide important information that will add to the understanding of the petroleum systems in the permit.

The joint operation will use the Levitt-1 well data and its 3D seismic data to progress the evaluation of prospects and leads both in proximity, as well as to the north and east, of Levitt-1 where prospectivity remains attractive in the Wigmore sub-basin.

3D Seismic Acquisition, Processing and Interpretation

During the financial year, Karoon received the final processed Chrysalids marine 3D seismic survey data, a 2,376 square kilometre survey shot during 2013 over the western part of WA-482-P. Pre-stack depth migration processing remains ongoing. This survey aims to delineate additional prospects identified on the historical 2D seismic data.

During January 2015, Polarcus Limited commenced the acquisition of Australia's largest ever offshore basin wide high resolution broadband Capreolus 3D marine seismic survey in the northern part of the Carnarvon Basin. The multi-client Capreolus survey is expected to cover a minimum area of 22,130 square kilometres including a significant area over the eastern part of the permit. The joint operation is licencing 5,256 square kilometres of the survey data being acquired over the eastern part of the permit.

The eastern part of WA-482-P is an area of significant interest with a number of interesting structures identified from historical 2D seismic data in a relatively underexplored part of the north-west shelf. The Capreolus 3D marine seismic survey will provide high quality 3D seismic data to better define, risk and rank identified leads.

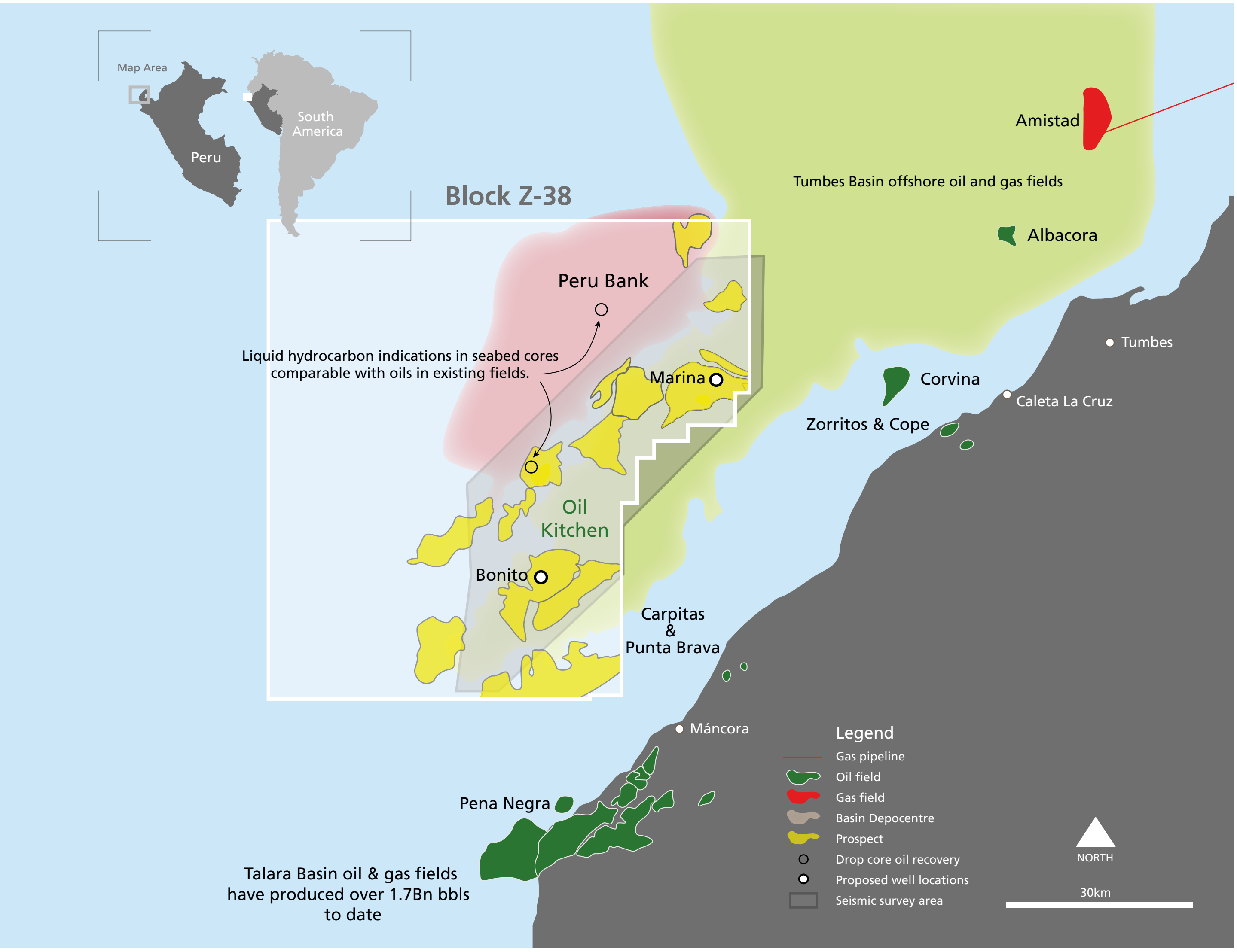
Equity Interests

Equity interests of the participants in WA-482-P are:

Karoon Gas (FPSO) Pty Ltd	50%
Quadrant Energy Australia Limited (Operator)	50%

Tumbes Basin, Peru

Key Statistics	
Block	Z-38
Interest	75%
Operator	Karoon
Gross Acreage	4,750 sq kms
Water Depth	300-3,000 metres
Type	Oil
Status	Exploration phase, currently in force majeure



Independently Assessed Resources – DeGolyer & MacNaughton

			NET Unrisked Prospective Resource (Undiscovered)		
Block	Type	Unit	Low	Best	High
Z-38	Oil	mmbbls	686	1,686	3,764

Tumbes Basin Block Z-38

During January 2008, Karoon signed a farm-in agreement to acquire a 20% participating interest in Block Z-38, a 4,750 square kilometre offshore block, located in the Tumbes Basin, 10 kilometres off the northwest coast of Peru. Karoon was approved as Operator during October 2009 and has subsequently increased its equity interest to 75%, subject to completion of farm-in obligations.

The Tumbes Basin is located north of and adjacent to the Talara Basin, a prolific oil and gas basin discovered in the late 1800s, which has produced over 1.7 billion barrels of oil to date. Historically, there has been very little exploration in the offshore portion of the Talara or Tumbes Basins, particularly in water depths over 120 metres.

During the 2011 financial year, Karoon acquired a 1,500 square kilometre 3D seismic survey over part of the block providing good quality data and identifying numerous large prospects. In addition, amplitude anomalies support the potential presence of trapped hydrocarbons and reservoir. Seabed drop core surveys recovered oil with the same characteristics as the oil in the onshore Talara Basin fields, suggesting the prospects in Karoon's Block are accessing the same source rocks.

DeGolyer & MacNaughton provided an independent prospective resource assessment as at 31 December 2013, announced during April 2014. The assessed gross unrisked prospective resource best estimate is 2,248 mmbbls of oil, or 1,686 mmbbls of oil net to Karoon, identified across 18 prospects.

During June 2013, Karoon secured regulatory approval for the proposed Tumbes Basin drilling campaign. Environmental Impact Assessment ('EIA') has been completed and approved and long lead items have been delivered. Preliminary prospect evaluation is complete and the Marina and Bonito prospects have been prioritised for the planned drilling campaign.

During July 2014, the Block was placed into force majeure with an effective date of 1 September 2013. The third period term has approximately 22 months remaining once force majeure is lifted.

Forward Program

The current plan is to drill 2 exploration wells. Approvals and long lead items are in place for the drilling program and the preliminary well locations have been selected for the Marina and Bonito prospects.

The Marina prospect has a gross unrisked prospective resource Best Estimate[1] of 320 mmbbls of oil as assessed by DeGolyer & MacNaughton. The Marina prospect has a Tumbes formation target in a fault block structure. The preliminary plans are to test the Tumbes formation with the first well, Marina.

The Bonito prospect has a gross unrisked prospective resource Best Estimate[1] of 554 mmbbls of oil as assessed by DeGolyer & MacNaughton. The Bonito prospect has a Zorritos formation target in a faulted four-way dip closed structure. The preliminary plans are to test the Zorritos formation with the second well, Bonito.

Farm-out Status

Discussions with interested parties remain ongoing. The farm-out process is expected to be completed ahead of the Tumbes Basin exploration drilling campaign starting.

Equity Interests

Equity interests of the participants in Block Z-38 are:

KEI (Peru Z38) Pty Ltd, Sucursal del Peru (Operator)	75%*
Pitkin Petroleum Peru Z-38 SRL	25%

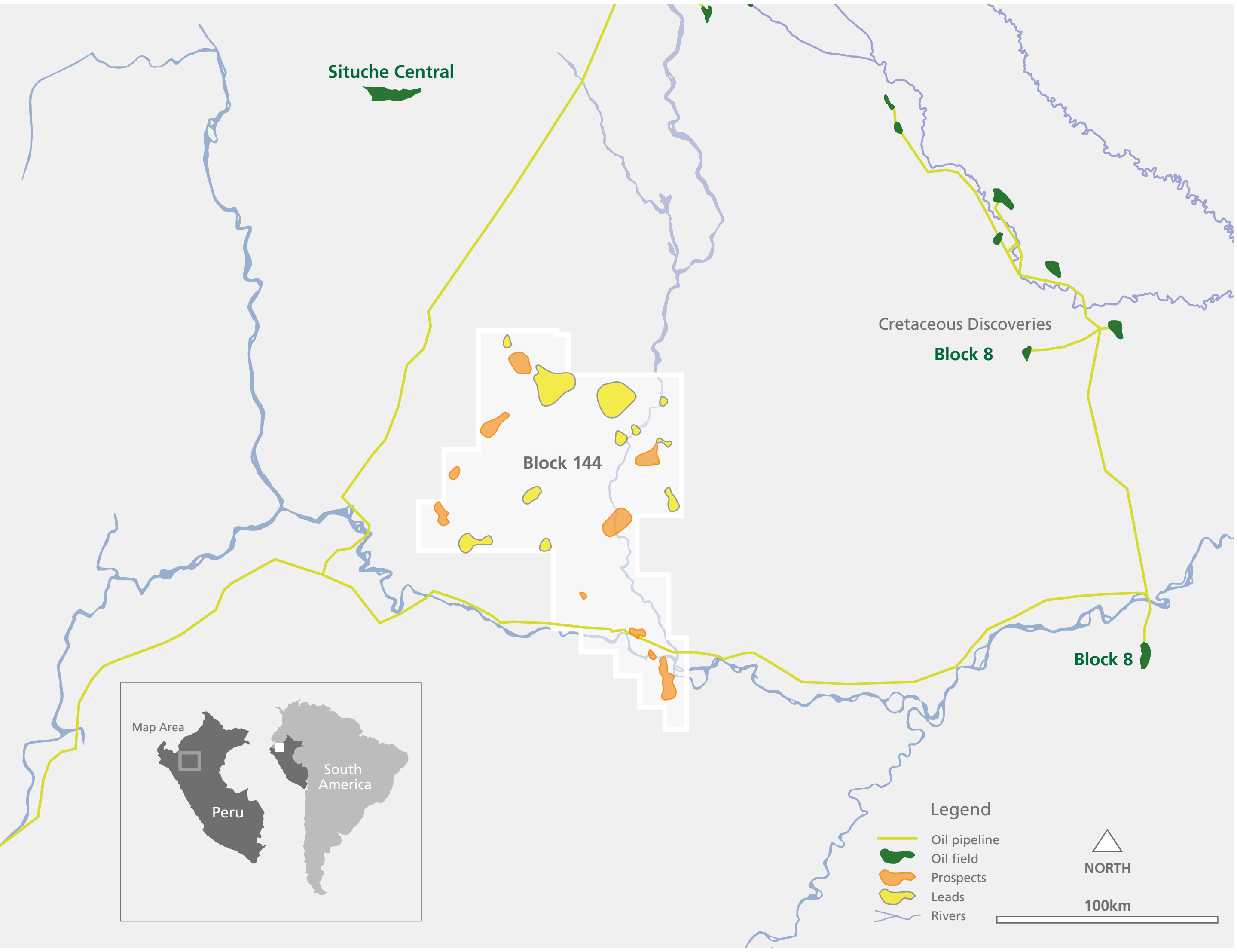
* Karoon's 75% equity interest is subject to completion of farm-in obligations.

1. Refer to Resource Summary on page 7.

Marañón Basin, Peru

Key Statistics

Block	144
Interest	100%
Operator	Karoon
Gross Acreage	6,836 sq kms
Water Depth	N/A – Onshore
Type	Oil
Status	Exploration phase, currently in force majeure



Independently Assessed Resources – DeGolyer & MacNaughton

			NET Unrisked Prospective Resource (Undiscovered)		
Block	Type	Unit	Low	Best	High
144	Oil	mmbbls	53	107	195

Marañón Basin Block 144

During April 2009, Karoon was awarded Block 144, in the onshore Marañón Basin, on the eastern side of the Andes mountain range in Peru.

Block 144 is crossed by a navigable river and an underutilised oil export pipeline from the Marañón Basin to the Pacific Ocean, which could reduce the amount of capital expenditure required for any future potential development.

During April 2014, DeGolyer & MacNaughton provided an independent prospective resource assessment as at 31 December 2013. The gross unrisked prospective resource best estimate[1] is 107 mmbbls of oil identified across 2 prospects in the block.

Geophysical interpretation using reprocessed 2D seismic data has identified the presence of multiple four-way dip closed structures in the block and several leads and prospects have been recognised.

Forward Program

Currently, Block 144 is in force majeure while social programs and government introductions to the indigenous communities are ongoing. Karoon is continuing geotechnical and social work along with undergoing an EIA study for the acquisition of 300 kilometres of 2D seismic as part of the second period work commitment.

Exploration work will resume once force majeure is lifted.

Farm-out Status

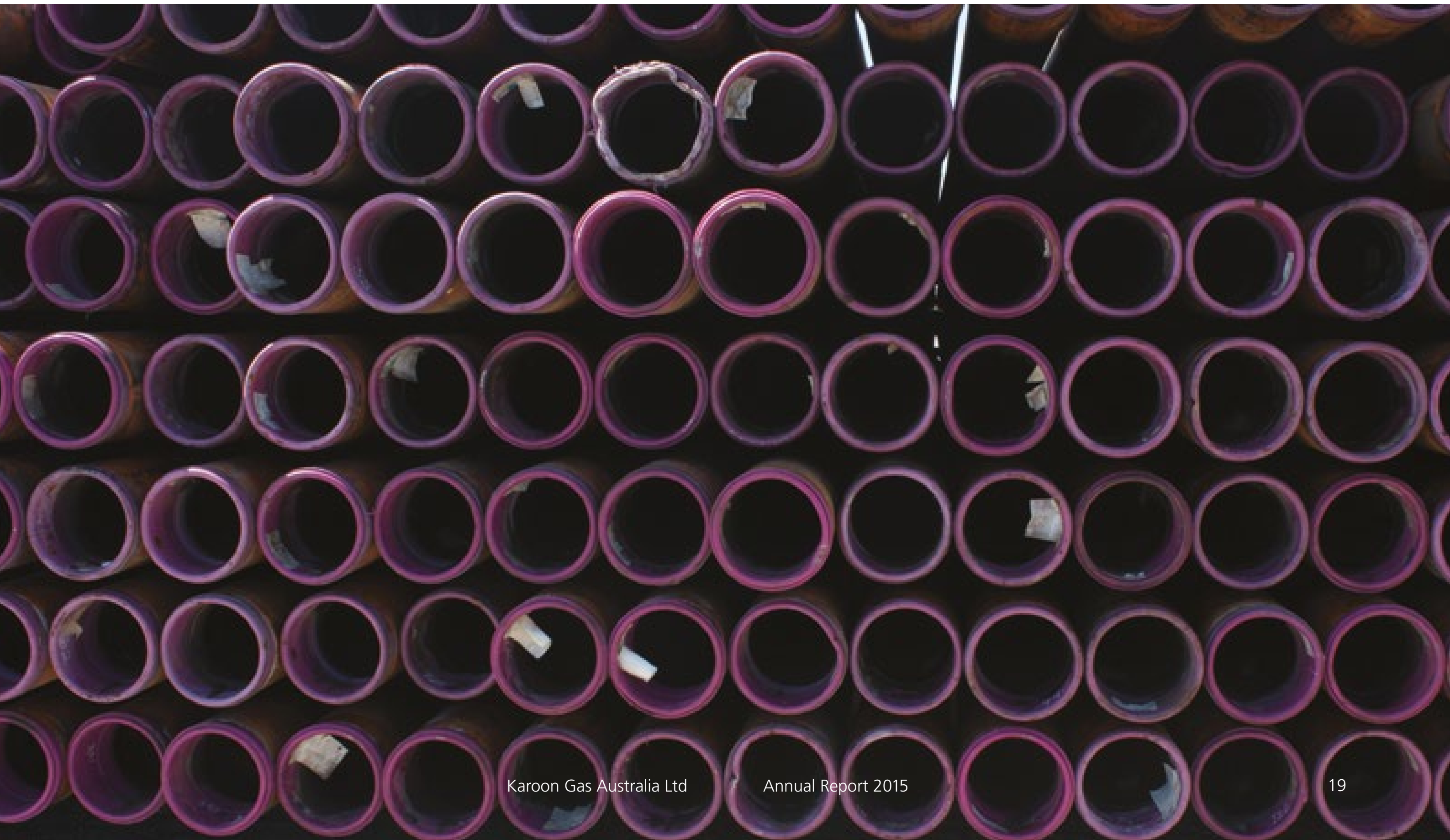
A formal farm-out process commenced during the financial year. Interest has been shown for the block, with a number of parties undertaking due diligence. Discussions remain ongoing with interested parties.

Equity Interest

Equity interest of the participant in Block 144 is:

KEI (Peru 144) Pty Ltd, Sucursal del Peru (Operator) 100%

1. Refer to Resource Summary on page 7.



Corporate Sustainability Report
For the Financial Year Ended 30 June 2015

Karoon acknowledges that, with a growing interest from shareholders and other stakeholders in corporate sustainability, it is increasingly important to formally disclose how Karoon has integrated sustainability into its business practices, decision making, strategy and culture over time. This reporting can assist with both informing and reassuring shareholders, employees, investors, regulators and other stakeholders.

Over the financial year, Karoon has engaged with both internal and external stakeholders to gain a better understanding of the information that is most relevant and meaningful to report. This section of the Annual Report now provides greater insight into Karoon's risk management and governance practices and the work it does to manage social, environmental and economic sustainability.

Philosophy and Management

As a participant in the international oil and gas industry, Karoon recognises the challenges and opportunities facing its business and the importance of operating responsibly. It is committed to the health and safety of its employees and contractors and the people and environments of the local communities and economies where it has petroleum tenements.

Social, environmental and economic sustainability are core principles of Karoon's business culture and growth strategy. To ensure these principles are embedded in the business, Karoon has developed a management framework and governance system that both promotes sustainability in, and provides clear guidelines for, decision making throughout the Group.

Karoon's key priorities for corporate sustainability have been identified through the risk management process overseen by the Risk and Governance Committee. Risks are assessed in five core business categories:

- Operations;
- Finance;
- Legal and Compliance;
- People and Culture; and
- Reputation.

Management is responsible for developing and maintaining a Risk Register, through consultation with internal and external stakeholders and the Risk and Governance Committee. A risk assessment matrix is used to assess and prioritise risks, so that the management framework and governance system can be developed to mitigate risks through responsible management and effective business practices.

The highest priority sustainability risks identified in each category are described below, along with how they have been managed and will continue to be managed in the future.

Operations

'Karoon's key operational sustainability risk is the health and safety of its people and those in the local communities and economies where it operates'

Safety

The operational environment of oil and gas exploration presents significant health and safety challenges. Karoon recognises that the health and safety of its employees and contractors is paramount for the long-term success of the Group and is committed to the implementation, and continual improvement, of an industry best practice Health, Safety and Environment Management System ('HSEMS').

Karoon's approach to health, safety and environment ('HSE') is proactive, with workforce training at all levels within the organisation. While role and activity specific training is provided, a variety of broader programs, such as first aid and CPR training, were also offered in Karoon's offices globally throughout the financial year.

Careful planning is undertaken prior to any operation. Karoon adopts a multi-disciplinary approach, with participation from the drilling team, technical department, HSE department, contractors and management in preparing operational plans to ensure safe and reliable operations. The plans for the 2014-15 Santos Basin (Brazil) second phase drilling campaign were prepared in accordance with Brazilian regulations and the standards set by Karoon's HSEMS, and were reviewed by an independent expert prior to operations commencing.

The success of Karoon's HSEMS is reflected in the HSE statistics from its Santos Basin second phase drilling campaign with the Total Recordable Incident Rate ('TRIR') for the 3 well, 8 month campaign, being just 0.57 (per 200,000 man hours worked). There were zero fatalities and zero days away injuries. This represents an improvement on the Santos Basin first phase drilling campaign (2013 calendar year), where the TRIR was 0.93 (per 200,000 man hours worked).

Santos Basin Second Phase Drilling Campaign HSE Statistics

	Rig	Vessel	Total	
Total Recordable Incident Rate:	1.94	0.00	0.57	Based on 200,000 man hours
Days Away Incident Rate:	0.00	0.00	0.00	

Karoon's success above was largely due to the commitment of its employees and contractors at all levels raising awareness of, and compliance with, the requirements of Karoon's HSEMS and developing implementation programs to maximise the effectiveness of the HSEMS. In particular, an Alert Card program was used in the Santos Basin second phase drilling campaign. This program was successful at identifying and rectifying potential hazards to prevent incidents from occurring or escalating.

Respect for Communities

Consultation is a key component of Karoon's HSEMS. Karoon recognises the importance of working with people in communities where it operates to facilitate close working relationships and achieve the best possible outcomes for those communities and local economies. In Peru, working together with communities has resulted in the successful Citizen Participation Plan ('CPP' direct participation with communities and local authorities) and Social Investment Plan ('SIP') which has enabled Karoon to identify opportunities to work with communities to generate improvements in education, healthcare and the local economies.

Since 2010, Karoon has targeted its social responsibility programs in Peru where investment in such programs represents the best chance to make significant positive contributions. Karoon has implemented a variety of successful projects over this time, many of which have had immediate impacts. Karoon has in place programs that empower local communities to achieve longer-term benefits. The CPP and SIP continue to be effective programs for Karoon to outline its planned exploration activities and identify the best opportunities to support and achieve sustainable education, healthcare and business outcomes for those communities.

Education

Karoon's education programs have provided equipment and training in both primary and secondary schools and a university scholarship program. Eight scholarships have now been awarded since the project's inception. Several more have been offered but have not been successful for a variety of reasons. Karoon has been consulting with scholarship recipients to identify scholarship program improvements that will encourage as many students as possible to persevere in their studies. This has enabled Karoon to continue to improve the scholarship program. In recent years, the program was expanded to include an exchange program and 2 students have now been able to complete a 6 month exchange to the Federal University of São Paulo. Karoon will continue to refine and improve the scholarship program to encourage tertiary education and offer scholarships to students who can use the opportunity to contribute to their local communities.

Healthcare

Healthcare initiatives have been expanded in recent years from the provision of much needed basic equipment and supplies to a more sustainable focus on training and education of local health workers. Many plant species of the Amazon have medicinal properties that can be used to treat illnesses such as diabetes, malaria, cholesterol, anaemia, ulcers and the flu among others. Karoon has established a program to train nurses, who in turn train local health workers, in the treatment of these common diseases through the use of naturally occurring remedies with the help of the Peruvian Amazon Research Institute ('IIAP'). The IIAP researches the sustainable use of biological diversity in the Amazon region. To date, 9 nurses have been successfully trained through the program. Karoon will continue to fund the program to train more local nurses to provide sustainable healthcare solutions for local communities.

The Environment

The Fragata Project (the 'Project'), which was established during the 2013 financial year, has been an outstanding success for the Karoon SIP. The Project is designed to increase the awareness of and to protect the Magnificent Frigatebird (*Fregata magnificens*) or more commonly known Man of War in the mangroves of the Bird Islands of Puerto Pizarro, nearby Karoon's Block Z-38, Peru. While the Project has given Karoon the welcome opportunity to demonstrate its commitment to environmental sustainability, it has also produced significant economic benefits for the local community with an increase in local tourism as a direct result of the Project. During the financial year, preparation commenced on a book describing the ecosystem of the Project, which will provide a valuable tool for Peruvian Universities, Government and Tourism agencies. The book is now complete and is expected to be published early in the 2016 financial year. Karoon will continue to invest in the Project over the 2016 financial year with the aim of continuing to protect the ecosystem, while encouraging benefits for the local community and economies.

Business Skills

Karoon recognises that economic sustainability is vital for the survival of local communities and has been instrumental in establishing business programs that empower those communities to create a sustainable income. During the financial year, Karoon continued to provide advice to women participating in the Mutumbi (Women of Tumbes) handicraft micro business. The women were originally trained in a program funded by Karoon and have been able to use proceeds from their business to continue to build and expand Mutumbi. Karoon continues to mentor and assist Mutumbi, while aiming to achieve a self-sustainable business for local women.

Finance

'Maintaining liquidity, in a volatile market and high cost industry, is key to Karoon's financial sustainability'

Oil and gas exploration is a high cost industry requiring significant liquidity to establish and implement drilling programs and potentially move assets through to development and production. There are many external factors that may influence this, such as volatility in global commercial markets and the price of crude oil. Karoon understands that such volatility requires careful planning to anticipate changes in the commercial environment and flexibility to manage commitments to protect the financial interests of the Company.

The Board of Directors and management are responsible for establishing and maintaining a business strategy, including risk identification and assessment, which facilitates responsible decision making. Since incorporation, Karoon has adopted a business strategy to ensure it operates ethically and responsibly while providing sustainable growth for shareholders.

Developing and maintaining a sound sustainable business strategy has enabled Karoon to implement a sizable exploration and appraisal drilling program whilst maintaining a robust financial position within a volatile market. As part of Karoon's overall strategy, the Board of Directors approved the monetisation of its earlier exploration success on the Poseidon gas resource, with the divestment of 2 exploration permits (WA-315-P and WA-398-P) in the Browse Basin, Australia. Funds raised from this divestment can now be put to work on less capital intensive, higher returning oil opportunities and earlier stage opportunities where the Company can add value.

Karoon has noted that in recent times financial lenders have been becoming more focused on sustainable best practices as part of their corporate lending practices. While Karoon takes great pride in its commitment to corporate sustainable practices, it acknowledges that this has not been a part of its formal reporting until this financial year. Karoon will continue to report more fully on corporate sustainability to assist financial lenders in their assessments.

Legal and Compliance

'A key legal and compliance sustainability risk is bribery and corruption and the potential impacts on Karoon's business and the communities and economies in areas where it operates'

Karoon has always conducted its business ethically, with zero tolerance for bribery or corruption. Karoon recognises the impacts poor business practices can have, not just on the Company and shareholders but also on the local communities and economies where it has petroleum tenements.

Karoon has always demonstrated its opposition to both bribery and corruption through its conduct and operations, and publicly via its Code of Conduct. To further emphasise its commitment to ethical business operations, an Anti-Bribery and Corruption ('ABC') Policy has been established and implemented throughout the Group. The ABC Policy provides shareholders and other stakeholders, including employees and contractors, with a clear expectation of ethical business conduct.

Employees and contractors in offices in both Australia and South America have already received training in the implementation of the ABC Policy and been educated as to the importance of ethical business conduct and operations in economic sustainability. Over the coming financial year, ongoing training will be provided to ensure the ABC Policy is not just understood but is an integral part of business decision making throughout the organisation.

People and Culture

'Karoon's key sustainability risk relating to people and culture within the organisation is having appropriate governance systems in place to facilitate the imbedding of its policies and procedures in its business practices'

The success of Karoon's business relies on it having talented and dedicated employees and contractors and providing them with the environment they need to produce their best work. Karoon recognises not just the importance of having policies and procedures in place to govern its operations and provide clear direction for employees and contractors, but also the importance of ensuring it develops and nurtures a culture within the Company that embraces those policies and their implementation.

All of Karoon's publically available written policies were recently updated to ensure they are in accordance with the latest regulations and guidelines, including the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, and appropriately reflect the business practices and culture of Karoon. Each policy has been reviewed at the highest level by the Risk and Governance Committee and they are now undergoing final approval by the Board of Directors. These policies include the:

- Code of Conduct;
- HSE Policy;
- Diversity Policy;
- Anti-Bribery and Corruption Policy;
- Risk Management Policy; and
- Related Party Policy.

Training has been scheduled to ensure all employees and contractors are aware not only of the content and context of each policy but of the Board of Directors' commitment to ensuring they are complied with.

The above policies will continue to be regularly reviewed to ensure they represent industry best practice, are compliant with local regulations and guidelines, and demonstrate Karoon's commitment to its employees and contractors and the people and environments in the communities in which it operates. Karoon will also monitor the implementation of any new policies or policy changes to ensure they are reflected in its business practices. The policies are publicly available and can be found under the Governance tab on the Company's website at **www.karoongas.com.au.**

Reputation

'Karoon's key reputational sustainability risk is ensuring shareholders and other stakeholders are aware of its commitment to corporate sustainability through appropriate reporting'

Despite a firm commitment to operate in accordance with the principles of social, environmental and economic sustainability, Karoon has not formally reported on its business practices in corporate sustainability, and has recently received low sustainability ratings in some third party reports. While this may in part be due to the comparison to much larger companies, with different operations in the same industry, it is also due to the lack of publically available information previously provided regarding Karoon's approach to corporate sustainability, particularly through its management framework and governance system.

The Board of Directors and management are always working to ensure that Karoon is looking beyond the short and medium-term, to consistently deliver growth in shareholder value. Furthermore, Karoon is committed to sustainable operations, ensuring it maintains its petroleum tenements in good standing and to operate responsibly within those local communities and economies and with regard to the environment. Reporting on this commitment will assist Karoon in retaining its good reputation within the industry.

Karoon has voluntarily submitted a response to the Carbon Disclosure Project ('CDP'). The CDP Report is publically available and provides details of Karoon's greenhouse gas emissions, its approach to climate change and some of the specific risks and opportunities identified through that approach.

Karoon will continue to engage with shareholders and other stakeholders to improve its reporting and will continue to participate in projects important to it, shareholders and other stakeholders, such as the CDP. Karoon will aim to increase awareness of its corporate sustainability commitment through consultation and public disclosure, and in turn try to improve Karoon's corporate sustainability rating in reports such as the CDP Report and the ACSI (Australian Council of Superannuation Investors) Sustainability Report.

Directors' Report

The Board of Directors submits its Directors' Report on Karoon Gas Australia Ltd and its subsidiaries (the 'Group') for the financial year ended 30 June 2015 (the 'financial year').

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 ten. Directors are elected and re-elected at Annual General Meetings of the Company.

The names of the Directors of Karoon Gas Australia Ltd (the 'Company') during the financial year and up to the date of this Directors' Report are set out adjacent:

Dr David Klingner, 71

BSc. (Hons), PhD, FAusIMM

Independent Non-Executive Chairman

Appointed 19 December 2014.

David has over a decade of Australian and international boardroom experience and has worked in the natural resources industry for 48 years. David spent his career working for Rio Tinto (and Rio Tinto affiliated companies) holding many senior executive positions including Head of Exploration, Group Executive Coal and Gold, Managing Director Kaltim Prima Coal as well as various other commercial and technical roles including Group Geologist Petroleum Exploration. Since 2004, David has been an active company chairman and corporate director.

David brings considerable global project development and stakeholder management expertise to the Board of Karoon across the resources industry. He has experience in navigating complex and difficult social and fiscal environments as well as chairing several companies through the modern governance landscape both in Australia and in North America. In addition, David has significant exploration experience worldwide, including South America.

Dr Klingner has a Bachelor of Science degree in Geology (Hons) from the University of Queensland and a PhD from the University of Melbourne. He is a fellow of the Australian Institute of Mining and Metallurgy and a member of the Prospectors and Developers Association of Canada and the Institute of Corporate Directors.

Current and past directorships of other listed companies include: former Chairman of Turquoise Hill Resources Ltd (formerly Ivanhoe Mines Ltd IVN:TSE), a TSX and NYSX listed company (TRQ: TSX, NYSE & NASDAQ. Resigned 1 January 2015), former Chairman of Codan Limited (ASX: CDA. Resigned 18 February 2015) and former Chairman of Energy Resources of Australia Ltd (ASX: ERA. Resigned 8 February 2013).

Member of the Remuneration Committee, Risk and Governance Committee.

Mr Robert M. Hosking, 68

Managing Director

Appointed 11 November 2003.

Robert is the founding Director of the Company and has more than 35 years of commercial experience in the management of several companies. Robert has been involved in the oil and gas industry for 19 years and was a founding director/shareholder of Nexus Energy Limited.

Robert also has a background of more than 17 years' commercial experience in the steel industry. He jointly owned and managed businesses involved in the transglobal sourcing, shipping and distribution of steel-related products, with particular expertise gained in Europe and the Asia/ Pacific Rim.

Mr Mark A. Smith, 59

Dip. App. Geol, Bsc. (Geology)

Executive Director and Exploration Director

Appointed 20 November 2003.

Mark has more than 30 years' experience as a geologist and exploration manager in petroleum exploration and development in Australia, South East Asia, North and South America. His early experience was gained while working with BHP Petroleum. Mark has been directly involved with 16 economic oil and gas discoveries.

Mark has geoscience skills in regional basin and tectonic studies, petroleum systems fairway assessments, prospect evaluations, risking and volumetrics, fault seal prediction and well-site operations. His management skills cover general and human resources management, acreage evaluation and acquisition projects, farm-ins/ farm-outs, well site operations management and management of onshore and offshore drilling operations.

Mr Geoff Atkins, 67
FIE Aust. CP Eng.

Independent Non-Executive Director

Appointed 22 February 2005.

Geoff has over 44 years' experience in investigation, planning, design, documentation and project management of numerous significant port, harbour and maritime projects. These include container terminals, LNG jetties, oil and gas wharves, heavy lift facilities, cement, coal, bauxite, iron ore and other bulk terminals, shipping logistics and naval bases.

Geoff has gained substantial overseas experience completing marine projects in Indonesia, Malaysia, Thailand, Vietnam, Sri Lanka, India, South Africa, Namibia, New Zealand and the United Kingdom. LNG, oil, gas, bulk ports and other large maritime infrastructure projects that Geoff has been involved in have included the design of Woodside Petroleum Limited's LNG jetty, tender design of ConocoPhillips' Darwin LNG jetty and concept designs for the Sunrise LNG jetty. Geoff has also been involved in investigations of proposed LNG marine terminals in Taiwan, Iran and Israel for BHP Petroleum and the West Kingfish and Cobia oil drilling platforms for ESSO/BHP in Bass Strait.

Chairman of the Nomination Committee.

Member of the Audit Committee.
Member of the Risk and Governance Committee until 6 February 2015.

Mr Clark Davey, 59
B. Commerce, FTIA, MAICD

Independent Non-Executive Director

Appointed 1 October 2010.

Clark has over 30 years' experience in the Australian natural resources industry as a taxation consultant to oil and gas and mining companies. Clark was a partner at Price Waterhouse and PricewaterhouseCoopers specialising in the natural resources industry. For a number of years he held resource industry leadership roles within both firms. Clark is a member of the Taxation Institute of Australia and the Australian Institute of Company Directors.

Clark provides a wealth of taxation and business advisory knowledge and experience to the Company, including experience with company income tax, petroleum resource rent taxation in Australia and assisting with accounting and capital management. He has assisted many Australian companies with tax management of their joint venture interests and has had considerable experience with merger and acquisition transactions. He has also assisted companies expand their resource industry interests internationally.

Current directorships of other listed companies include: Redflex Holdings Limited (appointed 6 January 2015).

Chairman of the Audit Committee.

Member of the Nomination Committee, Remuneration Committee, Risk and Governance Committee.

Mr Peter Turnbull, 57
B. Commerce, LLB, FGIA, FAICD

Independent Non-Executive Director

Appointed 6 June 2014.

Peter has significant experience as an independent Non-Executive Director from a range of organisations and industries and is a current and long-standing Director, and former President, of the Governance Institute of Australia. Peter has over 30 years of senior executive experience gained in publically listed, private and government owned organisations in Australia, South East Asia, Europe and the United Kingdom. Peter's experience includes over a decade in energy markets and the resource sector in senior executive positions 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 addition to significant energy and resources and senior executive experience, Peter has extensive experience in designing, implementing and managing corporate governance frameworks, including risk management and remuneration regimes. He is an Executive Committee member of several global organisations which promote good governance.

Chairman of the Remuneration Committee.

Chairman of the Risk and Governance Committee.

Member of the Audit Committee, Nomination Committee.

Mr Bernard Wheelahan AM, 74
BSc, DipEd, FRACI, FAusIMM, FAIE, FAICD

Independent Non-Executive Director

Appointed 24 June 2014.

Bernard has 50 years' experience in the oil and gas and broader energy resources and industries in Australia and overseas. Bernard worked for 34 years at Royal Dutch Shell in a variety of senior leadership, commercial and technical roles both in Australia and overseas including President of Shell Venezuela SA and a Director of Shell Australia. Over a 20-year period, Bernard was General Manager of each of the minerals, coal, natural gas, upstream and downstream oil businesses for Shell Australia, responsible for all major project developments. During this time, Bernard was involved in Shell Australia's major investments and resource diversification strategy.

Bernard is also a former director of Woodside Petroleum Limited and Normandy Mining Limited, a former Chairman of the Australian Petroleum Production and Exploration Association, Pacific Hydro, the Gribbles Group, the Bass Strait Oil Company and the Council of Australia Latin America Relations, as well as the former deputy Chairman of Transfield Services. Bernard is a Member in the General Division of the Order of Australia ('AM') for service to business, to Australian Latin American relations, to professional associations and to the community.

Member of the Nomination Committee, Risk and Governance Committee.

Mr Jose Coutinho Barbosa, 75
Bsc. (Geology), Msc. (Geophysics)

Non-Executive Director

Appointed 31 August 2011.

Jose Coutinho spent 38 years with Petróbras, beginning his career in a number of technical and management positions, culminating in his appointment as Acting President and CEO of Petróbras, one of the world's largest petroleum exploration and production companies.

Earlier in his career, Jose Coutinho was Executive Vice-President and CEO of Petróbras Internacional SA (otherwise known as Braspetro) and was Managing Director for Exploration and Production of Petróbras until his retirement during February 2003. Since then, he has managed his own independent consulting firm, Net Pay Óleo & Gás Consultoria Ltda, headquartered in Rio de Janeiro, Brazil, operating in areas of the petroleum industry. Jose Coutinho brings knowledge and experience to the Company, including experience with geology, exploration and production and local knowledge of the oil and gas industry in Brazil and internationally.

Current and past directorships of other listed companies include Lupatech SA (director from 24 March 2008 to 29 April 2011 and re-appointed 4 May 2012. Resigned 28 March 2014).

Mr Barbosa is also the Temasek Representative Director on the Board of Directors of Odebrecht Oleo e Gas (unlisted).

Mr Scott Hosking
B. Commerce

Company Secretary

Appointed on 10 March 2006.

Scott has a significant international financial and commercial management background and has been involved with several commercial ventures over the past 18 years with experience in international trade, finance and corporate management. He has previously held support positions to Company Secretaries of Australian listed companies, worked as part of the finance and management teams of private international resource and industrial enterprises and was involved in the listing of Karoon Gas Australia Ltd.

Meetings

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

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings		Risk and Governance Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
Dr David Klingner	5	5	-	-	1	1	-	-	-	-
Mr Robert Hosking	11	11	-	-	-	-	-	-	-	-
Mr Mark Smith	11	11	-	-	-	-	-	-	-	-
Mr Geoff Atkins	11	11	5	5	3	3	5	5	3	3
Mr Clark Davey	11	11	5	5	4	4	5	5	4	4
Mr Peter Turnbull	11	11	5	5	4	4	5	5	4	4
Mr Bernard Wheelahan	11	9	-	-	-	-	5	5	4	4
Mr Jose Coutinho Barbosa	11	9	-	-	-	-	-	-	-	-

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 share options or performance rights over unissued ordinary shares in the Company:

Director	Ordinary Shares, Fully Paid	Unlisted Share Options	Unlisted Performance Rights
Dr David Klingner	73,591	-	-
Mr Robert Hosking	11,874,462	624,310	-
Mr Mark Smith	2,892,037	624,310	-
Mr Geoff Atkins	696,784	-	-
Mr Clark Davey	24,294	-	-
Mr Peter Turnbull	32,500	-	-
Mr Bernard Wheelahan	80,000	-	-
Mr Jose Coutinho Barbosa	-	-	-

Principal Activities

The principal activity of the Group during the course of the financial year continued to be investment in hydrocarbon exploration and evaluation in Australia, Brazil and Peru.

Significant Changes in State of Affairs

During August 2014, the divestment of Karoon's 40% equity interest in exploration permits WA-315-P and WA-398-P to Origin Energy Browse Pty Ltd ('Origin') was completed and net proceeds of $658,929,297 were received during the financial year. Completion of the Sale and Purchase Agreement was effective as at 31 July 2014. The disposal date was the same as the date of completion, being 31 July 2014.

Also during August 2014, an on-market share buy-back was announced for up to 25,112,076 ordinary shares, or a maximum of 10% of ordinary shares on issue. The Company's share buy-back commenced on 3 September 2014. As at 30 June 2015, a total of 9,396,922 ordinary shares had been purchased and cancelled at an average price of $3.27 per share, with prices ranging from $2.88 to $3.98. The total reduction in contributed equity was $30,716,686. The buy-back was suspended upon commencement of the Santos Basin second phase drilling campaign and expired on the 2 September 2015. Upon expiry, the Company made the decision to continue the share buy-back for a further 12 months.

Results

The consolidated result of the Group for the financial year was a profit after tax of $231,456,873 (2014: loss of $5,518,780). The profit for the financial year included a $276,673,235 (2014: $Nil) gain on divestment of exploration permits WA-315-P and WA-398-P to Origin; interest income of $2,004,783 (2014: $5,595,155) earned on interest bearing cash assets and security deposits; and net foreign currency gains of $121,290,995 (2014: $1,100,817) substantially on USD denominated cash and cash equivalents and security deposits held by the Group during the financial year. The net foreign currency gains were almost entirely attributable to the appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.9420 as at 30 June 2014 to AUD1:USD0.7680 as at 30 June 2015) on cash assets and security deposits held in United States dollars.

Partially offsetting the profit for the financial year was capitalised exploration and evaluation expenditure written off for Block S-M-1352 in Brazil of $28,553,885 (2014: $Nil), net employee benefits expense of $10,962,775 (2014: $11,946,942), which included non-cash share-based payments expense of $3,199,441 (2014: $4,301,570) from the issue of share options and performance right incentives, which remain subject to the satisfaction of vesting conditions; and finance costs of $3,627,534 (2014: $389,021) mainly associated with a short-term 'bridge' loan facility with the National Australia Bank Limited. The financial year also included exploration and evaluation expenditure expensed, in accordance with the Group's accounting policy, of $934,112 (2014: $3,142,946) from reviewing new exploration ventures in Australia, Brazil and Peru.

Basic earnings per ordinary share increased during the financial year to $0.9285 (2014: loss $0.0220).

Cash Flows

Operating activities resulted in a cash outflow for the financial year of $13,967,296 (2014: cash outflow of $12,948,701). Cash inflow from investing activities for the financial year was $442,245,164 (2014: cash outflow of $321,971,636) principally through net proceeds from the divestment of Karoon's 40% equity interest in exploration permits WA-315-P and WA-398-P to Origin, partially offset by payment for exploration and evaluation expenditure in Australia, Brazil and Peru. Cash outflow from financing activities for the financial year was $30,818,389 (2014: cash inflow of $169,611,174) predominantly through the Company's on-market share buy-back.

The positive effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies, primarily in United States dollars, for the financial year was $116,618,518 (2014: negative $197,135).

Financial Position

At the end of June 2015, the Group had a cash and cash equivalents balance of $553,091,340 (30 June 2014: $39,013,343) and no debt. Included in this balance were short-term bank deposits of $23,921,808 (30 June 2014: $3,896,532) and the Group's share of joint operation cash balances of $20,720,906 (30 June 2014: $2,039,720).

The Group's working capital, being current assets less current liabilities, increased from $416,963,558 as at 30 June 2014 to $508,457,139 as at 30 June 2015 substantially as a result of the net cash proceeds received on divestment of exploration permits WA-315-P and WA-398-P to Origin, offsetting the derecognition of current assets classified as held for sale related to WA-315-P and WA-398-P as at 30 June 2014.

During the financial year, total assets increased from $800,312,561 to $1,095,339,759, total liabilities increased from $33,838,630 to $136,834,119 and total equity increased by $192,031,709 to $958,505,640. The major changes in the consolidated statement of financial position were largely due to the following:

- divestment of Karoon's 40% equity interest in exploration permits WA-315-P and WA-398-P;
- the Company's on-market share buy-back;
- exploration and evaluation expenditure in Australia, Brazil and Peru;
- capitalised exploration and evaluation expenditure written off for Block S-M-1352 in Brazil;
- after utilisation of the Company's carried forward tax losses against current year taxable profit, a net deferred tax liability and current tax payable have been recognised; and
- the negative movement in the foreign currency translation reserve as a result of the depreciation of the Brazilian REAL against the Australian dollar from AUD1: REAL2.076 as at 30 June 2014 to AUD1:REAL2.389 as at 30 June 2015; partially offset by the positive movement in the foreign currency translation reserve as a result of the appreciation of the United States dollar against the Australian dollar from AUD1: USD0.9420 as at 30 June 2014 to AUD1:USD0.7680 as at 30 June 2015.

During the financial year, Karoon received net proceeds of $658,929,297 from Origin thereby completing the divestment of the Company's 40% equity interest in exploration permits WA-315-P and WA-398-P. Completion of the Sale and Purchase Agreement was effective as at 31 July 2014. The disposal date was the same as the date of completion, being 31 July 2014.

The contributed equity of the Company was reduced by $30,716,686 during the financial year through an on-market share buy-back. As at 30 June 2015, a total of 9,396,922 ordinary shares had been purchased and cancelled through the Company's on-market share buy-back at an average price of $3.27 per share, with prices ranging from $2.88 to $3.98.

Exploration and evaluation expenditure of $218,417,936 (2014: $289,927,552) was incurred during the financial year, with major expenditure in the following operating segments:

- Australia, preparation for drilling of the Levitt-1 exploration well, operated by Quadrant Energy Australia Limited (formerly Apache), in exploration permit WA-482-P. The Group also completed processing and interpretation of the Kraken 3D marine survey over the Elvie lead in exploration permit WA-314-P, processing and interpretation of the Chrysalids marine 3D seismic survey over the western section of WA-482-P, and licencing 5,256 square kilometres of the Capreolus 3D seismic survey over the eastern part of WA-482-P, at a total cost of $18,454,755;
- Brazil, the Group completed the drilling of the Santos Basin Kangaroo-2 appraisal well (with side tracks), Kangaroo West-1 exploration well and Echidna-1 exploration well, along with seismic processing and interpretation, at a total cost of $193,221,268; and
- Peru, the Group undertook preparatory work and planning for the Tumbes Basin exploration drilling campaign, along with geotechnical, social and environmental work in the Marañón Basin Block 144, at a total cost of $6,741,913.

Due to the limited recoverable resource estimate of the Bauna Sul oil discovery and timing restrictions on a development decision, following a decision by the Board of Directors and the joint operation, an application to relinquish Block S-M-1352 (Santos Basin, Brazil), in good standing, was submitted to the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') by the Operator. Accordingly, capitalised exploration and evaluation expenditure of $28,553,885 for Block S-M-1352 was fully written off as at 30 June 2015.

Review of Operations

Information on the operations of the Group is set out in the Operations Review on pages 8 to 19 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 about 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 has 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. The Company intends to pay future dividends during financial periods when appropriate to do so.

Share Options and Performance Rights

As at the date of this Directors' Report, the details of share options over unissued ordinary shares in the Company were as follows:

Type of Share Option	Grant Date	Date of Expiry	Exercise Price Per Share Option	Number of Share Options
ESOP options	10 October 2011	31 October 2015	$7.30	1,050,000
ESOP options	10 November 2011	31 October 2015	$7.30	750,000
Other share options	10 November 2011	1 May 2016	$10.98	400,000
ESOP options	9 August 2013	30 June 2017	$6.74	745,183
ESOP options	1 November 2013	30 June 2017	$6.74	155,079
ESOP options	22 August 2014	30 June 2018	$4.06	1,127,237
ESOP options	29 August 2014	30 June 2018	$4.06	555,438
ESOP options	3 November 2014	30 June 2018	$4.06	848,620
ESOP options	17 February 2015	30 June 2018	$4.06	370,731
ESOP options	23 January 2015	30 December 2018	$4.06	56,604
				6,058,892

As at the date of this Directors' Report, 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	9 August 2013	30 June 2016	$-	107,952

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

No fully paid ordinary shares have been issued since 1 July 2015 as a result of exercise of Employee Share Option Plan ('ESOP') options and other share options since that date. 186,617 fully paid ordinary shares have been issued since 1 July 2015 as a result of the vesting and conversion of Karoon Gas Australia 2012 Performance Rights Plan ('PRP') performance rights.

Information relating to the Company's PRP, ESOP and other share options, including details of performance rights and share options granted, exercised, cancelled, 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 28 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 an insurance company and the Directors of the Company named earlier in this Directors' Report and with the full time executive officers, directors and secretaries of all Australian subsidiaries. Under this agreement, the insurance company has agreed to indemnify 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 contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

As approved by shareholders at the 2009 Annual General Meeting, the Company will continue to pay those Director insurance premiums for a period of 10 years following termination of their directorships of the Company and will provide each Director with access, upon ceasing for any reason to be a Director of the Company and for a period of 10 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 such as 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 and accountability, the Directors support the ASX Corporate Governance Council Principles and Recommendations. The Company's Corporate Governance Statement can be found under the Governance tab on the Company's website at www.karoongas.com.au.

Environmental Regulation

The Company and its subsidiaries are subject to a range of relevant Commonwealth, State and International environmental laws.

The Board of Directors believes the Company has adequate systems in place for managing its environmental obligations and is not aware of any breach of those environmental obligations as they apply to the Company and/or Group. No circumstances arose during the financial year that required an incident to be reported by the Company and/or Group under environmental legislation.

Carbon Pricing and Reporting Requirements

The carbon pricing mechanism, established under the *Clean Energy Act 2011* (Cth), commenced on 1 July 2012. The repeal of the *Clean Energy Act 2011* (Cth) occurred on 17 July 2014. Under the carbon pricing mechanism, liable entities had to pay a price for every tonne of carbon pollution, or the equivalent amount of certain other greenhouse gas, that is emitted. Due to the level of carbon dioxide emissions being below the required threshold, the Company had no direct obligations under the carbon pricing mechanism.

Relevant entities are required to report greenhouse gas emissions, energy consumption and energy 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 thresholds for the relevant period. However, the Group's global carbon footprint during the financial year was 55,962 tonnes of carbon dioxide equivalent based on equity share and including scope 1 and scope 2 emissions (2014: 44,405 tonnes), resulting primarily from operated drilling and flaring operations in Brazil, operated marine seismic surveys, administration emissions from global offices and Company vehicles. The Company continues to assess cost effective, reliable and environmentally efficient methods for addressing future greenhouse gas emissions and energy consumption.

Carbon Pricing and Reporting Requirements continued

Karoon is working with external contractors to consider carbon-offsetting projects which are sustainable and respond to the Company's existing emissions and which may be scaled to respond to future (post-development) emissions.

During the financial year, the Company operated one appraisal well (with two side tracks) and two exploration wells in the Santos Basin. The total greenhouse gas emissions from these operations was 55,711 tonnes of carbon dioxide equivalent. Greenhouse gas emissions from Karoon's administrative function totalled 251 tonnes of carbon dioxide equivalent.

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 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 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 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 59 of this Annual Report.

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

Remuneration Report (Audited)

Dear Shareholders,

On behalf of the Remuneration Committee, I am pleased to present Karoon's Remuneration Report for the financial year ended 30 June 2015.

I, and the Remuneration Committee, fully understand the need to align shareholder value and returns with internal remuneration strategies which reward genuinely good performance outcomes and enable Karoon to attract, retain and motive the best people. We also understand that it is our role to present a transparent, clear and defined rationale to shareholders in relation to remuneration programs and decisions. These fundamental understandings drive the focus of the Remuneration Committee, as do the concepts of restraint and simplicity.

In order to assist in its work, the Remuneration Committee has taken independent advice from Egan Associates on various issues including benchmarking of salary levels, incentive scheme design, peer group analysis and related party remuneration issues.

During the financial year, the Remuneration Committee continued with its goal of aligning executive reward with the implementation of the business strategy thus creating inherent value for shareholders. Over the past 12 months, the Remuneration Committee has carefully balanced the need to attract, retain and reward our executives whilst at the same time maximising the cash balance required for operational activities. Share-based grants therefore have continued to be the primary foundation for rewarding our key employees.

Under the short-term incentive program, the key drivers for awards for the financial year were based on achieving financial and operational performance objectives on a Company-wide basis. Based on outcomes during the financial year against the Company-Wide Operational Objectives which included safety, commercial and operational measures, senior executives and Executive Directors were eligible to receive 55% of their short-term incentive reward.

The Directors have retained the broad remuneration strategy and framework that was well supported by shareholders at last year's Annual General Meeting, with several enhancements being made during the financial year to ensure maximum transparency and response to shareholder feedback.

A formal Related Party Protocol was adopted by the Board of Directors during the financial year. This development means that no new related party transactions (including remuneration related issues) can occur without the prior approval of the Risk and Governance Committee and Board of Directors.

We have made a concerted effort in the 2015 Remuneration Report to further refine remuneration arrangements, including additional disclosure of the rationale behind those remuneration arrangements. Comprehensive disclosures of the Company's remuneration outcomes for the 2015 financial year are detailed in a separate section of the Remuneration Report to demonstrate to shareholders how executive reward is directly linked to operational performance and the delivery of shareholder wealth accretion.

Finally, following an internal review, and based on discussions with and feedback from shareholders and external advisors, several changes to the remuneration arrangements for our executives and Executive Directors for the financial year ending 30 June 2016 were made. These included continuing refinements to the short and long-term incentive plan performance measures to more closely align executive reward with Company performance, as detailed in Section 3B of the Remuneration Report.

Recognising the current difficult and volatile market circumstances, we have decided that for the financial year ending 30 June 2016 there will be no salary or fee increases for the Non-Executive Directors, Executive Directors and other key management personnel (other than where specifically contractually required).

In summary, we have worked to improve the alignment of employee incentive based outcomes with shareholder value through further refinement of performance measures, peer group comparators and disclosure of remuneration practices.

Listening and reacting to shareholder feedback on remuneration strategies is a core focus of the Remuneration Committee. To ensure we obtain this feedback, we consult with all stakeholders, including institutional and retail investors, industry funds and proxy advisory organisations, on an ongoing basis and we welcome your feedback into the future.

Peter Turnbull
Chairman, Remuneration Committee

Remuneration Report (Audited) continued

Contents

Section 1. Introduction

The Board of Directors is pleased to provide the Company's Remuneration Report, which details the remuneration arrangements for its key management personnel ('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 2015, KMP disclosed in the Remuneration Report are as follows:

Name	Position	Term as KMP
Executive Directors		
Mr Robert Hosking	Managing Director	Full financial year
Mr Mark Smith	Executive Director and Exploration Director	Full financial year
Independent Non-Executive Chairman		
Dr David Klingner	Independent Non-Executive Chairman	Appointed 19 December 2014
Non-Executive Directors		
Mr Geoff Atkins	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 Bernard Wheelahan	Independent Non-Executive Director	Full financial year
Mr Jose Coutinho Barbosa	Non-Executive Director	Full financial year
Other KMP		
Mr Scott Hosking	Company Secretary (Company) and Chief Financial Officer (Group)	Full financial year
Mr Tim Hosking	South American General Manager and Chief Executive Officer Brazil	Full financial year
Mr Edward Munks	Chief Operating Officer	Full financial year

There have been no changes to KMP after 30 June 2015 and before the date of this Directors' Report.

For the purposes of the Remuneration Report, the term 'executive' refers to the Managing Director, the Executive Director/ Exploration Director and other KMP of the Group.

The Remuneration Report for the financial year ended 30 June 2015 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 the Company's external auditor, as required by Section 308(3C) of the Act. The Remuneration Report forms part of the Directors' Report.

Section 2. Remuneration Committee Oversight

To assist in ensuring good remuneration governance at Karoon, the Board of Directors has in place a Remuneration Committee that provides oversight and recommendations on all aspects of the remuneration for executives and Non-Executive Directors.

The Remuneration Committee currently consists solely of independent Non-Executive Directors and is responsible for reviewing and making recommendations to the Board of Directors regarding the:

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

The Board of Directors, assisted by the Remuneration Committee, conducts annual remuneration reviews for its Non-Executive Chairman, Non-Executive Directors, executives and employees, to ensure that remuneration remains market competitive, fair and aligned with both market practice and shareholder interests.

A full description of the role and responsibilities of the Remuneration Committee is contained in the Remuneration Committee Charter, which can be found under the Governance tab on the Company's website at **www.karoongas.com.au.**

Use of Independent Remuneration Consultants

During the financial year ended 30 June 2015, the Remuneration Committee engaged Egan Associates as its Remuneration Consultant. The Consultant was engaged by the Chairman of the Committee and reported directly to the Remuneration Committee. In selecting the Consultant, the Remuneration Committee considered potential conflicts of interest and required the Consultant's independence from management as part of Egan Associates' terms of engagement. Where Egan Associates was asked to provide a remuneration recommendation in relation to KMP, the recommendation was provided to and discussed directly with the Chairman of the Remuneration Committee.

Egan Associates has been engaged to advise the Board of Directors on its remuneration arrangements and was requested to benchmark both Non-Executive Director and executive remuneration including fixed remuneration, annual and long-term incentive plans. At the request of the Remuneration Committee, the Consultant provided comprehensive information on policies adopted more broadly in the energy sector including performance hurdles, vesting conditions and the balance between fixed remuneration and performance aligned reward.

2014 Remuneration Report Vote

At the Company's 2014 Annual General Meeting, the Company's Remuneration Report received a vote against of 24.4%. Feedback on the Remuneration Report was not received during the 2014 Annual General Meeting. However, the Company did formally seek and received specific feedback from institutional and retail shareholders and proxy advisory organisations during the financial year ended 30 June 2015. Views expressed during these meetings have contributed to Karoon's 2015 reward practices and policies being developed for application during the 2016 financial year and beyond. In reviewing reward arrangements, assessing industry practice and the availability of global talent, the Board of Directors acknowledges that today, given the nature of Karoon's challenges and opportunities, it is fortunate to have a team of highly experienced and internationally regarded executives who have a track record of success.

The Board of Directors and Remuneration Committee have continued to address shareholder and proxy advisor concerns and, as a result, adopted the following changes to the Company's executive remuneration framework:

- in recognition of the current energy industry market conditions, base pay for Non-Executive Directors and executives will not increase for the financial year ending 30 June 2016;
- as noted above, an external review was conducted by the Remuneration Committee's independent Consultant, Egan Associates, in relation to both Non-Executive Directors and executives. The review confirmed the appropriate nature of executive reward arrangements given the expertise and experience available to the Company. Some minor structural changes are planned for the 2016 financial year;
- the short-term incentive plan performance conditions for executives will be based on Karoon's Company-Wide Operational Objectives and in some instances, role specific objectives, in order to focus executives on the achievement of operational and Company performance. However, a safety hurdle will now become the gateway. Negative discretion based on poor Anti-Bribery and Corruption Policy implementation and outcomes will also be used to modify short-term incentives; and
- in recognition of Karoon's global nature and current operational phase, the Board of Directors reviewed the companies against which Karoon compares its Total Shareholder Return ('TSR') (in a relative sense) and made small adjustments to the comparator group which comprises a selection of Australian industry and global peers that reflects the current size and business model of the Company.

Remuneration Report (Audited) continued

Section 2. Remuneration Committee Oversight continued

The Board of Directors is working to improve the quality of remuneration disclosures in this Remuneration Report, clearly separating discussion of the executive remuneration framework from actual outcomes received by executives under the incentive plans and providing further explanation for the remuneration structures in place.

Further details on the changes made by the Remuneration Committee are set out in the relevant sections of this report.

Share Trading Policy

The trading of ordinary shares issued to Non-Executive Directors and executives under any of Karoon's share-based remuneration schemes is subject to, and conditional upon, compliance with the Company's Share Trading Policy.

Under the Company's Share Trading Policy, an individual may not limit his or her exposure to risk in relation to securities (including unlisted share options and performance rights). Directors and executives are prohibited from entering into any hedging arrangements over unvested share options or performance rights under the Company's share-based remuneration schemes. Any employee or Director wishing to trade in Karoon securities must consult the Chairman or Company Secretary to gain approval to trade and ensure that trading restrictions are not in force. All trades by Directors and executives during the financial year were conducted in compliance with the Company's Share Trading Policy.

The Company's Share Trading Policy can be found on the Karoon website at www.karoongas.com.au.

Section 3. Executive Remuneration

The Board and Remuneration Committee have developed a remuneration policy that ensures executive remuneration supports the current strategy and needs of the business. With Karoon still in an exploration and appraisal phase, the Company's success is measured by its ability to acquire, assess and confirm new hydrocarbon discoveries, along with its ability to allocate capital to the highest value creating activities.

The executive remuneration arrangements for the financial year ended 30 June 2015, were structured to be directly aligned with the business outcomes. In particular, the decision to use performance tested share-based grants for its incentive plans reflects the Board of Directors' belief that this best aligns executive and shareholder interests in the short and long-term, while allowing the Company to retain its cash for operational activities.

In designing the Company's variable remuneration plans, the Remuneration Committee and the Board linked variable remuneration directly to Company operational performance in the short-term and to absolute share price performance and share price performance relative to peer companies in the long-term to incentivise executives and employees. This is considered appropriate to reflect rewards that are tailored to each phase of Karoon's operations, the lifecycle of its assets and how it delivers on its business strategy.

Broadly, the objectives of the Company'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 the Company's diverse international operations;
- remuneration is set at a level acceptable to shareholders, has regard to Company performance and rewards individual capability and experience;
- remuneration structures create sufficient alignment between performance, reward and sustained growth in shareholder returns through operational success and increase in value accretion relative to peer companies;
- remuneration outcomes provide recognition of contribution to growth in shareholder wealth accretion and are transparent to both participants and shareholders; and
- the remuneration framework assists in facilitating prudent capital management through the use of share-based remuneration.

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2015

The following table summarises the target remuneration mix for executives for the financial year ended 30 June 2015, based on maximum achievement of incentive plan outcomes:

	Fixed	At Risk	
		STI	LTI
Executive Directors	40%	30%	30%
Other KMP	50%-70%	15%-25%	15%-25%

Fixed Remuneration

Fixed remuneration consists of cash salary, superannuation contributions and any salary sacrifice items or non-monetary benefits (including health insurance, motor vehicle allowances, certain membership and associated fringe benefits tax, depending on each individual's respective employment arrangements).

Fixed remuneration is reviewed annually by the Remuneration Committee. Broadly, fixed remuneration is positioned within a range that references the median of the relevant market for each role.

The level of cash salary for each executive is determined considering:

- the scope of the individual's role;
- the individual's level of skill and experience;
- the individual's overall contribution to the success of the business;
- the size and complexity of the executive's role;
- Karoon's geographical footprint; and
- the employment location and labour market conditions in that location.

Superannuation

The Australian executives of the Company received statutory superannuation contributions of 9.5% of cash remuneration, up to the maximum statutory contribution. Individuals may choose to sacrifice part of their salary to increase payments towards superannuation. The Australian executives of the Company do not receive any other retirement benefits.

Social Security and Indemnity Fund Contributions

The single Brazilian based executive is subject to specific Brazilian employment regulations whereby the Group is required to contribute 27.3% of Brazilian cash compensation as social security to fund Government pensions paid in retirement. A further 8% of their cash remuneration 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.

Variable or At Risk Remuneration

The Company aims to align the interests of executives with those of shareholders by having a significant proportion of executive remuneration linked to variable remuneration and providing performance conditions that not only motivate, reward and retain employees by generating a link between operating performance and remuneration received but also encourage employees to achieve personal and business targets, improve the performance of the Company and, in turn, provide value for shareholders.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2015 continued

Short-term Incentive ('STI') Plan

Executives have the opportunity to earn an annual incentive award through the STI plan. The STI is payable as performance rights, under the 2012 Performance Rights Plan ('PRP') approved by shareholders at the Company's 2012 Annual General Meeting. The PRP was established as a way to reward short-term performance in lieu of cash bonuses, allowing cash to be directed to the Company's principal activities. The issue of performance rights rather than cash is considered appropriate by the Company at present given its activities are not generating earnings from operations or sales revenue. The key features of the PRP award for the financial year ended 30 June 2015 ('FY15 award') are outlined in the table below:

Participation	All executives. Participation in the STI is at the discretion of the Board of Directors (on the recommendation of the Remuneration Committee). No employee has a contractual right to receive performance rights.
STI opportunity	The STI opportunity level of each executive is a pre-determined proportion of an employees' total remuneration. The quantum of performance rights received is determined by dividing the STI opportunity for each employee by the Company's weighted average share price in the 20 trading day period leading up to the first day of the performance period. The maximum STI opportunity available to an executive is 30% of total remuneration. The Company uses only a maximum opportunity for the STI, with stretch performance required from an operational perspective, before any award is received from this component.
Form of award	Executives receive performance rights. Each performance right provides the participant with the right to receive one fully paid ordinary share in the Company, or its equivalent value for no consideration. Vesting is subject to the achievement of the relevant performance conditions. Ordinary shares issued as a result of the exercise of vested and converted performance rights may be issued as new equity or from ordinary shares acquired on-market.
Performance period	12-month period from 1 July 2014 to 30 June 2015.
Deferral period	Vested performance rights are subject to a deferral period of 12 months immediately following the satisfaction of performance conditions, subject to continued employment with Karoon for an additional 12-month period after the performance period is complete.
Performance conditions	As part of the 2015 remuneration review, for the financial year ended 30 June 2015, the Remuneration Committee removed the personal performance criteria from the performance conditions of executives. However, general employees retained an element of personal performance criteria. The removal of the personal performance criteria was intended to more closely align executive reward with Company performance. Company-Wide Operational Objectives form the sole performance criteria and included: • **Safety**, measured by performance against leading indicators from the Company's HSE Policy Management System (20%); • **Operational (Brazil)**, measured by the Company's success in the Santos Basin drilling program (35%); • **Operational (Australia)**, success in the Carnarvon Basin exploration drilling program (20%); and • **Cost and time budgeting,** completion of a farm-out process of the South American Portfolio (25%). Further details on the performance conditions, targets and outcomes for the FY15 award are provided in the STI outcomes within Section 3B on page 44.

Grant date	Maximum amount of performance rights available were determined following finalisation of the 30 June 2014 audited accounts and remained at risk until tested during July 2015 and retention conditions are met 1 July 2016. Grant date will occur following the offer and acceptance of the proportion of rights achieved after testing. Any performance rights offered and accepted by the Executive Directors will be subject to shareholder approval at the 2015 Annual General Meeting.
Termination of employment	Unvested performance rights will lapse upon cessation of employment with the Company, subject to the discretion of the Remuneration Committee depending on the nature and circumstances of the termination. Discretion has not been exercised to allow any performance rights to vest.
Change of control	Upon 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.
Link between performance and reward	Linking STI outcomes to operational performance develops an essential alignment between the Company's year-to-year inherent value growth through identification, evaluation and drilling of exploration and evaluation targets and the reward provided to those who establish that value. The Remuneration Committee annually reviews and recommends operational performance metrics, including safety, that demonstrate a clear pathway toward value creation, either through the discovery of new hydrocarbons or movement closer to development for previous discoveries. In setting objectives for the performance period, the Remuneration Committee assesses the operational goals for the performance period and upcoming key value drivers within the Company's operations, allowing for transparent measurement of performance against these objectives. The Remuneration Committee recognises the risks associated with offshore drilling and considers safety paramount to its operations. Therefore going forward, safety will be used as a gateway for vesting conditions.

Long-term Incentive ('LTI') Plan

Employee Share Option Plan

All executives received grants of share options during the financial year ended 30 June 2015, under the Karoon Gas Australia 2012 Employee Share Option Plan (2012 ESOP, approved by shareholders at the Company's 2012 Annual General Meeting).

Issues under the 2012 ESOP provide share options to employees with the intent of rewarding long-term performance and superior shareholder returns. Under the plan, share options will only vest if the pre-determined performance conditions are achieved and the individual remains employed by the Company for the duration of the performance period.

The key features of the ESOP grant for the financial year ended 30 June 2015 ('FY15 grant') are outlined in the table below:

Participation	All executives. Participation in the ESOP is at the discretion of the Board of Directors (on the recommendation of the Remuneration Committee). No employee has a contractual right to receive a grant under the plan.
LTI opportunity	The LTI opportunity level of each executive is a pre-determined proportion of an employees' total remuneration, as outlined above in Section 3A on page 39.
Form of award	Employee share options are issued under the terms of the 2012 ESOP. The quantum of share options received is determined by dividing the LTI opportunity for each employee by the fair value of an ESOP option, using the Black-Scholes option pricing model. The maximum LTI opportunity available to an executive is 30% of total remuneration. Each ESOP option provides the participant with the right to acquire one fully paid ordinary share in the Company at the exercise price determined upon grant, subject to the achievement of the relevant performance conditions.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2015 continued

Performance period	Three-year period from 1 July 2014 to 30 June 2017.
Performance conditions	For the financial year ended 30 June 2015, Relative TSR performance was measured against the following industry peer group.

Australian Market Peers		Global Market Peers
AWE Limited Beach Energy Limited Buru Energy Limited Drillsearch Energy Limited Horizon Oil Limited Oil Search Limited Origin Energy Limited	Santos Limited Senex Energy Limited Sundance Energy Australia Limited Woodside Petroleum Limited	Cobalt International Energy Inc GeoPark Limited Gran Tierra Energy Inc Kosmos' Energy Ltd Ophir Energy plc QGEP Participacoes SA Tullow Oil plc

Vesting will occur in accordance with the following schedule:

Performance Against the Industry Peer Group	Proportion of ESOP Options 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%

For peers reporting or quoted in currencies other than Australian dollars, the value of foreign currencies will be measured using the prevailing foreign exchange rate as found on the Reserve Bank of Australia website and normalised to Australian dollars on the first day of the testing period and the last day of the testing period. The Australian dollar value of returns to peer companies in foreign currencies will be measured using the foreign exchange rate as recorded on the Reserve Bank of Australia website on the day the return is announced.

In the event of delisting, merger or acquisition of any of the above peer companies, the Remuneration Committee will apply its discretion to assess the relative performance of that entity:

- by normalising its performance over the testing period in the case of delisting; or
- substituting the performance of the new entity from the day of acquisition in the case of merger or acquisition.

Grant date	ESOP options were granted during the financial year ended 30 June 2015, following finalisation of the 30 June 2014 audited accounts.
Exercise period	ESOP options will remain exercisable for a 12-month period following vesting, provided the individual remains an employee of the Company during this period.
Termination of employment	Unvested (and unexercised) share options will lapse upon cessation of employment with the Company, subject to the discretion of the Remuneration Committee depending on the nature and circumstances of the termination. However, in recent financial years, discretion has not been exercised to allow any ESOP options to vest in these cases.
Change of control	Upon a change of control, the Board of Directors may determine that a portion of the individual's unvested ESOP options will vest, based on pro-rata achievement of the performance conditions.
Link between performance and reward	The Board of Directors and Remuneration Committee consider it important to link remuneration to share price performance relative to the Company's industry peers over the long-term, in order to align executive reward with increases in shareholder value.

B. Executive Remuneration Outcomes

Relationship between the Executive Remuneration Framework and Company Performance

The Company has a transparent and rigid performance-based remuneration structure in place that provides a direct link between Company performance in the short and long-term 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 performance.

The use of premium priced ESOP in the long-term incentive ensures that both performance conditions and absolute shareholder return must be achieved before vested options have a value to executives. The Company's share price has fluctuated considerably in recent financial years, creating a situation where share options vested as result of meeting performance hurdles have not been exercised by employees since the financial year ended 30 June 2011.

Notwithstanding the Company has created significant value through its continued progression of its portfolio of assets, including the successful exploration and appraisal drilling campaign in Brazil, and the sale of its WA-315-P and WA-398-P exploration permits to Origin for $659 million in net cash proceeds, the Company has not created value for shareholders through share price appreciation during the financial year. This has resulted in only partial vesting of incentives for executives. The Board of Directors believes its current policy was effective in linking remuneration to Company performance.

The tables below set out summary information about the Company's earnings, net assets and movements in shareholder wealth from 1 July 2007 to 30 June 2015:

Financial Year Ended	30 June 2008 $	30 June 2009 $	30 June 2010 $	30 June 2011 $	30 June 2012 $	30 June 2013 $	30 June 2014 $	30 June 2015 $
Revenue	5,320,930	4,868,541	6,459,623	14,225,048	13,601,653	7,782,174	5,595,155	**2,004,783**
Profit (loss) before income tax	(6,055,339)	4,452,766	(14,665,017)	(23,304,914)	(3,287,382)	(10,930,403)	(19,503,668)	**347,351,472**
Profit (loss) for financial year	(6,055,339)	4,452,766	(14,893,839)	(23,304,914)	(3,287,382)	(10,930,403)	(5,518,780)	**231,456,873**
Net assets at end of financial year	130,742,056	334,658,839	361,703,571	617,867,324	600,599,921	599,840,897	766,473,931	**958,505,640**

Financial Year Ended	30 June 2008 $	30 June 2009 $	30 June 2010 $	30 June 2011 $	30 June 2012 $	30 June 2013 $	30 June 2014 $	30 June 2015 $
Share price at beginning of financial year	2.38	4.54	9.09	5.95	5.23	4.03	5.09	**3.07**
Share price at end of financial year	4.54	9.09	5.95	5.23	4.03	5.09	3.07	**2.25**
Basic profit (loss) per ordinary share	(0.0485)	0.0302	(0.0842)	(0.1119)	(0.0148)	(0.0494)	(0.0220)	**0.9285**
Diluted profit (loss) per ordinary share	(0.0485)	0.0300	(0.0842)	(0.1119)	(0.0148)	(0.0494)	(0.0220)	**0.9274**

Karoon has historically set exercise prices at a level that provided for an inherent 30% premium to the market prices at the time of offer to executives.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

B. Executive Remuneration Outcomes continued

STI Outcomes

The table below outlines actual achievements against STI performance targets for the financial year ended 30 June 2015:

Performance Condition	Achievement Against STI Performance Targets	STI at Risk (% of Maximum STI Opportunity)	STI Vesting Outcome (% of Maximum STI Opportunity)
Safety	Zero lost time incidents and a TTIR of 0.57 were recorded during the performance period. Several training seminars and live drills exercises were conducted and safety incentive programs instituted were a great success. Resulting in full vesting under this measure.	20%	20%
Operational	Santos Basin drilling program was completed on time, on budget and new resources were discovered at the Echidna-1 exploration well. Resulting in full vesting under this measure.	35%	35%
	Carnarvon Basin drilling program commenced, however, was not completed by 30 June 2015. Subsequent to 30 June 2015, the Levitt-1 exploration well was completed on budget. However, there was no discovery of hydrocarbons.	20%	Nil%
Time and Cost Budgeting	While potential joint operation participants remained in data rooms and continued discussions, the farm-outs in the South American portfolio were not completed.	25%	Nil%

As outlined above, a total of 55% of the available STI opportunity vested to executives based on actual results against the performance targets. The resulting performance rights now have a 12-month retention period ending 30 June 2016 before they become exercisable and convertible in fully paid ordinary shares. The performance rights will expire on 30 June 2017.

LTI Outcomes

Share Options

The first grant under the 2012 ESOP was made during the financial year ended 30 June 2012. As the grant has a three-year performance period, performance against the relevant conditions was tested at the completion of the financial year ended 30 June 2015.

The performance condition was the Company's Relative TSR when compared with its peer group companies over the period from 1 July 2012 to 30 June 2015. Over the testing period, Karoon made several gas discoveries and also made a significant profit from the divestment of two of its exploration permits (WA-315-P and WA-398-P). However, the Relative TSR performance of the Company over the test period was in the 42nd percentile and as such, the Board of Directors has deemed that no long-term incentives should vest.

The Board of Directors notes that had the Company outperformed just one additional peer in the S&P/ASX 200 Energy Index, 50% of the long-term incentives would have vested. Nil% of the available LTI for executives vested.

C. Executive Remuneration for the Financial Year Ending 30 June 2016

As part of a broader review of remuneration conducted by Egan Associates for the Remuneration Committee, on behalf of the Board of Directors, changes were made to the remuneration arrangements for executives, to apply for the financial year ending 30 June 2016. The outcome of the review and changes include:

- no effective salary increase beyond existing contractual requirements for executives during the financial year ending 30 June 2016, due to deteriorating energy market conditions with a period of low oil prices;
- STI will be delivered to executives in the form of 'at risk' performance rights, to be tested against appropriate Company-wide and in some instances position specific objectives, safety performance is now a gateway, with negative discretion to be applied by the Board of Directors to modify STI outcomes where there have been poor Anti-Bribery and Corruption Policy implementation and enforcement issues; and
- LTI will now be delivered as a mix of performance rights and share options, to be tested using the usual Relative TSR performance condition.

These refinements also reflect feedback received from institutional and retail shareholders and proxy advisory organisations following the 2014 Annual General Meeting.

While the above changes were implemented from 1 July 2015, grants under the incentive plans to Executives Directors will be made during the financial year ending 30 June 2016, subject to receiving shareholder approval, where appropriate, at the Company's 2015 and 2016 Annual General Meetings.

Section 3D 'Executive Agreements' contains remuneration details and other key terms of employment for the executives.

The target remuneration mix for the financial year ending 30 June 2016 will be as follows:

	Fixed	At Risk	
		STI	LTI
Executive Directors	40%	30%	30%
Other KMP	50-70%	15-25%	15-25%

Short-term Incentive

The award for short-term incentives is based on a mix of the following performance hurdles:

	Company-Wide Operational Objectives	Role Specific Objectives
Executive Directors	100%	Nil%
Other KMP	80%	20%

Company-Wide Operational Objectives, for the performance period from 1 July 2015 to 30 June 2016, are outlined in the table below. Vesting under each objective will occur upon satisfaction of the relative performance condition.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

C. Executive Remuneration for the Financial Year Ending 30 June 2016 continued

Performance Condition	Weighting
Safety Total Recordable Incident Rate ('TTIR') of < 2.	Gateway
Operational Contingent resource definition in the Kangaroo and Echidna light oil discoveries Santos Basin (Brazil). Delineation of proposed concepts for the Santos Basin field development plan.	55%
Financial	
Completion of a farm-out in the South American portfolio.	15%
2016 financial year corporate and capital expenditure is managed effectively, while meeting operational objectives. Specifically:	
• improvements are made on budgeted corporate cost outcomes during the 2016 financial year; and	5%
• effective management of costs relating to budgeted capital expenditure during the 2016 financial year.	25%

Aside from the Executive Directors, a portion of the STI is awarded based on the executives' performance against role specific objectives set at the commencement of the performance period. These role specific objectives are tailored to the individuals contribution and area of responsibility within the Company.

The Board of Directors believes its Anti-Bribery and Corruption Policy is a fundamental part of its overall governance structure. As such, the Remuneration Committee, or the Board of Directors, will use its discretion to reduce the amount of STI that may vest, based on the Company's implementation and enforcement of its Anti-Bribery and Corruption Policy, particularly in relation to any incidence of corrupt activity.

The Remuneration Committee calculates the incentive value, establishes a maximum number of performance rights at risk at the beginning of the period, then issues the performance rights at the end of the performance period only when relevant conditions have been met. Vesting of these performance rights will occur at the completion of a 12-month retention period, from the date of performance assessment, this creates a 2 year period from the date of the commencement of the performance period to the date of vesting.

Long-term Incentive

The Remuneration Committee assessed the effectiveness of the LTI as a tool to support the creation of long-term shareholder value and strategic business needs. The Remuneration Committee reviewed the components of the project lifecycle that creates value and then structures the long-term incentive plan to match.

The LTI performance hurdle for the period commencing 1 July 2015 and ending 30 June 2018 will be Relative TSR as assessed against a list of closely related peer companies whose business models and/ or regions of operations are similar to those of the Company.

For the period commencing 1 July 2015, the list of peers will be as follows:

Australian Market Peers		Global Peers
AWE Limited	Origin Energy Limited	Cobalt International Energy Inc
Beach Energy Limited	Oil Search Limited	Gran Tierra Energy Inc
Buru Energy Limited	Santos Limited	GeoPark Limited
Drillsearch Energy Limited	Senex Energy Limited	Kosmos' Energy Ltd
FAR Limited	Woodside Petroleum Limited	Ophir Energy plc
Horizon Oil Limited		QGEP Participacoes SA
New Zealand Oil & Gas Limited		Tullow Oil plc

Details of vesting consideration details for related peer companies is outlined in the LTI Plan table above on page 42.

Vesting outcomes will be determined in accordance with the table set out below:

Performance Against the Industry Peer Group	Proportion of Share Options 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 100th percentile	120%

D. Executive Agreements

Remuneration and other terms of employment for the Executive Directors, Chief Financial Officer and other executives are formalised in employment agreements. Each of these agreements provide for the provision of benefits such as health insurance, car allowances and participation, when eligible, in the Company's PRP and ESOP. Other major provisions of the agreements relating to remuneration are set out below.

Termination payments for executives, if any, are agreed by the Remuneration Committee in advance of employment and stated in the relevant employment agreements. Upon retirement, executives are paid employee benefit entitlements accrued to the date of retirement.

Details of existing employment agreements between the Company and the Executive Directors and other key management personnel are as follows:

Name	Term	Expiry	Notice/ Termination Period	Termination Payments	Related Entity	Share Option Eligible	Performance Rights Eligible	Base Salary (Including Post Employment Benefit Entitlements) Amount
Executive Directors								
Mr Robert Hosking	Ongoing	Ongoing	In writing 6 months	Fundamental change upon a change of control: 1 year base salary	Ropat Nominees Pty Ltd; Hosking Superannuation Fund	Yes	Yes	$619,000
Mr Mark Smith	Ongoing	Ongoing	In writing 6 months	Fundamental change upon a change of control: 1 year base salary	IERS (Australia) Pty Ltd; Bonnie Doon Superannuation Fund	Yes	Yes	$619,000
Other key management personnel (Company)								
Mr Scott Hosking	Ongoing	Ongoing	In writing 6 months	Fundamental change upon a change of control: 1 year base salary		Yes	Yes	$437,308
Mr Tim Hosking	Ongoing	Ongoing	In writing 1 month	Fundamental change upon a change of control: 1 year base salary		Yes	Yes	$507,488
Mr Edward Munks	Ongoing	Ongoing	In writing 6 months	Fundamental change upon a change of control: 1 year base salary		Yes	Yes	$541,808

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

Remuneration Report (Audited) continued

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

Fees and payments to the independent Non-Executive Chairman 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 Chairman and other Non-Executive Director remuneration annually and assesses the change to the Company's activities and overall responsibilities of each Non-Executive Director.

Excluding changes to the superannuation guarantee, there have been no changes to Non-Executive Directors' base or Committee member fees for the financial year ended 30 June 2015 or for the period ending 30 June 2016. The table at the end of this section provides a summary of Karoon's Non-Executive Director fee policy for the financial year.

Non-Executive Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically approved by shareholders. The maximum aggregate amount, including superannuation contribution, that may be paid to Non-Executive Directors of the Company as remuneration for their services is $900,000 during any financial year, approved by shareholders at the Company's 2012 Annual General Meeting.

Superannuation contributions are paid, in accordance with Australian superannuation guarantee legislation, on directors' fees paid to Australian resident Non-Executive Directors.

Share-based Remuneration

Non-Executive Directors do not ordinarily receive performance-related remuneration. However, in the past to promote an inherent alignment of interests between Non-Executive Directors and shareholders, and given the Company's exploration and evaluation phase, Non-Executive Directors had been issued with unlisted share options. These share options were approved on a case-by-case basis, by shareholders at relevant Annual General Meetings.

While there remain some unexercised options on issue to Non-Executive Directors from previous grants, the Company has determined that it will not grant bonus or incentive related share-based remuneration to Non-Executive Directors in the future.

Non-Executive Directors will continue to be encouraged to purchase ordinary shares, in the Company, on-market.

Retirement Allowance for Directors

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

Non-Executive Director Fees for the Financial Year Ending 30 June 2016

No changes will be made to the base or relevant Committee fee structure for the financial year ending 30 June 2016. However, recognising the importance of managing risk and good governance within Karoon, the Company has established a Risk and Governance Committee comprising independent Non-Executive Directors. Fees for the Risk and Governance Committee have been determined with reference to the expected workload of the members for the upcoming financial year.

Non-Executive Directors fees for the financial year ended 30 June 2015 and financial year ending 30 June 2016 (excluding superannuation contribution) are outlined in the following table:

	From 1 July 2015	From 1 July 2014
Base Fee:		
Non-Executive Chairman*	**$220,000**	-
Non-Executive Directors	**$100,000**	$100,000
Committee Member Fees:		
Audit Committee		
Chairman	**$20,000**	$20,000
Member	**$15,000**	$15,000
Nomination Committee		
Chairman	**$15,000**	$15,000
Member	**$12,000**	$12,000
Remuneration Committee		
Chairman	**$15,000**	$15,000
Member	**$12,000**	$12,000
Risk and Governance Committee		
Chairman	**$15,000**	$15,000
Member	**$12,000**	$12,000

* Non-Executive Chairman's base fee includes compensation for 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 key management personnel of the Group for the financial year and previous financial year are set out in the following tables:

Financial Year Ended 30 June 2015	Short-term Benefits		Post-employment Benefits		Long-term Benefits	Share-based Payments Expense		
Name	Cash Salary and Fees $	Non-Monetary Benefits $	Superannuation Contributions $	Social Security and Indemnity Fund Contributions $	Long Service Leave $	Share Options/ Performance Rights[2] $	Remuneration Consisting of Share Options and Performance Rights[1] %	Total Remuneration $
Executive Directors								
Mr Robert Hosking	599,210	61,503	18,783	-	7,397	169,022	19.7%	**855,915**
Mr Mark Smith	575,541	24,798	18,783	-	1,870	169,022	21.4%	**790,014**
Non-Executive Directors								
Dr David Klingner (appointed 19 December 2014)	117,688	-	10,048	-	-	-	-	**127,736**
Mr Geoff Atkins	151,645	-	14,406	-	-	-	-	**166,051**
Mr Clark Davey	155,645	-	14,786	-	-	-	-	**170,431**
Mr Peter Turnbull	154,806	-	14,723	-	-	-	-	**169,529**
Mr Bernard Wheelahan	123,645	-	11,750	-	-	-	-	**135,395**
Mr Jose Coutinho Barbosa	100,000	-	-	-	-	86,079	46.3%	**186,079**
Total Directors' remuneration	**1,978,180**	**86,301**	**103,279**	**-**	**9,267**	**424,123**		**2,601,150**
Other key management personnel (Group)								
Mr Scott Hosking	418,000	27,490	18,783	-	(4,019)	228,992	33.2%	**689,246**
Mr Tim Hosking	420,923	-	-	146,127	-	183,898	24.5%	**750,948**
Mr Edward Munks	522,500	7,575	18,783	-	6,995	379,320	40.6%	**935,173**
Total other key management personnel remuneration (Group)	**1,361,423**	**35,065**	**37,566**	**146,127**	**2,976**	**792,210**		**2,375,367**
Total key management personnel remuneration (Group)	**3,339,603**	**121,366**	**140,845**	**146,127**	**12,243**	**1,216,333**		**4,976,517**

1. The percentage of total remuneration consisting of share options and performance rights, based on the value of share options and performance rights expensed in the consolidated statement of profit or loss and other comprehensive income during the financial year.
2. Includes non-cash share-based payments expense of $295,626 relating to 2015 performance rights yet to be granted, which were subject to achievement of performance hurdles from 1 July 2014 to 30 June 2015. The performance rights will vest after completion of a 12-month retention period after satisfying the performance hurdles. The share-based payments expense was based on the achievement of 55% of the executive's performance hurdles and an estimation of fair value at grant date, with a vesting period of 1 July 2014 to 30 June 2016. The grant of 2015 performance rights for each of the Executive Directors is subject to shareholder approval at the 2015 Annual General Meeting.

The amounts disclosed for the remuneration of Directors and other key management personnel include the assessed fair values of share options and performance rights granted during the financial year, at the date they were granted. The value attributable to share options and performance rights is allocated to particular financial periods in accordance with AASB 2 'Share-based Payment', which requires the value of a share option and performance right at grant date to be allocated equally over the period from grant date to vesting date, adjusted for not meeting the vesting condition. For share options and performance rights that vest immediately, the value is disclosed as remuneration immediately, in accordance with the accounting policy described in Note 1(q) of the consolidated financial statements.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

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

Fair value of share options are assessed under the Black-Scholes option pricing model. The Black-Scholes option pricing model takes into account the exercise price, the term of the share option, 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 share option.

Fair values of performance rights were based on the Company's closing share price at grant date.

Financial Year Ended 30 June 2014	Short-term Benefits		Post-employment Benefits		Long-term Benefits	Share-based Payments Expense		
Name	Cash Salary and Fees $	Non-Monetary Benefits $	Superannuation Contributions $	Social Security and Indemnity Fund Contributions $	Long Service Leave $	Share Options/ Performance Rights $	Remuneration Consisting of Share Options and Performance Rights[1] %	Total Remuneration $
Executive Directors								
Mr Robert Hosking	582,225	49,504	17,775	-	10,610	569,972	46.3%	1,230,086
Mr Mark Smith	572,621	28,075	17,775	-	25,760	569,972	46.9%	1,214,203
Non-Executive Directors								
Mr Geoff Atkins	145,000	482	13,413	-	-	-	-	158,895
Mr Clark Davey	144,000	-	13,320	-	-	176,788	52.9%	334,108
Mr Peter Turnbull (appointed 6 June 2014)	6,667	-	617	-	-	-	-	7,284
Mr Bernard Wheelahan (appointed 24 June 2014)	1,667	-	154	-	-	-	-	1,821
Mr Stephen Power (resigned 6 June 2014)	139,000	282	12,858	-	-	-	-	152,140
Mr Jose Coutinho Barbosa	100,000	-	-	-	-	86,079	46.3%	186,079
Total Directors' remuneration	**1,691,180**	**78,343**	**75,912**	**-**	**36,370**	**1,402,811**		**3,284,616**
Other key management personnel (Group)								
Mr Scott Hosking	400,000	22,431	17,775	-	6,880	234,856	34.4%	681,942
Mr Tim Hosking	377,204	5,888	-	131,021	-	200,679	28.1%	714,792
Mr Edward Munks	500,000	482	17,775	-	7,674	346,916	39.7%	872,847
Total other key management personnel remuneration (Group)	**1,277,204**	**28,801**	**35,550**	**131,021**	**14,554**	**782,451**		**2,269,581**
Total key management personnel remuneration (Group)	**2,968,384**	**107,144**	**111,462**	**131,021**	**50,924**	**2,185,262**		**5,554,197**

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

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

					Related to Performance Conditions							
	Fixed Remuneration		Not Related to Performance Conditions[1]		STI (Performance Rights)		LTI[2]		Other Share Options		Remuneration Consisting of Share Options[3]	
Name	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Executive Directors												
Mr Robert Hosking	**80.3%**	53.7%	-	35.6%	**10.2%**	-	**9.5%**	-	-	10.7%	**9.5%**	46.3%
Mr Mark Smith	**78.6%**	53.1%	-	36.1%	**11.1%**	-	**10.3%**	-	-	10.8%	**10.3%**	46.9%
Non-Executive Directors												
Dr David Klingner (appointed 19 December 2014)	**100%**	-	-	-	-	-	-	-	-	-	-	-
Mr Geoff Atkins	**100%**	100.0%	-	-	-	-	-	-	-	-	-	-
Mr Clark Davey	**100%**	47.1%	-	52.9%	-	-	-	-	-	-	-	52.9%
Mr Peter Turnbull (appointed 6 June 2014)	**100%**	100.0%	-	-	-	-	-	-	-	-	-	-
Mr Bernard Wheelahan (appointed 24 June 2014)	**100%**	100.0%	-	-	-	-	-	-	-	-	-	-
Mr Stephen Power (resigned 6 June 2014)	-	100.0%	-	-	-	-	-	-	-	-	-	-
Mr Jose Coutinho Barbosa	**53.7%**	53.7%	-	-	-	-	-	-	**46.3%**	46.3%	**46.3%**	46.3%
Other key management personnel												
Mr Scott Hosking	**66.8%**	65.6%	-	6.2%	**18.9%**	18.2%	**14.3%**	10.1%	-	-	**14.3%**	16.3%
Mr Tim Hosking	**75.5%**	71.9%	-	5.9%	**13.5%**	13.9%	**11.0%**	8.3%	-	-	**11.0%**	14.2%
Mr Edward Munks	**59.4%**	60.3%	-	6.4%	**16.9%**	20.3%	**23.7%**	13.0%	-	-	**23.7%**	19.4%

1. Other share options and Karoon Gas Australia 2009 Employee Share Option Plan options.
2. Karoon Gas Australia 2012 Employee Share Option Plan options.
3. The percentage of total remuneration consisting of share options, based on the value of share options expensed in the consolidated statement of profit or loss and other comprehensive income during the financial year and previous financial year.

Share options issued under the Karoon Gas Australia 2009 Employee Share Option Plan are not subject to the individual meeting pre-determined performance conditions.

Further information on share options and performance rights is set out in Note 28 of the consolidated financial statements.

Amounts disclosed for remuneration of Directors and other key management personnel 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

The issuance of share options and performance rights under the 2009 ESOP, 2012 ESOP and 2012 PRP is capped at 5% of the Company's total number of ordinary shares on issue and the Board is conscious of ensuring that the dilutionary effect of the issuance of share options and performance rights is kept to a minimum. The lowest strike price of any share option on issuance is currently $4.06 and the highest strike price is $10.98. There is currently 6,058,892 share options (3,858,892 remain unvested) and 107,952 performance rights issued under the 2009 ESOP, 2012 ESOP or 2012 PRP, representing approximately 2.5% of the Company's total number of ordinary shares issued.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

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

The terms and conditions of each grant of share options and 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 Share Option or Performance Right	Fair Value Per Share Option or Performance Right at Grant Date	% Vested	Performance Condition Achieved
ESOP options						
30 November 2012	29 November 2015	29 November 2016	$6.85	$1.29	Nil%	Performance condition not met
9 August 2013	30 June 2016	30 June 2017	$6.74	$2.00	-	To be determined
1 November 2013	30 June 2016	30 June 2017	$6.74	$1.08	-	To be determined
22 August 2014	1 July 2017	30 June 2018	$4.06	$1.38	-	To be determined
29 August 2014	1 July 2017	30 June 2018	$4.06	$1.49	-	To be determined
3 November 2014	1 July 2017	30 June 2018	$4.06	$0.77	-	To be determined
17 February 2015	1 July 2017	30 June 2018	$4.06	$0.59	-	To be determined
23 January 2015	1 July 2017	30 June 2018	$4.06	$0.43	-	To be determined
Other share options						
30 November 2012	29 November 2015	29 November 2016	$6.85	$1.29	Nil%	Performance condition not met[1]
Performance rights						
9 August 2013	30 June 2015	30 June 2016	$-	$4.32	67%	Safety and Operational
1 November 2013	30 June 2015	30 June 2016	$-	$5.27	67%	Safety and Operational

1. As approved at the 2012 Annual General Meeting, the issue of these other share options was on the same terms and conditions that apply to share options to eligible employees under the Karoon Gas Australia 2012 Employee Share Option Plan.

Share options and performance rights are granted for no consideration.

Share options and performance rights granted carry no dividend or voting rights.

If there is a change of control of the Company, for all unexercised Karoon Gas Australia 2009 Employee Share Option Plan options, they become immediately exercisable.

Further information on options and performance rights is set out in Note 28 of the consolidated financial statements.

Number of Share Options and Performance Rights Provided as Remuneration During the Financial Year

Details of share options and performance rights over unissued ordinary shares in the Company provided as remuneration to each Director and each of the other key management personnel are set out below:

Name	Number of Share Options and Performance Rights Granted During Financial Year	Fair Value per Share Options and Performance Rights at Grant Date[1]	Value of Share Options and Performance Rights at Grant Date[1]	Number of Share Options and Performance Rights Vested During Financial Year	Number of Share Options and Performance Rights Forfeited	Value of Share Options and Performance Rights Forfeited[2]
Executive Directors						
Mr Robert Hosking						
– ESOP options	424,310	$0.77	$326,719	-	-	-
Mr Mark Smith						
– ESOP options	424,310	$0.77	$326,719	-	-	-
Non-Executive Directors						
Dr David Klingner (appointed 19 December 2014)	-	-	-	-	-	-
Mr Geoff Atkins	-	-	-	-	-	-
Mr Clark Davey	-	-	-	-	-	-
Mr Peter Turnbull	-	-	-	-	-	-
Mr Bernard Wheelahan	-	-	-	-	-	-
Mr Jose Coutinho Barbosa	-	-	-	-	-	-
Other key management personnel						
Mr Scott Hosking						
– ESOP options	197,170	$0.59	$116,330	-	-	-
– Performance rights	-	-	-	22,124	13,425	$48,733
Mr Tim Hosking						
– ESOP options	173,561	$0.59	$102,401	-	-	-
– Performance rights	-	-	-	22,124	8,695	$31,563
Mr Edward Munks						
– ESOP options	246,462	$1.38	$340,118	-	-	-
– Performance rights	-	-	-	22,124	16,086	$58,392
Total key management personnel (Group)						
– Share options	**1,465,813**		**$1,212,287**	-	-	-
– Performance rights	-		-	**66,372**	**38,206**	**$138,688**

1. The value at grant date, calculated in accordance with AASB 2, of share options and performance rights granted during the financial year as part of their remuneration.
2. The value of other performance rights forfeited during the financial year because a vesting condition was not satisfied was determined at the time of forfeit (31 July 2014), but assuming the condition was satisfied, based on the intrinsic value of the performance rights at that date.

No share options or performance rights over unissued ordinary shares in the Company, held by any Director or other key management personnel, lapsed during the financial year, except for 38,206 performance rights that were forfeited by other key management personnel.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Number of Share Options and Performance Rights Provided as Remuneration During the Financial Year continued

Shares Issued on the Exercise of Share Options Provided as Remuneration

No share options were exercised by any Director or other key management personnel during the financial year.

Shares Issued on the Conversion of Performance Rights Provided as Remuneration

Details of fully paid ordinary shares in the Company issued as a result of the exercise and conversion of remuneration performance rights to each Director and other key management personnel during the financial year are set out below:

Name	Date Of Conversion of Performance Rights	Number of Ordinary Shares Issued	Value at Conversion Date[1]	Amount Paid Per Performance Right
Other key management personnel				
Mr Scott Hosking	17 July 2014	22,124	$74,558	$-
Mr Tim Hosking	12 June 2015	22,124	$56,637	$-
Mr Edward Munks	12 August 2014	22,124	$80,974	$-
		66,372	$212,169	

1. The value at conversion date of performance rights that were granted as part of their remuneration and were converted during the financial year has been determined as the intrinsic value of the performance rights at that date.

No amounts are unpaid on any ordinary shares issued on the conversion of the above remuneration performance rights.

Details of Remuneration – Share Options and Performance Rights

For each grant of share options or performance rights in current or previous financial years which results in an amount being disclosed in the Remuneration Report as a share-based payment expense in the financial year to Directors and other key management personnel, the percentage of the grant that vested in the financial year and the 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
Executive Directors					
Mr Robert Hosking					
– ESOP options	30 June 2015	-	-	30 June 2018	$245,628
Mr Mark Smith					
– ESOP options	30 June 2015	-	-	30 June 2018	$245,628
Non-Executive Directors					
Dr David Klingner (appointed 19 December 2014)	-	-	-	-	-
Mr Geoff Atkins	-	-	-	-	-
Mr Clark Davey	-	-	-	-	-
Mr Peter Turnbull	-	-	-	-	-
Mr Bernard Wheelahan	-	-	-	-	-
Mr Jose Coutinho Barbosa					
– Other share options	30 June 2013	-	-	30 June 2016	$35,630
Other key management personnel					
Mr Scott Hosking					
– ESOP options	30 June 2013	-	-	30 June 2016	$18,179
– Performance rights	30 June 2013	100	-	30 June 2015	-
– ESOP options	30 June 2014	-	-	30 June 2016	$36,816
– Performance rights	30 June 2014	67	33	30 June 2015	-
– ESOP options	30 June 2015	-	-	30 June 2018	$98,361
Mr Tim Hosking					
– ESOP options	30 June 2013	-	-	30 June 2016	$17,815
– Performance rights	30 June 2013	100	-	30 June 2015	-
– ESOP options	30 June 2014	-	-	30 June 2016	$23,844
– Performance rights	30 June 2014	67	33	30 June 2015	-
– ESOP options	30 June 2015	-	-	30 June 2018	$86,583
Mr Edward Munks					
– ESOP options	30 June 2013	-	-	30 June 2016	$18,179
– Performance rights	30 June 2013	100	-	30 June 2015	-
– ESOP options	30 June 2014	-	-	30 June 2016	$73,693
– Performance rights	30 June 2014	67	33	30 June 2015	-
– ESOP options	30 June 2015	-	-	30 June 2018	$237,822

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

The maximum value of share options and performance rights yet to vest was determined as the amount of the grant date fair value of the share options or performance rights that is yet to be expensed in the consolidated statement of profit or loss and other comprehensive income.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Share Options and Performance Rights Over Unissued Ordinary Shares in the Company as at 30 June 2015

During the financial year 1,465,813 share options over unissued ordinary shares in the Company were issued to Directors and other key management personnel, including their personally related parties.

During the financial year no performance rights over unissued ordinary shares in the Company were issued to Directors and other key management personnel, including their personally related parties.

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

	Balance as at 1 July 2014	Granted as Remu-neration	Exercised (Share Options)/ Vested and Converted (Performance Rights)	Expired	Share Options or Performance Rights Forfeited	Balance as at 30 June 2015	Total Vested and Exercisable as at 30 June 2015	Total Unvested as at 30 June 2015
Executive Directors								
Mr Robert Hosking								
– Other share options	800,000	-	-	(600,000)	-	**200,000**	**200,000**	-
– ESOP options	-	424,310	-	-	-	**424,310**	-	**424,310**
Mr Mark Smith								
– Other share options	800,000	-	-	(600,000)	-	**200,000**	**200,000**	-
– ESOP options	-	424,310	-	-	-	**424,310**	-	**424,310**
Non-Executive Directors								
Dr David Klingner (appointed 19 December 2014)	-	-	-	-	-	-	-	-
Mr Geoff Atkins	-	-	-	-	-	-	-	-
Mr Clark Davey								
– Other share options	500,000	-	-	(500,000)	-	-	-	-
Mr Peter Turnbull	-	-	-	-	-	-	-	-
Mr Bernard Wheelahan	-	-	-	-	-	-	-	-
Mr Jose Coutinho Barbosa								
– Other share options	270,000	-	-	-	-	**270,000**	**70,000**	**200,000**
Other key management personnel								
Mr Scott Hosking								
– ESOP options	443,153	197,170	-	(100,000)	-	**540,323**	**150,000**	**390,323**
– Performance rights	62,403	-	(22,124)	-	(13,425)	**26,854**	**n/a**	**26,854**
Mr Tim Hosking								
– ESOP options	379,009	173,561	-	-	-	**552,570**	**220,000**	**332,570**
– Performance rights	48,211	-	(22,124)	-	(8,695)	**17,392**	**n/a**	**17,392**
Mr Edward Munks								
– ESOP options	611,211	246,462	-	(160,000)	-	**697,673**	**200,000**	**497,673**
– Performance rights	70,387	-	(22,124)	-	(16,086)	**32,177**	**n/a**	**32,177**
Total key management personnel								
– Share options	**3,803,373**	**1,465,813**	**-**	**(1,960,000)**	**-**	**3,309,186**	**1,040,000**	**2,269,186**
– Performance rights	**181,001**	**-**	**(66,372)**	**-**	**(38,206)**	**76,423**	**n/a**	**76,423**

All ESOP options issued during the financial year were issued under the Karoon Gas Australia 2012 Employee Share Option Plan.

During the financial year there were no ESOP options issued under the Karoon Gas Australia 2009 Employee Share Option Plan. However, there are unexercised ESOP options issued that were issued in previous financial years under the Karoon Gas Australia 2009 Employee Share Option Plan.

The number of ordinary shares held by Directors and other key management personnel, including their personally related parties, as at 30 June 2015 was as follows:

	Balance as at 1 July 2014	Received as Remuneration	Exercised (Share Options)/ Vested and Converted (Performance Rights)	Ordinary Shares Purchased	Ordinary Shares Sold	Other	Balance as at 30 June 2015
Executive Directors							
Mr Robert Hosking	12,259,222	-	-	-	(15,000)	-	**12,244,222**
Mr Mark Smith	2,892,037	-	-	-	-	-	**2,892,037**
Non-Executive Directors							
Dr David Klingner (appointed 19 December 2014)	-	-	-	50,000	-	-	**50,000**
Mr Geoff Atkins	720,676	-	-	-	-	-	**720,676**
Mr Clark Davey	24,294	-	-	-	-	-	**24,294**
Mr Peter Turnbull	-	-	-	23,500	-	-	**23,500**
Mr Bernard Wheelahan	20,000	-	-	10,000	-	-	**30,000**
Mr Jose Coutinho Barbosa	-	-	-	-	-	-	-
Other key management personnel							
Mr Scott Hosking	245,659	-	22,124	6,456	(166,093)	-	**108,146**
Mr Tim Hosking	215,055	-	22,124	-	(5,000)	-	**232,179**
Mr Edward Munks	942,885	-	22,124	-	(210,000)	-	**755,009**
Total key management personnel	17,319,828	-	66,372	89,956	(396,093)	-	17,080,063

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 he is not the beneficial owner.

Loans to Directors and Other Key Management Personnel

There were no loans to Directors or other key management personnel during the financial year.

Other Transactions with Directors and Other Key Management Personnel

A formal Related Party Protocol was adopted by the Board of Directors during the financial year, this protocol requires the approval by the Risk and Governance Committee of all future related party transactions.

During the financial year, Mr Clark Davey, a Non-Executive Director, had an interest in Anderson Park Tax Pty Ltd which provided taxation services to the Group. The value of these transactions during the financial year in the Group was $1,908. The balance outstanding included in current trade and other payables is $Nil. The minor amount and nature of this transaction did not compromise Mr Davey's independence. Mr Davey was considered the most appropriate person to complete the work given his knowledge of the subject matter and the need to maintain confidentiality.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Other Transactions with Directors and Other Key Management Personnel continued

During the financial year, Mr Jose Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda which provided business and geology consulting services to the Group. The value of these transactions during the financial year in the Group was $308,275. The balance outstanding included in current trade and other payables is $27,058. Given Karoon's relative size to other operators in Brazil, the consulting services provided by Net Pay Óleo & Gás Consultoria Ltda are critical to Karoon's ability to operate within the Brazilian oil industry.

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director, was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration during the financial year was $267,481, which includes social security and indemnity fund contributions of $45,610. Ms Barbosa has been an employee of the Company since 2011, and has a comprehensive understanding of the Brazilian regulatory framework.

During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a key management person), was employed by the Group as the Community Relations and Social Projects Manager in South America. The total value of her remuneration during the financial year was $253,262, which includes social security and indemnity fund contributions of $46,486. Ms Sayao is a key member of the South American management team. It is through her efforts that Karoon has one of the most respected community social responsibility programs in Peru, a key component of the Company's overall success in South America. The Brazilian and Peruvian regulatory and business environments require transparent and clear communication on social and environmental issues with local and federal governments, it is not possible to conduct day-to-day business activities without these essential services.

During the financial year, Mr William Hosking, the son of the Managing Director of the Company, was employed on a short-term contract basis by a multi-national third party industry supplier that worked on the Group's second phase drilling campaign in Brazil. The total value of his consulting remuneration during the financial year was $35,676. The relationship between Mr William Hosking, the third party industry supplier and the Company ceased during the financial year.

During the financial year and the previous financial year, Mr Mark Smith, an Executive Director, had an interest in IERS (Australia) Pty Ltd, which has an ongoing agreement with the Group to provide geophysical fault seal analysis software. This agreement had been negotiated at commercial terms and does not include monetary compensation. Instead, the Group provides testing and ongoing development of the geophysical fault seal analysis software in return for its use.

Matters Arising Subsequent to the End of the Financial Year

Other than the matter disclosed in Note 31 of the consolidated financial statements, no other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) the Group's state of affairs in future financial years.

This Directors' Report, incorporating the Remuneration Report, is made in accordance with a resolution of the Directors.

On behalf of the Directors:

Mr Robert Hosking
Managing Director

8 September 2015

Auditor's Independence Declaration

As lead auditor for the audit of Karoon Gas Australia Ltd for the financial year ended 30 June 2015, 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 Gas Australia Ltd and the entities it controlled during the financial year.

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

8 September 2015

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Consolidated Financial Statements

For the Financial Year Ended 30 June 2015

Karoon Gas Australia 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 of Karoon Gas Australia Ltd Office 7A, 34-38 Lochiel Avenue, Mt Martha VIC 3934. The principal place of business is Level 25, 367 Collins Street, Melbourne VIC 3000.

The consolidated financial statements are for the consolidated entity consisting of Karoon Gas Australia Ltd and its subsidiaries.

The consolidated financial statements are presented in Australian dollars.

Notes to the Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 30 June 2015

	Note	Consolidated 2015 $	Consolidated 2014 $
Revenue	4	**2,004,783**	5,595,155
Other income	4	**399,202,199**	2,219,376
Total revenue and other income		**401,206,982**	7,814,531
Computer support		**(1,129,940)**	(1,163,758)
Consulting fees		**(686,626)**	(912,325)
Depreciation and amortisation expense	5	**(1,166,012)**	(1,035,657)
Employee benefits expense (net)		**(10,962,775)**	(11,946,942)
Exploration and evaluation expenditure expensed or written off	5	**(29,487,997)**	(3,142,946)
Farm-out costs		**(640,540)**	(1,394,260)
Finance costs	5	**(3,627,534)**	(389,021)
Insurance expense		**(257,883)**	(663,853)
Investor relation costs		**(625,443)**	(66,952)
Legal fees		**(288,621)**	(331,155)
Property costs		**(2,181,620)**	(2,072,071)
Share registry and listing fees		**(226,113)**	(263,066)
Telephone and communication expenses		**(356,716)**	(375,940)
Travel and accommodation expenses		**(1,296,044)**	(989,620)
Other expenses		**(921,646)**	(2,570,633)
Total expenses		**(53,855,510)**	(27,318,199)
Profit (loss) before income tax		**347,351,472**	(19,503,668)
Tax (expense) income	6	**(115,894,599)**	13,984,888
Profit (loss) for financial year attributable to equity holders of the Company		**231,456,873**	(5,518,780)
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 of foreign subsidiaries		**(11,907,919)**	(3,501,866)
Other comprehensive income (loss) for financial year, net of income tax		**(11,907,919)**	(3,501,866)
Total comprehensive profit (loss) for financial year attributable to equity holders of the Company, net of income tax		**219,548,954**	(9,020,646)
Profit (loss) per share attributable to equity holders of the Company:			
Basic profit (loss) per ordinary share	9	**0.9285**	(0.0220)
Diluted profit (loss) per ordinary share	9	**0.9274**	(0.0220)

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 2015

		Consolidated	
	Note	2015 $	2014 $
Current assets			
Cash and cash equivalents	10	**553,091,340**	39,013,343
Receivables	11	**3,410,296**	7,761,654
Inventories	12	**3,082,027**	5,563,313
Security deposits	13	**68,242**	41,337
Current tax asset	6	**208,279**	2,821,977
Assets classified as held for sale	14	**-**	386,667,150
Other assets	15	**3,643,902**	5,263,470
Total current assets		**563,504,086**	447,132,244
Non-current assets			
Inventories	12	**33,780,628**	31,569,743
Deferred tax assets	6	**-**	13,741,402
Plant and equipment	16	**2,301,659**	2,979,538
Intangible assets	17	**489,372**	467,256
Exploration and evaluation expenditure carried forward	18	**485,539,123**	296,389,492
Security deposits	13	**9,724,891**	8,032,886
Total non-current assets		**531,835,673**	353,180,317
Total assets		**1,095,339,759**	800,312,561
Current liabilities			
Trade and other payables	19	**30,421,131**	10,514,089
Current tax liabilities	6	**20,776,754**	-
Liabilities directly associated with assets classified as held for sale	14	**-**	19,654,597
Provision	20	**3,849,062**	-
Total current liabilities		**55,046,947**	30,168,686
Non-current liabilities			
Deferred tax liabilities	6	**81,353,342**	-
Provisions	20	**433,830**	3,669,944
Total non-current liabilities		**81,787,172**	3,669,944
Total liabilities		**136,834,119**	33,838,630
Net assets		**958,505,640**	766,473,931
Equity			
Contributed equity	21	**805,529,759**	836,246,445
Retained earnings (accumulated losses)		**153,704,954**	(77,751,919)
Share-based payments reserve		**36,936,683**	33,737,242
Foreign currency translation reserve		**(37,665,756)**	(25,757,837)
Total equity		**958,505,640**	766,473,931

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 2015

	Consolidated				
	Contributed Equity $	Retained Earnings (Accumulated Losses) $	Share-based Payments Reserve $	Foreign Currency Translation Reserve $	Total Equity $
Balance as at 1 July 2013	664,894,335	(72,233,139)	29,435,672	(22,255,971)	599,840,897
Loss for financial year	-	(5,518,780)	-	-	(5,518,780)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(3,501,866)	(3,501,866)
Total comprehensive loss for financial year	-	(5,518,780)	-	(3,501,866)	(9,020,646)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	175,546,141	-	-	-	175,546,141
Transaction costs arising on ordinary shares issued, net of tax	(4,194,031)	-	-	-	(4,194,031)
Share-based payments expense	-	-	4,301,570	-	4,301,570
	171,352,110	-	4,301,570	-	175,653,680
Balance as at 30 June 2014	836,246,445	(77,751,919)	33,737,242	(25,757,837)	766,473,931
Profit for financial year	-	231,456,873	-	-	231,456,873
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(11,907,919)	(11,907,919)
Total comprehensive income for financial year	-	231,456,873	-	(11,907,919)	219,548,954
Transactions with owners in their capacity as owners:					
Ordinary shares bought back (on-market) and cancelled	(30,702,361)	-	-	-	(30,702,361)
Share buy-back transaction costs	(14,325)	-	-	-	(14,325)
Share-based payments expense	-	-	3,199,441	-	3,199,441
	(30,716,686)	-	3,199,441	-	(27,517,245)
Balance as at 30 June 2015	805,529,759	153,704,954	36,936,683	(37,665,756)	958,505,640

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 2015

	Note	Consolidated 2015 $	2014 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST refunds)		**3,146,139**	2,674,261
Payments to suppliers and employees (inclusive of GST)		**(19,146,088)**	(18,803,071)
Payments for exploration and evaluation expenditure expensed		**(934,112)**	(3,142,946)
Interest received		**1,870,226**	8,723,896
Interest and other costs of finance paid		**(1,248,041)**	(2,630,697)
Income taxes refund		**2,344,580**	229,856
Net cash flows used in operating activities	27	**(13,967,296)**	(12,948,701)
Cash flows from investing activities			
Purchase of plant and equipment		**(276,219)**	(1,813,645)
Purchase of computer software		**(220,085)**	(301,058)
Payments for exploration and evaluation expenditure capitalised		**(216,194,862)**	(338,024,598)
Recoupment of exploration and evaluation expenditure on WA-482-P farm-out		**-**	9,793,267
Repayment of security deposits		**7,033**	15,668,476
Advance payments (Brazilian farm-out)		**-**	8,043,616
Payment of refundable share of insurance bond		**-**	(15,371,404)
Proceeds from disposal of non-current assets		**-**	33,710
Proceeds from divestment of exploration permits WA-315-P and WA-398-P (net)	4(a)	**658,929,297**	-
Net cash flows provided by (used in) investing activities		**442,245,164**	(321,971,636)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	21(b)	**-**	175,546,141
Payments for transaction costs arising on ordinary shares issued	21(b)	**-**	(5,991,473)
Share buy-back (on-market)	21(b)	**(30,716,686)**	-
Proceeds from borrowings	5(a)	**21,450,021**	5,105,921
Repayments of borrowings	5(a)	**(21,551,724)**	(5,049,415)
Net cash flows (used in) provided by financing activities		**(30,818,389)**	169,611,174
Net increase (decrease) in cash and cash equivalents		**397,459,479**	(165,309,163)
Cash and cash equivalents at beginning of financial year		**39,013,343**	204,519,641
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		**116,618,518**	(197,135)
Cash and cash equivalents at end of financial year	10	**553,091,340**	39,013,343

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

Note 1. Summary of Significant Accounting Policies

The consolidated financial statements are for the consolidated entity consisting of Karoon Gas Australia Ltd and its subsidiaries (the 'Group'). A description of 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*. Karoon Gas Australia Ltd is a for-profit entity for the purpose of preparing financial statements.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with financial year amounts and other disclosures.

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

The consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

The Group has adopted all of the new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the financial year ended 30 June 2015.

New and revised Australian Accounting Standards and amendments thereof and Interpretations effective for the financial year that are relevant to the Group included:

- AASB 2013-3 *'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'*
- AASB 2013-9 *'Amendments to Australian Accounting Standards' – Part B: 'Materiality'*
- AASB 2014-1 *'Amendments to Australian Accounting Standards'*
  Part A: *'Annual Improvements 2010-2012 and 2011-2013 Cycles'*
  Part C: *'Materiality'*
- AASB 1031 *'Materiality' (2013)*

The adoption of all of the relevant new and revised Australian Accounting Standards and Interpretations 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 financial years.

Early Adoption of Australian Accounting Standards

The Group has not elected to apply any pronouncements before their operative date in the financial year beginning 1 July 2014.

Note 1. Summary of Significant Accounting Policies continued

(b) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Karoon Gas Australia Ltd as at 30 June 2015 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 22.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisition. Acquisition related costs are expensed as incurred and the associated cash flows are classified as operating activities in the consolidated statement of cash flows.

All subsidiaries have a financial year end of June, with the exception of: Karoon Petróleo & Gas Ltda; KEI (Peru 112) Pty Ltd, Sucursal del Peru; and KEI (Peru Z38) Pty Ltd, Sucursal del Peru. These subsidiaries and branches have a financial year end of December in accordance with relevant Brazilian and Peruvian tax and accounting regulations respectively.

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 Managing Director and the Executive Director/Exploration Director.

(d) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sales Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to the buyer and all significant risks and rewards of ownership are transferred. Revenue from the rendering of a service is recognised upon the delivery of the service. All revenue is stated net of the amount of GST.

Interest Income

Interest income is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the relevant financial asset.

(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 consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

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 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 that relate to borrowings are presented in the consolidated statement of profit or loss and other comprehensive income, with finance costs. All other 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 foreign subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

On consolidation, foreign exchange differences arising on translation of foreign subsidiary 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 a foreign subsidiary is disposed.

(f) Income Taxes and Other Taxes

Current Tax

Current tax expense (income) 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 that have been enacted or are substantively enacted by the end of each reporting period. 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 will be 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.

Note 1. Summary of Significant Accounting Policies continued

(f) Income Taxes and Other Taxes continued

Deferred Tax continued

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 Parent Company and its wholly owned Australian subsidiaries are part of an income tax-consolidated group under Australian taxation law. Karoon Gas Australia Ltd is the head entity in the income tax-consolidated group. Tax (expense) income, 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 other receivables or sundry 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.

Petroleum Resource Rent Tax ('PRRT')

PRRT is accounted for as income tax under AASB 112 *'Income Taxes'*.

Research and Development Tax Incentives

Companies within the Group may be entitled to claim special tax deductions in relation to qualifying expenditure (e.g. the Research and Development Tax Incentive regime in Australia). A tax incentive refund is recognised when it is possible that the claim will be received. The claim is based upon the Group's interpretation as to the eligibility of its specific research and development activities. The Group accounts for such refunds as tax credits, which means that the incentive reduces income tax payable and current tax expense.

(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 banks 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 which are subject to insignificant risk of changes in value.

(h) Receivables

Receivables, which generally have 30-day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any accumulated impairment losses. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Cash flows relating to receivables are not discounted if the effect of discounting would be immaterial.

Collectability of receivables is reviewed on an ongoing basis. Individual receivables that are known to be uncollectible are written off when identified.

Receivables are tested for impairment in accordance with the accounting policy described in Note 1(o). An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. The amount of the impairment loss is the receivable's carrying amount compared to the discounted value of estimated future cash flows, discounted when material, at the original effective interest rate.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. 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. 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 and bank guarantees 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 cost. Such assets are subsequently carried at amortised cost using the effective interest method. 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 operating lease rental agreements have expired or been transferred.

Security deposits are tested for impairment in accordance with the accounting policy described in Note 1(o).

(k) Non-Current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 12 months from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The liabilities directly associated with assets classified as held for sale are presented separately in the consolidated statement of financial position.

(l) Plant and Equipment

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.

Note 1. Summary of Significant Accounting Policies continued

(l) Plant and Equipment continued

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.

Plant and equipment are tested for impairment in accordance with the accounting policy described in Note 1(o).

(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(o).

(n) Exploration and Evaluation Expenditure

Expenditure on exploration and evaluation activities is accounted for in accordance with the 'area of interest' method of AASB 6 *'Exploration for and Evaluation of Mineral Resources'*. Exploration and evaluation expenditure is capitalised at cost, as an intangible, provided the right to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area 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 area of interest are continuing.

Otherwise, exploration and evaluation expenditure is expensed as incurred.

Accumulated costs in relation to an abandoned area are written off in full in the consolidated statement of profit or loss and other comprehensive income during the financial period in which the decision to abandon the area of interest is made.

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

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

Farm-out

The Group does not record any exploration and evaluation expenditure made by a farmee. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any exploration and evaluation expenditure previously capitalised in relation to the whole area of interest as relating to the partial interest retained.

Any cash consideration received on sale or farm-out of an area within an exploration area of interest is offset against the carrying value of the particular area involved. Where the total carrying value of an area of interest has been recouped in this manner, the balance of the proceeds is brought to account in the consolidated statement of profit or loss and other comprehensive 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 or cash-generating unit level (which usually is represented by an exploration tenement) whenever facts and circumstances (as defined in AASB 6) 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.

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.

Capitalised exploration and evaluation expenditure that suffered impairment are tested for possible reversal of the impairment loss whenever facts or changes in circumstances indicate that the impairment may have reversed.

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

All other current and non-current assets (other than inventories 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 is then written-down to its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell 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.

(p) 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 12 months from the reporting date.

(q) Employee Benefits

Wages, Salaries, Annual Leave and Personal Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating personal 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-accumulating 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 12 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 employees via the Company's PRP, ESOP and Directors via other share options (refer Note 28).

The fair value of share options and performance rights granted is recognised as a share-based payments expense in the consolidated statement of profit or loss and other comprehensive income with a corresponding increase in the share-based payments reserve in equity. The total amount to be expensed is determined by reference to the fair value of the share options and 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 share options or performance rights that are expected to vest.

Note 1. Summary of Significant Accounting Policies continued

(q) Employee Benefits continued

Share-based Payments continued

The fair value is measured at grant date. 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 share options and 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, with a corresponding adjustment to equity. For share options or performance rights that vest immediately, the value is expensed immediately.

The fair value of share options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the share option, the impact of dilution, the non-tradeable nature of the share option, 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 share option.

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.

The Group has elected to retain any amounts originally recognised in the share-based payments reserve, regardless of whether the associated share options or performance rights are exercised or lapse unexercised.

(r) 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. Provisions are not recognised for future operating losses.

When it is expected that some or all of a provision is to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is included in the consolidated statement of profit or loss and other comprehensive income, net of any reimbursement.

Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision resulting from the passage of time is recognised as finance costs in the consolidated statement of profit or loss and other comprehensive income.

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 on corporate bonds with terms of maturity that match the expect timing of cash outflows.

Restoration

Restoration costs incurred during exploration and evaluation activities are provided when the obligation to incur such costs arises. A corresponding restoration asset (included in exploration and evaluation expenditure carried forward) of an amount equivalent to the provision is also created. The amount recognised is the estimated future cost of restoration and is reassessed at the end of each reporting period in accordance with local conditions and requirements. Changes in the estimates of restoration costs are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the restoration asset. The unwinding of the discount on the restoration provision is included within finance costs in the consolidated statement of profit or loss and other comprehensive income.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Accordingly, the fee is deferred until the draw down occurs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the facility is discharged, cancelled or expired.

Borrowing Costs

Borrowing costs which includes the costs of arranging and obtaining financing, incurred for the acquisition or construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. All other borrowing costs are expensed as incurred.

(t) 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.

The costs of an equity raising that is abandoned are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

Cash received from shareholders and investors at the end of the reporting period, pending allotment and issue of fully paid ordinary shares, is held as funds in escrow in the consolidated statement of financial position.

(u) 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.

The Group's share of assets, liabilities, revenues and expenses employed in joint operations is set out in Note 24.

(v) Leases

Group as a Lessee

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the financial period of the lease.

(w) 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.

Note 1. Summary of Significant Accounting Policies continued

(x) Parent Company Financial Information

The financial information for the Parent Company, Karoon Gas Australia Ltd, disclosed in Note 30 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 financial statements of Karoon Gas Australia Ltd.

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(o).

Share-based Payments

The grant by the Company of share options and 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.

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

Certain new Australian Accounting Standards and Interpretations have been published that are not mandatory for this financial year. The Group's assessment of the impact of the relevant new Australian Accounting Standards and Interpretations is set out below:

(i) AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'

The AASB has amended AASB 11 *'Joint Arrangements'*. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' as defined in AASB 3 *'Business Combinations'*. The amendments to AASB 11 will be applied prospectively for annual reporting periods on or after 1 January 2016. Earlier application is permitted. Transactions before the adoption date are grand fathered. The Group has interests in a number of joint operations. The Group is yet to assess the full impact of the amendments given it will only apply to future potential transactions. The Group does not intend to adopt the revised standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2017.

(ii) AASB 15 'Revenue from Contracts with Customers'

AASB 15 *'Revenue from Contracts with Customers'* (issued during January 2015) is the new standard for revenue recognition, replacing AASB 111 *'Construction Contracts'* and AASB 118 *'Revenue'*. It is applicable for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is yet to assess AASB 15's full impact. The new standard's core principle will require the Group to recognise revenue to depict when control over a good or service is transferred to a customer in amounts that reflect the consideration (that is, payment) to which the Group expects to be entitled in exchange for those goods or services. The Group is yet to assess AASB 15's full impact. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2019.

(iii) Amendments to AASB 9 'Financial Instruments'

AASB 9 *'Financial Instruments'* addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The revised standard is applicable to annual reporting periods beginning on or after 1 January 2018 but is available for early adoption, subject to certain conditions. The Group is yet to assess the amended AASB 9's full impact. The Group does not intend to adopt the revised standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2019.

There are no other Australian Accounting Standards 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.

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) Capitalised Exploration and Evaluation Expenditure

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, financial results and net assets will be reduced during the financial period in which this determination is made.

In addition, exploration and evaluation expenditure is carried forward on the basis that exploration and evaluation activities 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. To the extent it is determined in the future this capitalised expenditure should be written off, financial results 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.

(b) Share-based Payments

The Group measures the cost of share-based payment transactions with Directors and employees by reference to the fair value of the share options at the date they were granted. Fair value is ascertained using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. The accounting estimates and assumptions relating to share-based payments would have no impact on the carrying amounts of assets and liabilities within the next reporting period but may impact expense and equity.

(c) Provision for Restoration

Restoration costs are a normal consequence of the oil and gas industry. 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 and the estimated future level of inflation.

The ultimate costs of restoration are uncertain and costs can vary in response to many factors including changes to the relevant legal and legislative requirements, the emergence of new restoration techniques or experience at other fields. The expected timing of expenditure can also change. 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) Income Tax

The Group is subject to income taxes in Australia and 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 tax law. 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.

The Group has not recognised deferred tax assets in respect of Brazilian tax losses and temporary tax differences as the future utilisation of these losses and temporary tax differences is not considered probable at this point in time. 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.

(e) Joint Arrangements

Exploration and evaluation activities of the Group are conducted primarily through arrangements with other participants. Each arrangement has a contractual agreement (joint operating agreement) that provides the participants with rights to the assets and obligations for the liabilities of the arrangement. Under certain agreements, more than one combination of participants can make decisions about the relevant activities and therefore joint control does not exist. Where the arrangement has the same legal form as a joint operation but is not subject to joint control, the Group accounts for its interest in accordance with the contractual agreement by recognising its share of jointly held assets, liabilities, revenues and expenses of the arrangement.

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); 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 and interest rates.

The overall financial risk management strategy of the Group is governed by the Board of Directors through the 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 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 cooperation with the 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.

The Group had no off-statement of financial position financial assets or financial liabilities at either 30 June 2015 or 30 June 2014.

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

		Consolidated	
	Note	2015 $	2014 $
Financial assets			
Cash and cash equivalents	10	**553,091,340**	39,013,343
Receivables	11	**3,410,296**	7,761,654
Security deposits	13	**9,793,133**	8,074,223
Total financial assets		**566,294,769**	54,849,220
Financial liabilities			
Trade and other payables (refer note (a) below)		**29,444,827**	9,679,824
Liabilities directly associated with assets classified as held for sale	14	**-**	19,654,597
Total financial liabilities		**29,444,827**	29,334,421
(a) Trade and other payables above exclude amounts relating to leave liabilities, which are not considered a financial instrument. The reconciliation to the amount in the consolidated statement of financial position is as follows:			
Trade and other payables	19	**30,421,131**	10,514,089
Less: Leave liabilities		**(976,304)**	(834,265)
		29,444,827	9,679,824

(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 operates internationally and is exposed to foreign exchange risk arising from currency exposures to predominantly United States dollar and Brazilian REALS. The Group manages foreign exchange risk at the corporate level by monitoring forecast cash flows in currencies other than Australian dollars and ensuring that adequate United States dollar and Brazilian REAL 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 three months requirements. The appropriateness of United States dollar holdings are reviewed regularly against future commitments and current Australian dollar 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.

An analysis of the Group's exposure to foreign exchange risk for financial assets and liabilities, expressed in Australian dollars, at the end of the financial year is set out below:

	2015				2014			
Consolidated	AUD $	USD $	REAL $	Total $	AUD $	USD $	REAL $	Total $
Financial assets								
Cash and cash equivalents	**3,964,534**	**524,428,582**	**24,698,224**	**553,091,340**	6,309,337	27,388,895	5,315,111	39,013,343
Receivables	**117,524**	**2,023,155**	**1,269,617**	**3,410,296**	106,859	2,145,322	5,509,473	7,761,654
Security deposits	**375,035**	**9,365,844**	**52,254**	**9,793,133**	375,022	7,642,906	56,295	8,074,223
Total financial assets	**4,457,093**	**535,817,581**	**26,020,095**	**566,294,769**	6,791,218	37,177,123	10,880,879	54,849,220
Financial liabilities								
Trade and other payables	**859,853**	**4,318,116**	**24,266,858**	**29,444,827**	1,515,150	5,444,223	2,720,451	9,679,824
Liabilities directly associated with assets classified as held for sale	**-**	**-**	**-**	**-**	-	19,654,597	-	19,654,597
Total financial liabilities	**859,853**	**4,318,116**	**24,266,858**	**29,444,827**	1,515,150	25,098,820	2,720,451	29,334,421

Foreign Exchange Sensitivity Analysis

The following table details the Group's sensitivity to a 10.0% increase or decrease in the Australian dollar against the United States dollar and Brazilian REAL respectively, with all other variables held constant. The sensitivity analysis includes only outstanding foreign currency denominated amounts at the end of the financial year and adjusts their translation for a 10.0% change in the relevant foreign exchange rate.

Note 3. Financial Risk Management continued

(a) Market Risk continued

(i) Foreign Exchange Risk continued

The sensitivity analysis is not fully representative of the inherent foreign exchange 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 United States dollar or Brazilian REAL exchange rates on future cash flows.

	Consolidated REAL Impact		Consolidated USD Impact	
	2015 $	2014 $	**2015** $	2014 $
Change in profit (loss) before income tax				
– Improvement in AUD by 10.0%	**-**	-	**(47,957,428)**	(1,129,226)
– Decline in AUD by 10.0%	**-**	-	**58,614,635**	1,380,165
Change in financial assets				
– Improvement in AUD by 10.0%	**(2,365,463)**	(989,171)	**(48,710,689)**	(3,379,738)
– Decline in AUD by 10.0%	**2,891,122**	1,208,986	**59,535,287**	4,130,791
Change in financial liabilities				
– Improvement in AUD by 10.0%	**2,206,078**	247,314	**392,556**	2,281,711
– Decline in AUD by 10.0%	**(2,696,318)**	(302,272)	**(479,791)**	(2,788,758)
Change in foreign currency translation reserve				
– Improvement in AUD by 10.0%	**159,385**	741,857	**360,705**	(31,199)
– Decline in AUD by 10.0%	**(194,804)**	(906,714)	**(440,861)**	38,132

(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.

As at 30 June 2015 and 30 June 2014, there was no borrowing outstanding and there was no interest rate hedging in place.

The Group's interest rate risk arises from relevant financial assets, primarily cash and cash equivalents deposited at variable rates of interest and security deposits related to Australia. As the majority of cash and cash equivalents is in United States dollars, the primary exposure is to United States 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					
2015	Weighted Average Interest Rate % p.a.	Floating Interest Rate $	Fixed Interest Rate $	Non-interest Bearing $	Fair Value $	Carrying Amount $
Financial assets						
Cash and cash equivalents	0.6	549,344,538	-	3,746,802	553,091,340	553,091,340
Receivables	-	-	-	3,410,296	3,410,296	3,410,296
Security deposits	0.3	4,513	9,677,792	110,828	9,793,133	9,793,133
Total financial assets		549,349,051	9,677,792	7,267,926	566,294,769	566,294,769
Financial liabilities						
Trade and other payables	-	-	-	29,444,827	29,444,827	29,444,827
Total financial liabilities		-	-	29,444,827	29,444,827	29,444,827

2014	Weighted Average Interest Rate % p.a.	Floating Interest Rate $	Fixed Interest Rate $	Non-interest Bearing $	Fair Value $	Carrying Amount $
			Consolidated			
Financial assets						
Cash and cash equivalents	1.4	31,012,767	-	8,000,576	39,013,343	39,013,343
Receivables	-	-	-	7,761,654	7,761,654	7,761,654
Security deposits	0.2	4,500	7,952,881	116,842	8,074,223	8,074,223
Total financial assets		31,017,267	7,952,881	15,879,072	54,849,220	54,849,220
Financial liabilities						
Trade and other payables	-	-	-	9,679,824	9,679,824	9,679,824
Liabilities directly associated with assets classified as held for sale	-	-	-	19,654,597	19,654,597	19,654,597
Total financial liabilities		-	-	29,334,421	29,334,421	29,334,421

Interest Rate Sensitivity Analysis

The following table details the Group's sensitivity to a 1.0% 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 2015 $	2014 $
Change in profit (loss) before income tax		
– Increase of interest rate by 1.0% p.a.	**5,493,491**	310,173
– Decrease of interest rate by 1.0% p.a.	**(430,476)**	(104,317)
Change in financial assets		
– Increase of interest rate by 1.0% p.a.	**5,493,491**	310,173
– Decrease of interest rate by 1.0% p.a.	**(430,476)**	(104,317)

(b) Credit Risk

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.

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 hold collateral, nor does it securitise its receivables.

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

Cash and cash equivalents and security deposit counterparties are limited to high credit quality banks and financial institutions. For banks and financial institutions in Australia, only independently rated counterparties with a minimum rating of A are accepted. For banks and financial institutions in Brazil and Peru, only independently rated counterparties with a minimum rating of BBB are accepted. Where commercially practical, the Group seeks to limit the amount of credit exposure to any one bank or financial institution. The Group's credit exposure and credit ratings of its counterparties are monitored on an ongoing basis.

Note 3. Financial Risk Management continued

(b) Credit Risk continued

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.

The Group is exposed to credit risk in relation to cash and cash equivalents and security deposits held with the National Australia Bank Limited and HSBC Group. The maximum amount of exposure to the National Australia Bank Limited and HSBC Group as at 30 June 2015 was $524,171,246 (30 June 2014: $27,138,039) and $34,513,510 (30 June 2014: $13,916,770) respectively.

As at 30 June 2015, there were $Nil (30 June 2014: $Nil) financial assets past due.

(c) Liquidity Risk

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

At the end of the financial year, the Group held cash and cash equivalents at call of $553,091,340 (30 June 2014: $39,013,643) that are expected to readily generate cash inflows for managing liquidity risk.

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 requirements of the Group's exploration and evaluation activities.

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 loan facilities;
- investing surplus cash only in high credit quality banks and financial institutions; and
- maintaining a reputable credit profile.

An analysis of the Group's financial liability maturities at the end of the financial year is set out below:

2015	Less than 6 Months $	6-12 Months $	Total $
Financial liabilities			
Trade and other payables	**29,444,827**	-	**29,444,827**
Total financial liabilities	**29,444,827**	-	**29,444,827**

2014	$	$	$
Financial liabilities			
Trade and other payables	9,679,824	-	9,679,824
Liabilities directly associated with assets classified as held for sale	19,654,597	-	19,654,597
Total financial liabilities	29,334,421	-	29,334,421

(d) Fair Value Estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 30 June 2015 and 30 June 2014 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 receivables are assumed to approximate their fair values due to their short-term nature.

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 short-term nature of these financial liabilities, their carrying amounts are a reasonable approximation of their fair values.

Liabilities Directly Associated with Assets Classified as Held for Sale

Due to the short-term nature of this financial liability, its carrying amount in the previous financial year was a reasonable approximation of its fair value.

	Note	Consolidated 2015 $	2014 $
Note 4. Revenue			
Interest income from unrelated entities		2,004,783	5,595,155
Total revenue		2,004,783	5,595,155
Net foreign currency gains		121,290,995	1,100,817
Gain on divestment of exploration permits WA-315-P and WA-398-P (refer note (a) below)		276,673,235	-
Services revenue from joint operations		1,237,969	1,118,091
Sundry income		-	468
Total other income		399,202,199	2,219,376

(a) During the financial year, Karoon received net proceeds of $658,929,297 from Origin thereby completing the divestment of the Company's 40% equity interest in exploration permits WA-315-P and WA-398-P. Completion of the Sale and Purchase Agreement was effective as at 31 July 2014.

Note 5. Expenses

Profit (loss) before income tax includes the following specific expenses:

	Note	2015 $	2014 $
Depreciation and amortisation expense:			
– depreciation of plant and equipment	16	958,814	789,058
– amortisation of computer software	17	207,198	246,599
Total depreciation and amortisation expense		1,166,012	1,035,657
Exploration and evaluation expenditure expensed or written off:			
– exploration and evaluation expenditure expensed		934,112	3,142,946
– exploration and evaluation expenditure written off	18	28,553,885	-
Total exploration and evaluation expenditure expensed or written off		29,487,997	3,142,946
Finance costs:			
– interest expense to unrelated entities		113,497	62,643
– discount unwinding on provision for restoration	20	90,777	47,040
– loan establishment fees (refer note (a) below)		2,333,750	-
– bank charges		1,089,510	279,338
Total finance costs		3,627,534	389,021
Share-based payments expense	28(e)	3,199,441	4,301,570
Rental expense on operating leases – minimum lease payments		1,865,702	1,746,502
Net loss on disposal of plant and equipment		6,044	62,809

(a) During July 2014, a USD100 million 'bridge' loan facility, existing as at 30 June 2014 between the Company and National Australia Bank Limited, was drawn down upon by USD20 million. The facility had an expiry date of 30 November 2014, however, it was voluntarily cancelled during August 2014 after the USD20 million loan outstanding was repaid in full. Associated loan establishment fees were expensed over the life of the facility following the first draw down. The loan establishment fees were recognised in Other Assets, as prepayments, in the consolidated statement of financial position as at 30 June 2014.

	Note	Consolidated 2015 $	2014 $

Note 6. Income Tax

(a) Income Tax Recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	2015 $	2014 $
Income tax comprises:			
Current tax		198,560,453	(942,584)
Deferred tax		(82,640,663)	(1,310,906)
Adjustments in respect of current tax of previous financial years		(25,191)	(2,373,161)
Recognition of temporary differences and tax losses not previously brought to account		-	(9,358,237)
Total tax expense (income)		115,894,599	(13,984,888)

The prima facie tax on profit (loss) before income tax is reconciled to tax expense as follows:

	Note	2015 $	2014 $
Prima facie tax payable on profit (loss) before income tax, calculated at the Australian tax rate of 30% (2014: 30%)		104,205,442	(5,851,100)
Add the tax effect of:			
Share-based payments expense		959,832	1,290,471
Other non-deductible items		1,287,990	2,692,843
Tax losses and temporary tax differences not recognised		10,728,729	631,131
Subtract the tax effect of:			
Difference in overseas tax rates		(1,262,203)	(74,251)
Recognition of temporary differences and tax losses not previously brought to account		-	(9,358,237)
Adjustment for current tax of previous financial years		(25,191)	(1,274,816)
Research and development incentive		-	(2,040,929)
Total tax expense (income)		115,894,599	(13,984,888)

(b) Amounts Recognised Directly In Equity

	Note	2015 $	2014 $
Aggregate current and deferred tax arising in the financial year and not recognised in net profit or loss but directly debited or credited in equity:			
Deferred tax – credited directly in contributed equity	21(b)	-	(1,797,442)

(c) Current Tax Asset

	Note	2015 $	2014 $
Income tax refund receivable		208,279	2,821,977
Total current tax asset		208,279	2,821,977

(d) Current Tax Liabilities

	Note	2015 $	2014 $
Income tax payable		20,776,754	-
Total current tax liabilities		20,776,754	-

Note 6. Income Tax continued

(e) Deferred Tax Balances

	Consolidated			
	Balance as at 1 July 2014 $	Charged (Credited) to Profit or Loss $	Charged (Credited) Directly to Equity $	Balance as at 30 June 2015 $
Temporary differences				
Exploration and evaluation expenditure	(167,113,728)	110,646,907	-	**(56,466,821)**
Provisions and accruals	365,669	18,263	-	**383,932**
Equity raising transaction costs	2,077,099	(890,316)	-	**1,186,783**
Unrealised foreign currency losses (gains)	98,680	(26,643,675)	-	**(26,544,995)**
Farm-out expenditures	166,498	(105,075)	-	**61,423**
Other	17,808	8,528	-	**26,336**
Total temporary differences	(164,387,974)	83,034,632	-	**(81,353,342)**
Unused tax losses				
Tax losses	178,129,376	(178,129,376)	-	-
Total unused tax losses	178,129,376	(178,129,376)	-	-
Net deferred tax assets (deferred tax liabilities)	13,741,402	(95,094,744)	-	**(81,353,342)**
Presented in the consolidated statement of financial position as follows:				
Deferred tax assets (deferred tax liabilities)	13,741,402			**(81,353,342)**

	Consolidated	
	2015 $	2014 $
Deferred tax assets (liabilities) expected to be settled within 12 months	**(6,305,474)**	62,129,231
Deferred tax liabilities expected to be settled after more than 12 months	**(75,047,868)**	(48,387,829)
Deferred tax assets (deferred tax liabilities)	**(81,353,342)**	13,741,402

(f) 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	**7,555,584**	-
Tax losses: Brazilian operating losses at a tax rate of 34%	**4,731,287**	1,735,430
Potential tax income	**12,286,871**	1,735,430

(g) Unrecognised Taxable Temporary Differences

Temporary tax differences relating to deferred tax liabilities	**(22,709,742)**	(11,905,467)
Offset by deferred tax assets relating to operating losses	**22,709,742**	11,905,467
Total deferred tax liabilities (unrecognised)	**-**	-

PRRT

PRRT applies to all the Group's Australian petroleum projects in offshore areas under the *Petroleum Resource Rent Tax Assessment Act 1987*, other than some specific production licences. PRRT is assessed on a project basis or production licence area and will be levied on the taxable profits of a relevant petroleum project at a rate of 40%. Certain specified undeducted expenditures are eligible for compounding. The expenditures can be compounded annually at set rates and the compounded amount can be deducted against assessable receipts in future financial years.

The Group estimates that it has incurred compounded carried forward undeducted PRRT expenditure in excess of accounting carrying values as at 30 June 2015 of $77,791,871 (2014: $86,336,523). The resulting deferred tax asset calculated at an effective tax rate of 28%, that has not been recognised in the consolidated statement of financial position, was $21,781,724 (2014: $24,174,226). Of which $Nil (2014: $3,453,908) relates to exploration permits WA-315-P and WA-398-P.

In order for the Group to utilise undeducted expenditures for PRRT purposes from previous financial years, it will be required to substantiate eligible expenditure in relation to respective Australian offshore permits since the date of their granting to the Group. Any amount that the Group is not able to substantiate will not be able to be utilised against assessable receipts in future financial years. Interests in undeducted PRRT expenditure can be transferred between projects within the Group or to other third parties on acquisitions of interests in the Group's Australian offshore permits.

	Consolidated	
	2015 $	2014 $

Note 7. Remuneration of External Auditors

Remuneration received or due and receivable by the external auditor of Karoon Gas Australia Ltd for:

(a) PricewaterhouseCoopers Australia

	2015 $	2014 $
(i) Audit and other assurance services		
Audit and review of financial statements	143,350	180,900
Total remuneration for audit and other assurance services	143,350	180,900
(ii) Other services		
Agreed upon procedures in relation to the Company's 2014 Annual General Meeting and tax advice	9,100	-
Total remuneration of PricewaterhouseCoopers Australia	152,450	180,900

(b) Related Practices of PricewaterhouseCoopers Australia

	2015 $	2014 $
(i) Audit and other assurance services		
Audit and review of financial statements	186,170	149,692
Non-audit services	-	11,158
Total remuneration for audit and other assurance services of related practices	186,170	160,850
(ii) Other services		
International tax and accounting advice	-	11,355
Total remuneration of related practices of PricewaterhouseCoopers	186,170	172,205
Total remuneration external auditors	338,620	353,105

Note 8. Dividends

There were no ordinary dividends declared or paid during the financial year by the Group (2014: $Nil).

	2015 $	2014 $
Dividend franking account		
Balance of franking account at end of financial year	-	-

	Consolidated 2015 $	Consolidated 2014 $
Note 9. Earnings Per Share		
Profit (loss) for the financial year used to calculate basic and diluted earnings per ordinary share:	**231,456,873**	(5,518,780)
(a) Basic profit (loss) per ordinary share	**0.9285**	(0.0220)
(b) Diluted profit (loss) per ordinary share*	**0.9274**	(0.0220)

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

	2015	2014
Weighted average number of ordinary shares on issue during the financial year used in calculating basic earnings per ordinary share:	**249,269,972**	251,343,012
Weighted average number of potential ordinary shares:	**294,569**	744,639
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per ordinary share (excluding anti-dilutive share options outstanding):	**249,564,541**	252,087,651
Weighted average number of anti-dilutive share options:	**8,074,232**	10,948,096

Potential ordinary shares

Share options 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 share options have not been included in the determination of basic earnings per ordinary share.

Note 10. Cash and Cash Equivalents

	2015	2014
Cash at banks and on hand (refer note (a) below)	**529,169,532**	35,116,811
Short-term bank deposits (refer note (b) below)	**23,921,808**	3,896,532
Total cash and cash equivalents	**553,091,340**	39,013,343

(a) Cash at Banks and On Hand

Cash at banks and on hand includes share of joint operation cash balances. Refer to Note 24 for further details.

(b) Short-term Bank Deposits

Short-term bank deposits are made for varying periods of between one day and 90 days, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term bank deposit rates.

(c) Financial Risk Management

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

	Consolidated 2015 $	2014 $
Note 11. Receivables		
Current		
Other receivables	3,410,296	7,761,654
Total current receivables	3,410,296	7,761,654

(a) Financial Risk Management

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

Note 12. Inventories

	2015 $	2014 $
Current		
Casing and other drilling inventory, at cost	3,082,027	5,563,313
Total current inventories	3,082,027	5,563,313
Non-current		
Casing and other drilling inventory, at cost	33,780,628	31,569,743
Total non-current inventories	33,780,628	31,569,743

Note 13. Security Deposits

	2015 $	2014 $
Current		
Karoon Petróleo & Gas Ltda, KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note (c) below)	68,242	41,337
Total current security deposits	68,242	41,337
Non-current		
Karoon Gas Australia Ltd (refer note (a) below)	9,307,270	7,582,358
Karoon Gas Australia Ltd (refer note (b) below)	375,035	375,022
KEI (Peru Z38) Pty Ltd, Sucursal del Peru and KEI (Peru 112) Pty Ltd, Sucursal del Peru (2014: Karoon Petróleo & Gas Ltd, KEI (Peru Z38) Pty Ltd, Sucursal del Peru and KEI (Peru 112) Pty Ltd, Sucursal del Peru) (refer note (c) below)	42,586	75,506
Total non-current security deposits	9,724,891	8,032,886

(a) Performance Guarantees

Performance guarantees (via letters of credit) were provided to Peru Petro SA (the Peruvian oil and gas regulator) for Block Z-38 and Block 144 by the Group (refer Note 25) for second and third period work commitments. The letters of credit are fully funded by way of payment of a security deposit, which will be released once the work commitments are met.

(b) Bank Guarantees

Cash deposits are held as security against bank guarantee facilities for bank guarantees (refer Note 25) given to lessors for the Group's compliance with its obligations in respect of operating lease rental agreements for office premises at Melbourne and Mount Martha.

(c) Bonds

Cash deposits are held as bonds for the Group's compliance with its obligations in respect of agreements for the guarantee (refer Note 25) of payment obligations for various accommodation in Brazil and Peru.

(d) Financial Risk Management

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

	Note	Consolidated 2015 $	2014 $
Note 14. Assets Classified as Held for Sale			
Current assets classified as held for sale			
Exploration and evaluation expenditure carried forward held for sale (refer note (a) below)	18	-	386,667,150
Total current assets classified as held for sale		-	386,667,150

(a) Exploration and evaluation expenditure carried forward on exploration permits WA-315-P and WA-398-P had been classified as held for sale as at 30 June 2014 and stated at the lower of its carrying amount and fair value (less costs to sell). The carrying amount was recovered through a sale of asset transaction. Completion of the Sale and Purchase Agreement was effective as at 31 July 2014. The disposal date was the same as the date of completion, being 31 July 2014.

Current liabilities directly associated with assets classified as held for sale

		2015 $	2014 $
Accrued expenditures		-	19,654,597
Total current liabilities directly associated with assets classified as held for sale		-	19,654,597

(b) Financial Risk Management

Information concerning the Group's exposure to financial risks on liabilities directly associated with assets classified as held for sale is set out in Note 3.

Note 15. Other Assets

Current

		2015 $	2014 $
Prepayments		3,643,902	5,263,470
Total current other assets		3,643,902	5,263,470

Note 16. Plant and Equipment

Plant and equipment

		2015 $	2014 $
At cost		5,862,743	5,618,322
Accumulated depreciation		(3,561,084)	(2,638,784)
Total plant and equipment, at net book value		2,301,659	2,979,538

Reconciliation

The reconciliation of the carrying amount for plant and equipment is set out below:

	Note	2015 $	2014 $
Balance at beginning of financial year		2,979,538	1,981,339
Additions	23	288,478	1,849,865
Disposals		(6,044)	(52,635)
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(1,499)	(9,973)
Depreciation expense	5	(958,814)	(789,058)
Net carrying amount at end of financial year		2,301,659	2,979,538

	Note	Consolidated 2015 $	2014 $

Note 17. Intangible Assets

	Note	2015 $	2014 $
Computer software			
At cost		**2,314,055**	2,102,954
Accumulated amortisation		**(1,824,683)**	(1,635,698)
Total intangibles, at net book value		**489,372**	467,256

Reconciliation

The reconciliation of the carrying amounts for computer software is set out below:

	Note	2015 $	2014 $
Balance at beginning of financial year		**467,256**	418,610
Additions	23	**214,943**	299,856
Net foreign currency difference on translation of financial statements of foreign subsidiaries		**14,371**	(4,611)
Amortisation expense	5	**(207,198)**	(246,599)
Net carrying amount at end of financial year		**489,372**	467,256

Note 18. Exploration and Evaluation Expenditure Carried Forward

	Note	2015 $	2014 $
Geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs		**485,539,123**	296,389,492

Reconciliation

The reconciliation of exploration and evaluation expenditure carried forward is set out below:

	Note	2015 $	2014 $
Balance at beginning of financial year		**296,389,492**	408,319,787
Additions	23	**218,417,936**	289,927,552
Exploration and evaluation expenditure written off (refer note (a) below)	5	**(28,553,885)**	-
Transfer to assets classified as held for sale	14	**-**	(386,667,150)
Recoupment of exploration and evaluation expenditure on farm-out		**-**	(9,793,267)
Net foreign currency difference on translation of financial statements of foreign subsidiaries		**(714,420)**	(5,397,430)
Total exploration and evaluation expenditure carried forward (refer note (b) below)		**485,539,123**	296,389,492

	Note	2015 $	2014 $
Tangible		**-**	-
Intangible		**485,539,123**	296,389,492
Total exploration and evaluation expenditure carried forward		**485,539,123**	296,389,492

(a) Due to the limited recoverable resource estimate of the Bauna Sul oil discovery and timing restrictions on a development decision, following a decision by the Board of Directors and the joint operation, an application to relinquish Block S-M-1352 (Santos Basin, Brazil), in good standing, was submitted to the ANP by the Operator. Accordingly, capitalised exploration and evaluation expenditure for Block S-M-1352 was fully written off as at 30 June 2015 in accordance with Note 1(n).

(b) Exploration and evaluation expenditure carried forward relates to areas of interest in the exploration and evaluation phase for exploration tenements WA-314-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144 (30 June 2014: WA-314-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block S-M-1352, Block Z-38 and Block 144).

The expenditure is carried forward on the basis that exploration and evaluation activities in the areas of interest have not reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant activity in, or in relation, to the areas is continuing. The future recoverability of the carrying amount of capitalised exploration and evaluation expenditure is dependent on successful development and commercial exploitation or, alternatively, the sale of the respective areas of interest.

	Note	Consolidated 2015 $	2014 $
Note 19. Trade and Other Payables			
Current (unsecured)			
Trade payables		25,279,876	6,008,960
Sundry payables and accrued expenditure		5,141,255	4,505,129
Total current trade and other payables		30,421,131	10,514,089

(a) Financial Risk Management

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

Note 20. Provisions

	Note	2015 $	2014 $
Current			
Provision for restoration (refer note (a) below)		3,849,062	-
Total current provision		3,849,062	-
Non-current			
Provision for restoration (refer note (a) below)		-	3,246,546
Provision for long service leave (refer note (b) below)		433,830	423,398
Total non-current provisions		433,830	3,669,944
Reconciliation of provision for restoration			
Balance at beginning of financial year		3,246,546	-
Additions		-	3,198,917
Unrealised foreign exchange loss to record the liability at balance date		942,850	-
Discount unwinding on provision for restoration	5	90,777	47,040
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(431,111)	589
Total provision for restoration		3,849,062	3,246,546
Provision for restoration (current)		3,849,062	-
Provision for restoration (non-current)		-	3,246,546
Total provision for restoration		3,849,062	3,246,546

(a) Provision for Restoration

A provision was recognised for Brazilian restoration obligations. The measurement and recognition criteria relating to restoration obligations are as described in Note 1(r).

(b) 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(r).

	Consolidated 2015 Number	Consolidated 2014 Number	Consolidated 2015 $	Consolidated 2014 $
Note 21. Contributed Equity and Reserves Within Equity				
(a) Contributed Equity				
Ordinary shares, fully paid	**246,655,739**	255,841,581	**805,529,759**	836,246,445
Total contributed equity			**805,529,759**	836,246,445

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 upon 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.

(b) Movement in Ordinary Shares

Date	Details	Note	Number of Ordinary Shares	Issue Price Per Ordinary Share	$
1 July 2013	Opening balance in previous financial year		221,420,769		664,894,335
14 August 2013	Share placement	(i)	29,700,000	$5.10	151,470,000
10 September 2013	Share purchase plan	(i)	4,720,812	$5.10	24,076,141
	Less: Transaction costs arising on ordinary shares issued during the previous financial year				(5,991,473)
	Deferred tax credit recognised directly in equity	6(b)			1,797,442
30 June 2014	Balance at end of previous financial year		255,841,581		836,246,445
	Performance rights conversion	28(d)	**211,080**		-
	Ordinary shares bought back (on-market) and cancelled	(ii)	**(9,396,922)**		**(30,702,361)**
	Share buy-back transaction costs	(ii)			**(14,325)**
30 June 2015	Balance at end of financial year		**246,655,739**		**805,529,759**

(i) Share Placement and Share Purchase Plan

The purpose of the share placement to sophisticated and professional investors and the share purchase plan during the previous financial year was to provide the Group with funds for its continued exploration and appraisal program in the Browse Basin, exploration in Brazil and Peru and general working capital.

(ii) Share Buy-back (on-market)

During August 2014, an on-market share buy-back was announced for up to 25,112,076 ordinary shares, or a maximum of 10% of ordinary shares on issue. The Company's share buy-back commenced on 3 September 2014. As at 30 June 2015, a total of 9,396,922 ordinary shares had been purchased and cancelled at an average price of $3.27 per share, with prices ranging from $2.88 to $3.98. The total reduction in contributed equity was $30,716,686. The buy-back was suspended upon commencement of the Santos Basin second phase drilling campaign and expired on the 2 September 2015. Upon expiry, the Company made the decision to continue the share buy-back for a further 12 months.

Note 21. Contributed Equity and Reserves Within Equity continued

(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 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 loan facilities when necessary.

Short-term 'bridge' loan facility

A USD100 million 'bridge' loan facility was put in place during June 2014 between the Company and the National Australia Bank Limited to fund operational cash flow requirements. As at 30 June 2014, the facility had not been drawn down. The Company provided a first ranking security over its assets and undertakings, excluding assets outside of Australia and other specified excluded assets. The carrying amount of the assets pledged as security as at 30 June 2014 was $759,084,204.

A 2% establishment fee was charged on the total value of the facility and a commitment fee of 1.8% p.a. was charged on any unused and uncancelled portion of the facility. Interest was charged based on a margin of 3% plus USD Libor, with the margin increasing to 3.5% and 4% after three and five months respectively.

During late July 2014, the USD100 million 'bridge' loan facility was first drawn down upon by USD20 million. While the facility had an expiry date of 30 November 2014, the USD100 million 'bridge' loan facility was voluntarily cancelled during August 2014, after repayment of the USD20 million loan outstanding.

Short-term 'premium funding' loan facility

A USD4,575,374 short-term loan facility was put in place during February 2014 between the Company and Macquarie Bank Limited. The loan facility was unsecured and the facility was used to fund exploration insurance premiums of the Group. Interest was charged at 1.25% p.a. As at 30 June 2014, the facility was fully repaid and discharged.

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 share-based payments to Directors, other key management personnel and employees as part of their remuneration, as described in Note 1(q).

(ii) Foreign Currency Translation Reserve

The foreign currency translation reserve is used to recognise exchange differences arising from the translation of financial statements of foreign subsidiaries, 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 foreign subsidiary is disposed.

Note 22. 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 2015 %	2014 %
Parent Company:				
Karoon Gas Australia Ltd	Australia	Australia		
Unlisted subsidiaries of Karoon Gas Australia 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
KEI (Peru 112) Pty Ltd	Australia	Australia	**100**	100
KEI (Peru Z38) Pty Ltd	Australia	Australia	**100**	100
Jointly owned unlisted subsidiary of Karoon Energy International Pty Ltd and KEI (Brazil Santos) Pty Ltd:				
Karoon Petróleo & Gas Ltda	Brazil	Brazil	**100**	100
Branch of KEI (Peru 112) Pty Ltd:				
KEI (Peru 112) 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 23. 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 Managing Director and Executive Director/Exploration Director (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 three geographic locations:

- Australia – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in two offshore permit areas: WA-314-P and WA-482-P (2014: four offshore permit areas: WA-314-P, WA-315-P, WA-398-P and WA-482-P);
- Brazil – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in six offshore Blocks: Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166 and Block S-M-1352[1]; and
- Peru – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in two Blocks: Block 144 (onshore) and Block Z-38 (offshore).

1. Following a decision by the Board of Directors and the joint operation, an application to relinquish Block S-M-1352, in good standing, was submitted to the ANP by the Operator during the financial year.

'All other segments' include amounts not specifically attributable to an operating segment.

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.

Employee benefits expenses and other operating expenses, that are associated with exploration and evaluation activities and specifically relate to an area of interest, are allocated to the area of interest and are capitalised as exploration and evaluation assets.

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 on the operations of the segment.

Note 23. Segment Information continued

(b) Operating Segments

Segment Performance	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
Revenue for financial year ended 30 June 2015					
Segment revenue	-	-	-	-	-
Interest income from unrelated entities	296,075	1,708,650	58	-	2,004,783
Total revenue	296,075	1,708,650	58	-	2,004,783
Result for financial year ended 30 June 2015					
Revenue	296,075	1,708,650	58	-	2,004,783
Other income	399,302,799	299,013	(399,613)	-	399,202,199
Depreciation and amortisation expense	(480,560)	(488,174)	(197,278)	-	(1,166,012)
Employee benefits expense (net)[1]	(7,757,476)	(1,999,247)	(1,206,052)	-	(10,962,775)
Exploration and evaluation expenditure expensed or written off	(359,674)	(28,969,083)	(21,123)	(138,117)	(29,487,997)
Finance costs	(2,708,957)	(902,528)	(16,049)	-	(3,627,534)
Property costs	(716,588)	(1,161,901)	(303,131)	-	(2,181,620)
Administration and other operating expenses	(4,889,373)	(485,686)	(1,054,513)	-	(6,429,572)
Profit (loss) before income tax	382,686,246	(31,998,956)	(3,197,701)	(138,117)	347,351,472
Tax expense	(115,894,599)	-	-	-	(115,894,599)
Profit (loss) for financial year	266,791,647	(31,998,956)	(3,197,701)	(138,117)	231,456,873
Revenue for financial year ended 30 June 2014					
Segment revenue	-	-	-	-	-
Interest income from unrelated entities	2,604,101	2,990,987	67	-	5,595,155
Total revenue	2,604,101	2,990,987	67	-	5,595,155
Result for financial year ended 30 June 2014					
Revenue	2,604,101	2,990,987	67	-	5,595,155
Other income	124,477	2,248,387	(153,488)	-	2,219,376
Depreciation and amortisation expense	(579,512)	(324,911)	(131,234)	-	(1,035,657)
Employee benefits expense (net)[2]	(8,581,079)	(2,507,552)	(858,311)	-	(11,946,942)
Exploration and evaluation expenditure expensed	(365,880)	(2,637,796)	(61,590)	(77,680)	(3,142,946)
Finance costs	(214,793)	(157,367)	(16,861)	-	(389,021)
Property costs	(728,428)	(1,106,339)	(237,304)	-	(2,072,071)
Administration and other operating expenses	(5,301,515)	(2,000,519)	(1,429,528)	-	(8,731,562)
Loss before income tax	(13,042,629)	(3,495,110)	(2,888,249)	(77,680)	(19,503,668)
Tax income	13,984,888	-	-	-	13,984,888
(Loss) profit for financial year	942,259	(3,495,110)	(2,888,249)	(77,680)	(5,518,780)

1. Includes non-cash share-based payments expense of $2,328,333 (Australia), $578,735 (Brazil) and $292,373 (Peru).
2. Includes non-cash share-based payments expense of $3,306,487 (Australia), $816,405 (Brazil) and $178,678 (Peru).

Segment Assets	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
As at 30 June 2015					
Segment asset information					
Cash and cash equivalents	**525,484,989**	**24,736,253**	**2,870,098**	**-**	**553,091,340**
Exploration and evaluation expenditure carried forward	**188,278,259**	**238,909,021**	**58,351,843**	**-**	**485,539,123**
Security deposits	**375,035**	**52,254**	**9,365,844**	**-**	**9,793,133**
Inventories	**329,976**	**11,846,087**	**24,686,592**	**-**	**36,862,655**
Other	**2,257,117**	**4,616,338**	**3,180,053**	**-**	**10,053,508**
Segment assets	**716,725,376**	**280,159,953**	**98,454,430**	**-**	**1,095,339,759**
As at 30 June 2014					
Segment asset information					
Cash and cash equivalents	33,302,532	5,348,966	361,845	-	39,013,343
Exploration and evaluation expenditure carried forward	169,823,504	82,826,159	43,739,829	-	296,389,492
Deferred tax assets	13,741,402	-	-	-	13,741,402
Security deposits	375,022	56,295	7,642,906	-	8,074,223
Inventories	-	17,822,824	19,310,232	-	37,133,056
Assets classified as held for sale	386,667,150	-	-	-	386,667,150
Other	6,571,013	10,078,455	2,644,427	-	19,293,895
Segment assets	610,480,623	116,132,699	73,699,239	-	800,312,561

Segment Liabilities					
As at 30 June 2015					
Segment liability information					
Trade and other payables	**4,511,120**	**24,936,893**	**973,118**	**-**	**30,421,131**
Current tax liabilities	**20,776,754**	**-**	**-**	**-**	**20,776,754**
Deferred tax liabilities	**81,353,342**	**-**	**-**	**-**	**81,353,342**
Provisions	**433,830**	**3,849,062**	**-**	**-**	**4,282,892**
Segment liabilities	**107,075,046**	**28,785,955**	**973,118**	**-**	**136,834,119**
As at 30 June 2014					
Segment liability information					
Trade and other payables	4,897,074	3,248,513	2,368,502	-	10,514,089
Liabilities directly associated with assets classified as held for sale	19,654,597	-	-	-	19,654,597
Provisions	423,398	3,246,546	-	-	3,669,944
Segment liabilities	24,975,069	6,495,059	2,368,502	-	33,838,630

(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 2015					
Plant and equipment	**89,569**	**172,552**	**26,357**	**-**	**288,478**
Intangible assets	**122,071**	**32,250**	**60,622**	**-**	**214,943**
Exploration and evaluation expenditure carried forward	**18,454,755**	**193,221,268**	**6,741,913**	**-**	**218,417,936**

Financial year ended 30 June 2014					
Plant and equipment	35,714	1,121,267	692,884	-	1,849,865
Intangible assets	41,679	49,617	208,560	-	299,856
Exploration and evaluation expenditure carried forward	224,111,962	55,893,210	9,922,380	-	289,927,552

Note 24. Joint Operations

The Group has an interest in the following joint operations as at 30 June 2015 as follows:

Exploration Permit	Unincorporated Interest 2015 %	Unincorporated Interest 2014 %	Principal Activities	Operator of Joint Operation
WA-315-P	-[1]	40	Exploration and evaluation	ConocoPhillips
WA-398-P	-[1]	40	Exploration and evaluation	ConocoPhillips
WA-482-P	**50**	50	Exploration and evaluation	Quadrant (formerly Apache)
Block Z-38	**75[2]**	75[2]	Exploration and evaluation	KEI (Peru Z38) Pty Ltd, Sucursal del Peru
Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1166	**65**	65	Exploration and evaluation	Karoon Petróleo & Gas Ltda
Block S-M-1352	**20[3]**	20	Exploration and evaluation	Petróbras

1. During the financial year, Karoon received net proceeds of $658,929,297 from Origin thereby completing the divestment of the Company's 40% equity interest in exploration permits WA-315-P and WA-398-P. Completion of the Sale and Purchase Agreement was effective as at 31 July 2014. Other income for the financial year includes a $276,673,235 gain on divestment of exploration permits WA-315-P and WA-398-P.
2. The Group's 75% Block Z-38 equity interest is subject to completion of farm-in obligations. Under the terms of the farm-in, Karoon is currently funding 100% of all exploration expenditure.
3. Following a decision by the Board of Directors and the joint operation, an application to relinquish Block S-M-1352, in good standing, was submitted to the ANP by the Operator during the financial year.

The following amounts represented the Group's share of assets, liabilities, revenues and expenses employed in joint operations. The amounts are included in the consolidated financial statements, in accordance with the accounting policy described in Note 1(u), under the following classifications:

	Consolidated 2015 $	Consolidated 2014 $
Cash and cash equivalents	**20,720,906**	2,039,720
Receivables	**1,029,551**	5,913,496
Inventories	**12,176,063**	17,822,824
Other assets	**1,991,076**	6,110
Assets classified as held for sale	**-**	386,667,150
Total current assets	**35,917,596**	412,449,300
Exploration and evaluation expenditure carried forward	**320,891,872**	137,417,264
Total non-current assets	**320,891,872**	137,417,264
Trade and other payables	**23,643,527**	1,764,721
Liabilities directly associated with assets classified as held for sale	**-**	19,654,597
Total current liabilities	**23,643,527**	21,419,318
Provision for restoration	**3,849,062**	3,246,546
Total non-current liabilities	**3,849,062**	3,246,546
Share of net assets employed in joint operations	**329,316,879**	525,200,700
Other income	**278,422,359**	1,732,942
Exploration and evaluation expenditure expensed or written off	**(28,553,885)**	(2,535,929)
Discount unwinding on provision for restoration	**(90,777)**	(47,040)

The future recoverability of the carrying amount of capitalised exploration and evaluation expenditure is dependent on successful development and commercial exploitation or, alternatively, the sale of the respective areas of interest.

Contingent liabilities in respect of joint operations are set out in Note 25. Exploration expenditure commitments and exploration expenditure commitments in respect of joint operations are set out in Note 26.

Parent Company guarantees had previously been provided to ConocoPhillips (Browse Basin) Pty Ltd ('ConocoPhillips') guaranteeing Karoon Gas Browse Basin Pty Ltd's performance under the joint operating agreements covering two previously held Browse Basin permit interests (exploration permits WA-315-P and WA-398-P). In addition, a deed of cross charge had been entered into with ConocoPhillips and PetroChina International Investment (Australia) Pty Ltd by Karoon Gas Browse Basin Pty Ltd covering WA-315-P and WA-398-P.

	Consolidated	
	2015 $	2014 $

Note 25. Contingent Liabilities and Contingent Assets

(a) Contingent Liabilities

The Group has contingent liabilities as at 30 June 2015 that may become payable in respect of:

	2015 $	2014 $
(i) Performance guarantees (via letters of credit) were provided to Peru Petro SA (the Peruvian oil and gas regulator) for Block Z-38 and Block 144 by the Group for second and third period work commitments. The Directors are of the opinion that the work commitments will be satisfied for both blocks. The letters of credit are fully funded by way of payment of security deposits (refer Note 13), which will be released once the work commitments are met.	9,307,270	7,582,358
(ii) Bank guarantees were provided in respect of operating lease rental agreements for 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).	375,035	375,022
(iii) Cash deposits (refer Note 13) are held as bonds for the Group's compliance with its obligations to third party suppliers in respect of agreements for the guarantee of payment obligations for various accommodation in Brazil and Peru.	110,828	116,843

(iv) 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 petroleum 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 interest in the petroleum 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.

(v) Brazilian Local Content

The Concession Contracts for Santos Basin blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 require Karoon Petróleo & Gas 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 55%. If Karoon Petróleo & Gas Ltda fails to comply with this minimum requirement, Karoon Petróleo & Gas Ltda may be subject to a fine by the ANP.

It is not practical to estimate a potential shortfall in meeting the local content requirement as at 30 June 2015, nor the financial effect of any potential fine by the ANP.

(b) Contingent Assets

The Group has no contingent assets as at 30 June 2015 (30 June 2014: $Nil).

	Consolidated 2015 $	Consolidated 2014 $

Note 26. Commitments

(a) Capital Expenditure Commitments

Contracts and/or signed Authorities for Expenditure for capital expenditure in relation to assets not provided for in the consolidated financial statements and payable:

	2015 $	2014 $
Drilling operations		
Not later than one year	7,615,568	47,858,610
Total capital expenditure commitments	7,615,568	47,858,610

(b) Operating Lease Rental Commitments

Non-cancellable operating lease rentals not provided for in the consolidated financial statements and payable:

	2015 $	2014 $
Not later than one year	2,039,842	2,074,485
Later than one year but not later than five years	579,978	2,598,643
Total operating lease rental commitments	2,619,820	4,673,128

The Group leases various offices under non-cancellable operating leases expiring within one to two years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(c) Exploration Expenditure Commitments

Some subsidiaries within the Group have commitments for exploration expenditure arising from obligations to government, to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of petroleum tenements WA-314-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144 (30 June 2014: WA-314-P, WA-315-P, WA-398-P, WA-482-P, Block S-M-1352, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144) not provided for in the consolidated financial statements and payable. Included in exploration expenditure commitments are $143,372,395 (30 June 2014: $312,284,289) of commitments that relate to the non-guaranteed work commitments:

	2015 $	2014 $
Not later than one year	7,514,391	103,739,835
Later than one year but not later than five years	354,049,478	456,177,071
Total exploration expenditure commitments	361,563,869	559,916,906

The above commitments include exploration expenditure commitments relating to joint operations:

	2015 $	2014 $
Not later than one year	7,514,391	103,739,835
Later than one year but not later than five years	328,268,229	435,157,962
Total joint operation exploration expenditure commitments	335,782,620	538,897,797

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 organised, and are determined 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.

Where exploration and evaluation expenditure included in this category relates to an existing contract for expenditure and/or signed Authorities for Expenditure, the amount will be included in both categories (a) and (c) above.

Note 27. Reconciliation to the Consolidated Statement of Cash Flows

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

	Consolidated	
	2015 $	2014 $
Profit (loss) for financial year	**231,456,873**	(5,518,780)
Add (subtract):		
Non-cash items included in profit (loss) for financial year:		
Depreciation of plant and equipment and amortisation of computer software	**1,166,012**	1,035,657
Discount unwinding on provision for restoration	**90,777**	47,040
Non-cash employee benefits expense: share-based payments expense	**3,199,441**	4,301,570
Net foreign currency (gains) losses	**(116,618,518)**	197,135
Items classified as investing/financing activities:		
Net loss on disposal of plant and equipment	**6,044**	62,809
Exploration and evaluation expenditure written off	**28,553,885**	-
Net foreign currency gains	**(4,672,477)**	(1,297,952)
Gain on divestment of exploration permits WA-315-P and WA-398-P	**(276,673,235)**	-
Change in operating assets and liabilities:		
(Increase) decrease in assets		
Receivables – current	**(301,362)**	2,130,327
Current tax asset	**2,367,681**	(1,811,073)
Deferred tax assets	**13,741,402**	(11,943,960)
Other assets	**2,237,468**	(1,644,688)
Increase (decrease) in liabilities		
Trade and other payables – current	**(661,815)**	1,380,419
Provisions	**10,432**	112,795
Current tax liabilities	**20,776,754**	-
Deferred tax liabilities	**81,353,342**	-
Net cash flows used in operating activities	**(13,967,296)**	(12,948,701)

Note 28. Share-based Payments

The share-based payment plans are described below. There has been no cancellation to a plan during the financial year. Amendments to the ESOP plan and its continuing operation were approved by shareholders at the 2012 Annual General Meeting. The Karoon Gas Australia 2012 Performance Rights Plan ('PRP') was approved by shareholders at the 2012 Annual General Meeting.

(a) Employee Share Option Plan ('ESOP')

The Company currently has two ESOP plans in place, the Karoon Gas Australia 2009 Employee Share Option Plan approved by shareholders at the 2009 Annual General Meeting and the Karoon Gas Australia 2012 Employee Share Option Plan which was approved by shareholders at the 2012 Annual General Meeting. ESOP options expire up to four years after they are granted. The exercise price of ESOP options, issued during the financial year, is based on the volume weighted average price at which the Company's ordinary shares are traded on the ASX during the 90 days of trading before the ESOP options were offered plus a premium to the market price. Share options granted under the ESOP carry no dividend or voting rights. When exercisable, each ESOP option is convertible into one ordinary share of the Company.

If there is a change of control of the Company:

- for all unexercised Karoon Gas Australia 2009 Employee Share Option Plan options, they become immediately exercisable; and
- for all unexercised Karoon Gas Australia 2012 Employee Share Option Plan options, a percentage amount of unvested ESOP options may vest on the basis of the pro-rata achievement of pre-determined performance conditions.

Note 28. Share-based Payments continued

(a) Employee Share Option Plan ('ESOP') continued

All ESOP options issued during the financial year were issued under the Karoon Gas Australia 2012 Employee Share Option Plan.

During the financial year, the Group granted 848,620 ESOP options over unissued ordinary shares in the Company to Directors. Share options issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

During the financial year there were no ESOP options issued under the Karoon Gas Australia 2009 Employee Share Option Plan. However, there are unexercised ESOP options issued that were issued in previous financial years under the Karoon Gas Australia 2009 Employee Share Option Plan.

The following summary reconciles the outstanding ESOP options over unissued ordinary shares in the Company at the beginning and end of the financial year:

	Consolidated		Consolidated	
	2015 Number	**2015 Weighted Average Exercise Price**	2014 Number	2014 Weighted Average Exercise Price
Balance at beginning of financial year	**5,107,466**	**$7.59**	6,483,999	$9.16
Granted during financial year	**3,010,710**	**$4.06**	985,826	$6.74
Exercised during financial year	-	-	-	-
Cancelled during financial year	**(442,033)**	**$7.33**	(332,359)	$6.36
Forfeited during financial year	-	-	-	-
Expired during financial year	**(925,000)**	**$9.77**	(2,030,000)	$12.17
Balance at end of financial year	**6,751,143**	**$5.73**	5,107,466	$7.59
Exercisable at end of financial year	**1,800,000**	**$7.30**	2,985,000	$8.15

There was no exercise of ESOP options during the financial year or previous financial year.

The weighted average fair value of ESOP options granted during the financial year was $1.12 (2014: $1.86).

ESOP options outstanding as at 30 June 2015 had a range of exercise prices from $4.06 to $7.30 (30 June 2014: $6.74 to $9.77) with a weighted average remaining contractual life of 696 days (30 June 2014: 619 days).

Details of ESOP options outstanding at the end of the financial year are:

Grant Date	**Expiry Date**	**Exercise Price Per ESOP Option**	**Number**
10 October 2011	31 October 2015	$7.30	**1,050,000**
10 November 2011	31 October 2015	$7.30	**750,000**
30 November 2012	29 November 2016	$6.85	**1,017,917**
14 January 2013	29 November 2016	$6.85	**74,334**
9 August 2013	30 June 2017	$6.74	**745,183**
1 November 2013	30 June 2017	$6.74	**155,079**
22 August 2014	30 June 2018	$4.06	**1,127,237**
29 August 2014	30 June 2018	$4.06	**555,438**
3 November 2014	30 June 2018	$4.06	**848,620**
17 February 2015	30 June 2018	$4.06	**370,731**
23 January 2015	30 December 2018	$4.06	**56,604**
Total ESOP options			**6,751,143**

(b) Other Share Options

Other share options issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

During the financial year and previous financial year, the Group did not grant any other share options over unissued ordinary shares in the Company to Directors.

Other share options granted carry no dividend or voting rights. When exercisable, each other share option is convertible into one ordinary share of the Company.

The following summary reconciles the outstanding other share options over unissued ordinary shares in the Company at the beginning and end of the financial year:

	Consolidated		Consolidated	
	2015 Number	2015 Weighted Average Exercise Price	2014 Number	2014 Weighted Average Exercise Price
Balance at beginning of financial year	**2,300,000**	**$9.76**	6,350,000	$10.75
Granted during financial year	-	-	-	-
Exercised during financial year	-	-	-	-
Forfeited during financial year	-	-	(2,200,000)	$10.98
Expired during financial year	**(1,700,000)**	**$9.81**	(1,850,000)	$11.70
Balance at end of financial year	**600,000**	**$9.60**	2,300,000	$9.76
Exercisable at end of financial year	**400,000**	**$10.98**	2,100,000	$10.03

Other share options outstanding as at 30 June 2015 had a range of exercise prices from $6.85 to $10.98 (30 June 2014: $6.85 to $10.98) with a weighted average remaining contractual life of 377 days (30 June 2014: 383 days).

Details of other share options outstanding at the end of the financial year are:

Grant Date	Expiry Date	Exercise Price Per Other Share Option	Number
10 November 2011	1 May 2016	$10.98	**400,000**
30 November 2012	29 November 2016	$6.85	**200,000**
Total other share options			**600,000**

(c) Fair Value of Share Options

The fair value of each share option issued during the financial year was estimated on grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model takes into account the exercise price, the term of the share option, 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 share option.

The Group applied the following assumptions and inputs in estimating the weighted average fair value:

	2015	2014
Weighted average exercise price	**$4.06**	$6.74
Weighted average life of share options	**1,364 days**	1,407 days
Weighted average share price	**$3.33**	$5.12
Expected share price volatility	**48%**	54%
Risk free interest rate	**2.98%**	3.25%
Weighted average share option value	**$1.12**	$1.86

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.

Note 28. Share-based Payments continued

(d) Performance Rights Plan ('PRP')

Under the PRP, eligible employees are given performance rights to be issued and allotted ordinary shares in the Company, to be issued as fully paid for no consideration provided certain conditions have been met. Vesting of 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. In each case, the Remuneration Committee will be responsible for assessing whether the performance measures have been achieved. When vested, each performance right is 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.

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	
	2015 Number	2014 Number
Balance at beginning of financial year	**668,425**	259,469
Granted during financial year	**-**	435,818
Vested and converted during financial year	**(211,080)**	-
Cancelled during financial year	**(23,388)**	(26,862)
Forfeited during financial year	**(139,388)**	-
Balance at end of financial year	**294,569**	668,425

There were 211,080 performance rights vested during the financial year, which were converted into 211,080 fully paid ordinary shares.

The weighted average fair value of performance rights granted during the previous financial year was $5.12. The fair value of the performance rights at grant date was based on the closing market price of the Company's ordinary shares on that date.

Performance rights outstanding as at 30 June 2015 had a weighted average remaining contractual life of 344 days (30 June 2014: 654 days).

Details of performance rights outstanding at the end of the financial year are:

Grant Date	Expiry Date	Number
30 November 2012	29 November 2015	**30,689**
9 August 2013	30 June 2016	**219,634**
1 November 2013	30 June 2016	**44,246**
Total performance rights		**294,569**

(e) Share-based Payments Expense

Total expenses arising from share-based payment transactions recognised during the financial year, included as part of employee benefits expense in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	Consolidated	
	2015 $	2014 $
Share options issued under ESOP	**1,860,510**	1,286,865
Other share options	**86,079**	1,402,810
Performance rights issued under PRP	**1,252,852**	1,611,895
Total share-based payments expense (non-cash)	**3,199,441**	4,301,570

Note 29. 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) Parent Company

The ultimate Parent Company within the Group is Karoon Gas Australia Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 22.

During the financial year, the Group provided accounting, administrative and technical services to subsidiaries at cost. 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 advancement of intercompany loans at Nil% interest rate (2014: Nil%) and no fixed term for repayment as it was used for funding the intercompany operations and therefore will not be repaid within 12 months. Loans are unsecured and are repayable in cash.

Where share options and 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.

Parent Company guarantees had been provided to third parties guaranteeing a subsidiary's performance under the WA-315-P and WA-398-P joint operating agreements (refer Note 30(c)).

The obligations of the Company under the USD100 million 'bridge' loan facility with the National Australia Bank Limited were guaranteed by Karoon Gas Browse Basin Pty Ltd (refer Note 30(c)).

(c) Remuneration of Key Management Personnel

Directors and other key management personnel remuneration is summarised as follows:

	Consolidated	
	2015 $	2014 $
Short-term employee benefits	**3,460,969**	3,075,528
Post-employment benefits	**286,972**	242,483
Long-term employee benefits (non-cash)	**12,243**	50,924
Share-based payments expense (non-cash)	**1,216,333**	2,185,262
Total key management personnel remuneration	**4,976,517**	5,554,197

Detailed remuneration disclosures for the Directors and other key management personnel are provided in Sections 5 of the audited Remuneration Report on pages 49 to 50.

In addition to the above, the Group is committed to pay the Executive Directors and other key management personnel up to $2,724,604 (2014: $2,735,509) in the event their role is fundamentally reduced upon a change in control of the Group.

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 2015.

(d) Superannuation Contributions

During the financial year, the Group contributed to accumulation type benefit funds administered by external fund managers or an employee's self-managed superannuation fund. The funds cover all Australian domiciled employees and Directors of the Company. The current contribution rate is 9.5% p.a. (2014: 9.25% p.a.) of employee cash remuneration up to a cap of $18,783 (2014: $17,775). Contributions to superannuation funds, on behalf of Directors and employees, during the financial year by the Group amounted to $503,606 (2014: $442,790).

Note 29. Related Party Transactions continued

(e) Other Related Party Transactions Within the Group

During the financial year, Mr Clark Davey, a Non-Executive Director, had an interest in Anderson Park Tax Pty Ltd which provided taxation services to the Group. The value of these transactions during the financial year in the Group was $1,908 (2014: $Nil). The balance outstanding included in current trade and other payables is $Nil (2014: $Nil). The minor amount and nature of this transaction did not compromise Mr Davey's independence. Mr Davey was considered the most appropriate person to complete the work given his knowledge of the subject matter and the need to maintain confidentiality.

During the financial year, Mr Jose Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda which provided business and geology consulting services to the Group. The value of these transactions during the financial year in the Group was $308,275 (2014: $271,384). The balance outstanding included in current trade and other payables is $27,058 (2014: $22,101). Given Karoon's relative size to other operators in Brazil, the consulting services provided by Net Pay Óleo & Gás Consultoria Ltda are critical to Karoon's ability to operate within the Brazilian oil industry.

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director, was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration during the financial year was $267,481 (2014: $259,108), which includes social security and indemnity fund contributions of $45,610 (2014: $57,162). Ms Barbosa has been an employee of the Company since 2011, and has a comprehensive understanding of the Brazilian regulatory framework.

During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a key management person), was employed by the Group as the Community Relations and Social Projects Manager in South America. The total value of her remuneration during the financial year was $253,262 (2014: $219,791), which includes social security and indemnity fund contributions of $46,486 (2014: $49,847). Ms Sayao is a key member of the South American management team. It is through her efforts that Karoon has one of the most respected community social responsibility programs in Peru, a key component of the Company's overall success in South America. The Brazilian and Peruvian regulatory and business environments require transparent and clear communication on social and environmental issues with local and federal governments, it is not possible to conduct day-to-day business activities without these essential services.

During the financial year, Mr William Hosking, the son of the Managing Director of the Company, was employed on a short-term contract basis by a multi-national third party industry supplier that worked on the Group's second phase drilling campaign in Brazil. The total value of his consulting remuneration during the financial year was $35,676. The relationship between Mr William Hosking, the third party industry supplier and the Company ceased during the financial year. During the previous financial year, Mr William Hosking was employed directly by the Company on a part-time basis in Australia. The total value of his remuneration during the previous financial year was $15,765.

During the financial year and the previous financial year, Mr Mark Smith, an Executive Director, had an interest in IERS (Australia) Pty Ltd, which has an ongoing agreement with the Group to provide geophysical fault seal analysis software. This agreement had been negotiated at commercial terms and does not include monetary compensation. Instead, the Group provides testing and ongoing development of the geophysical fault seal analysis software in return for its use.

During the previous financial year, Mr Stephen Power was a Non-Executive Director (who resigned on 6 June 2014) and had an interest in Napier Legal Pty Ltd which provided legal services to the Group. The value of these transactions during the previous financial year, up until the date of his resignation as a Director, in the Group was $243,760. The balance outstanding included in current trade and other payables in the previous financial year was $60,000.

	Company 2015 $	2014 $

Note 30. Parent Company Financial Information

(a) Summary Financial Information

The individual financial statements for Karoon Gas Australia Ltd show the following aggregate amounts:

	2015 $	2014 $
Statement of financial position		
Current assets	525,385,528	32,116,213
Non-current assets	342,373,389	734,550,551
Total assets	867,758,917	766,666,764
Current liabilities	21,946,586	1,976,323
Non-current liabilities	25,366,130	423,398
Total liabilities	47,312,716	2,399,721
Net assets	820,446,201	764,267,043
Contributed equity	805,529,759	836,246,445
Accumulated losses	(22,020,241)	(105,716,644)
Share-based payments reserve	36,936,683	33,737,242
Total equity	820,446,201	764,267,043
Profit (loss) for financial year	83,696,403	(9,159,414)
Total comprehensive income (loss) for financial year	83,696,403	(9,159,414)

(b) Contingent Liabilities of Parent Company

	2015 $	2014 $
(i) Bank guarantees were provided in respect of operating lease rental agreements at Melbourne and Mount Martha for the Company. 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).	375,035	375,022
(ii) Performance guarantees (via letters of credit) were provided to Peru Petro SA (the Peruvian oil and gas regulator) for Block Z-38 and Block 144 by the Company for second and third period work commitments. The Directors are of the opinion that the work commitments will be satisfied for both blocks. The letters of credit are fully funded by way of payment of security deposits (refer Note 13), which will be released once the work commitments are met.	9,307,270	7,582,358

(iii) 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

Parent Company guarantees previously provided to third parties guaranteeing a subsidiary's performance under joint operating agreements are set out in Note 24.

The obligations of the Company under the USD100 million 'bridge' loan facility with the National Australia Bank Limited had been guaranteed by Karoon Gas Browse Basin Pty Ltd (refer Note 21(c)).

Note 31. Subsequent Events

The Annual Report was authorised for issue by the Board of Directors on 31 August 2015. The Board of Directors has the power to amend and reissue the consolidated financial statements and notes.

Since 30 June 2015, the following material events have occurred:

(a) Levitt-1 Exploration Well in WA-482-P

On 8 August 2015, the Levitt-1 exploration well in exploration permit WA-482-P reached a final depth of 4,929 mRT. No hydrocarbons shows were noted while drilling. Petrophysical analysis of logging while drilling data indicated the good quality reservoir of the Legendre and North Rankin formations to be water bearing at this location.

A wireline logging program was also completed. The well was plugged and abandoned, completing the current exploration drilling program in WA-482-P.

(b) Santos Basin Brazil revised PAD Approved

During August 2015 Karoon received notification from the ANP for approval of the revised PAD for Santos Basin blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166. The revised plan includes a firm work program to be completed by 31 December 2018 comprising 2 wells, acquisition and processing of a 3D seismic survey over the full PAD acreage, Pre-stack depth migration of data in 2 ms frequency. The contingent work program would then commence on 1 January 2019 and consist of the drilling up to 4 contingent wells. Each contingent well drilled results in a 6 month extension to the contingent period and therefore if all four contingent wells are drilled then the contingent work program will expire on 31 December 2020.

As at 30 June 2015 the previous PAD commitment included the drilling of 2 remaining wells in the contingent period by 31 December 2016 and completion of a firm seismic reprocessing commitment, which still remains as a firm commitment.

Unless otherwise indicated, the financial effect of these events has not been recognised in either the consolidated financial statements or notes for the financial year.

Directors' Declaration

In the Directors' opinion:

(a) the consolidated financial statements and notes, set out on pages 61 to 106, 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 2015 and of its performance for the financial year ended on that date; and

(b) 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 Managing Director and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors:

Mr Robert Hosking
Managing Director

8 September 2015

Independent Auditor's Report

Independent Auditor's Report to the Members of Karoon Gas Australia Ltd

Report on the Financial Report

We have audited the accompanying financial report of Karoon Gas Australia Ltd (the Company), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the financial year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration for the Karoon Gas Australia Ltd Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Auditor's Opinion
In our opinion:

(a) the financial report of Karoon Gas Australia Ltd is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 58 of the Directors' Report for the financial year ended 30 June 2015. 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.

Auditor's Opinion

In our opinion, the Remuneration Report of Karoon Gas Australia Ltd for the financial year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This independent auditor's report relates to the financial report and Remuneration Report of Karoon Gas Australia Ltd (the 'Company') for the financial year ended 30 June 2015 included on Karoon Gas Australia Ltd's website. The Company's Directors are responsible for the integrity of the Karoon Gas Australia Ltd website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and Remuneration Report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the Remuneration Report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and Remuneration Report to confirm the information included in the audited financial report and Remuneration Report presented on this website.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
8 September 2015

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 August 2015.

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	2,924	1,359,344
1,001 to 5,000	3,619	9,954,153
5,001 to 10,000	1,361	10,158,421
10,001 to 100,000	1,335	34,099,733
More than 100,000	124	191,270,705
Total	9,363	246,842,356

There were 1,085 shareholders holding less than a marketable parcel of ordinary shares to the value of $500.

Substantial Shareholders

The number of ordinary shares held by substantial shareholders and their associates (who held 5% or more of total fully paid ordinary shares on issue), as disclosed in substantial holder notices given to the Company, is set out below:

	Fully Paid Ordinary Shares	
Shareholder	Number Held	% of Issued Ordinary Shares
Wellington Management Group, LLP and its related bodies corporate	33,700,290	13.65
Talbot Group Holdings Pty Ltd	26,358,356	10.68
IOOF Holdings Limited	15,869,254	6.43
Janus Capital Management LLC	15,572,080	6.31
Total	91,499,980	37.07

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	75,480,783	30.58
2	J P Morgan Nominees Australia Limited	21,647,071	8.77
3	Talbot Group Holdings Pty Ltd <Talbot Equities A/C>	15,317,043	6.21
4	Talbot Group Investments Pty Ltd	11,000,313	4.46
5	Ropat Nominees Pty Ltd	9,210,022	3.73
6	National Nominees Limited	9,069,294	3.67
7	Citicorp Nominees Pty Limited	5,045,742	2.04
8	National Nominees Limited <DB A/C>	3,677,142	1.49
9	BNP Paribas Noms Pty Ltd <DRP>	3,146,840	1.27
10	UBS Wealth Management Australia Nominees Pty Ltd	2,484,182	1.01
11	Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	1,638,580	0.66
12	Mr Mark Smith	1,390,000	0.56
13	IERS (Australia) Pty Ltd <Smith Family Investment A/C>	1,271,500	0.52
14	HSBC Custody Nominees (Australia) Limited - A/C 2	1,241,490	0.50
15	ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	1,171,245	0.47
16	Mrs Mara Spong	1,127,888	0.46
17	HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	975,422	0.40
18	HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	838,894	0.34
19	Mrs Pauline Frolley	790,746	0.32
20	CTS Funds Pty Ltd <Civic Super Fund A/C>	718,201	0.29
Total		167,242,398	67.75

Unlisted Equity Securities: Share Options and Performance Rights

The following share options and performance rights over unissued ordinary shares of the Company are not quoted:

	Number of Holders	Number of Unlisted Share Options and Performance Rights on Issue
Share options issued pursuant to Karoon Gas Australia 2009 Employee Share Option Plan	26	1,800,000
Share options issued pursuant to Karoon Gas Australia 2012 Employee Share Option Plan	93	3,858,892
Other share options issued	2	400,000
Performance rights issued pursuant to Company's PRP	21	107,952
Total	142	6,166,844

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 upon a poll each such attending shareholder is entitled to one vote for every fully paid ordinary share held.

(b) Unlisted Share Options and 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.

The register of securities is held at Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067 Australia. Investor enquiries can be made via telephone on 1300 850 505 (within Australia).

Schedule of Interests in Petroleum Tenements

Exploration Permit	Basin	% Interest Held
WA-314-P	Browse, Australia	100[1]
WA-482-P	Carnarvon, Australia	50[2]
Block S-M-1037	Santos, Brazil	65
Block S-M-1101	Santos, Brazil	65
Block S-M-1102	Santos, Brazil	65
Block S-M-1165	Santos, Brazil	65
Block S-M-1166	Santos, Brazil	65
Block S-M-1352	Santos, Brazil	20[3]
Block 144	Marañón, Peru	100
Block Z-38	Tumbes, Peru	75[4]

1. 1.5% over-riding royalty for first five years of production, going to 2% thereafter.
2. Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.
3. An application was made by the Operator to the ANP to relinquish Block S-M-1352.
4. The Group's 75% Block Z-38 equity interest is subject to completion of farm-in obligations.

Glossary of Terms

Term	Definition
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
$ or cents	Units of Australian currency.
AASB	Australian Accounting Standards Board.
amplitude anomaly	A change in seismic amplitude that may represent a change in subsurface properties, such as the presence of hydrocarbons or improved reservoir.
ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
Apache	Apache Northwest Pty Ltd.
API	American Petroleum Institute's inverted scale for denoting the 'lightness' or 'heaviness' of crude oils and other liquid hydrocarbons.
appraisal well	A well drilled to confirm the size or quality of a hydrocarbon discovery.
associated gas	Natural gas found in association with oil, dissolved either in the oil or as a cap of free gas above the oil.
ASX	ASX Limited (ACN 008 624 691), trading as Australian Securities Exchange.
ATO	Australian Taxation Office.
AUD	Australian currency.
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.
Bcf	Billion cubic feet (1,000,000,000 cubic feet); equivalent to approximately 28.3 million cubic metres.
Bcfe	Billion cubic feet equivalent.
block	A licence or concession area. It may be almost any size or shape, although usually part of a grid pattern.
boe	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 standard cubic feet per barrel and not price equivalence at the time.
BOP	Blowout preventer.
BTU	British Thermal Unit. The unit of measurement of the quantity of heat required to raise the temperature of one pound of water by one degree fahrenheit, equivalent to 1055.056 joules.
CO_2	Carbon dioxide.
Company or Parent Company	Karoon Gas Australia Ltd.
condensate	Hydrocarbons which are predominantly pentane and heavier compounds which are in a gas phase in the reservoir and which separate out from natural gas at the well head and condense to liquid at lower pressures and temperatures.
ConocoPhillips	ConocoPhillips (Browse Basin) Pty 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.
CPP	Citizen Participation Plan.
Director	A Director of Karoon Gas Australia Ltd.
discovery well	The first successful well on a new prospect.
DSEWPaC	Department of Sustainability, Environment, Water, Population and Communities in Peru.
DST	Drill stem test.

Term	Definition
economically recoverable reserves	The estimated quantity of hydrocarbons in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions.
EIA	Environmental Impact Assessment. A report on the study of the effect of proposed works on the local people and environment.
EPS	Early production system.
ESOP	Karoon Gas Australia 2009 Employee Share Option Plan and Karoon Gas Australia 2012 Employee Share Option Plan.
EWT	Extended well test.
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.
farm-in and farm-out	A commercial agreement in which an incoming joint operation participant (the 'farmee') earns an interest in an exploration tenement by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the exploration tenement (the 'farmor') pays a reduced contribution. The interest received by a farmee is a farm-in while the interest transferred by the farmor is a farm-out.
FBT	Fringe Benefits Tax in Australia.
FEED	Front End Engineering and Design.
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.
financial year	Financial year ended 30 June 2015.
GOR	Gas to oil ratio.
GST	Goods and Services Tax in Australia.
H_2S	Hydrogen sulfide.
HSE	Health, safety and environment.
HSEMS	Health, Safety and Environment Management System.
hydrocarbon	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
Karoon or Group	Karoon Gas Australia Ltd and its subsidiaries.
kms	Kilometres.
lead	A potential hydrocarbon target which has been identified but requires further evaluation before it is drill ready, at which point it becomes a prospect.
IIAP	Peruvian Amazon Research Institute.
LNG	Liquefied natural gas.
LPG	Liquid petroleum gas.
LTI	Long-term incentive.
LWD	Logging while drilling.
m	Metres.
market capitalisation	The product of a company's share price multiplied by the total number of ordinary shares issued by the company.
migration	Hydrocarbons are often found in formations other than those in which their organic source was deposited. This movement often covers considerable distances and is known as migration.
mm	Million.
mmbbls	Millions of barrels (1,000,000 barrels).
mmscf	Millions of standard cubic feet.
mmscf/d	Millions of standard cubic feet per day; equivalent to 28,317 cubic metres per day.

Term	Definition
mmtpa	Million tonne per annum. A common measurement of LNG facility production capacity.
Monte Carlo simulation	Where there is uncertainty in the variables used in the calculation of economically recoverable reserves, the ranges of possible values of each variable can be incorporated in a Monte Carlo simulation calculation to produce a range of probabilistic outcomes that reflect that uncertainty. The 'mean' is the expected outcome. The P10 (probability greater than 10%) is often used as the maximum case, the P50 (probability of 50%) the mid case and the P90 (probability greater than 90%) the minimum case.
mRT	Metres Rotary Table.
NOPTA	National Offshore Petroleum Titles Administrator.
Operator	One joint operation participant that has been appointed to carry out all operations on behalf of all the joint operation participants.
ordinary shares	The ordinary shares in the capital of Karoon Gas Australia Ltd.
Origin	Origin Energy Browse Pty Ltd.
p.a.	Per annum.
Pacific	Pacific Exploration and Production Corp. (formerly Pacific Rubiales Energy Corp.).
PAD	Discovery Appraisal Plan (Plano de Avaliação de Descobertas).
performance rights	Performance rights issued under the PRP.
permit	A hydrocarbon tenement, lease, licence, concession or block.
Petróbras	Petróleo Brasileiro SA.
play	A trend within a prospective basin that has common geologic elements containing one or more fields, prospects or leads with common characteristics.
previous financial year	Financial year ended 30 June 2014.
PRE	Pacific Brasil Exploração e Produção de Óleo e Gás Ltda. A subsidiary of Pacific Exploration and Production Corp.
PRP	Karoon Gas Australia 2012 Performance Rights Plan.
prospect	A geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.
prospective resource	Those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. Low estimate (P90): P90 refers to a 90% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Median estimate (P50): P50 refers to a 50% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. High estimate (P10): P10 refers to a 10% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Mean estimate (Mean): Mean is the expected value, equal to the sum of the values in that distribution divided by the number of values.

Term	Definition
prospectivity	Referring to the likelihood of finding commercial hydrocarbons.
PRRT	Petroleum Resource Rent Tax in Australia.
psia	Pounds per square inch absolute.
Quadrant	Quadrant Energy Australia Limited (formerly Apache).
REAL	Brazilian currency.
recoverable gas	An estimated measure of the total amount of gas which could be brought to surface from a given reservoir. In a good quality reservoir this is usually in the order of 70-80% of the estimated gas-in-place.
reserves	Quantities of economically recoverable hydrocarbons estimated to be present within a trap.
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.
Rotary Table	A flat plate in the drill floor which is turned mechanically at varying speeds and directions imparting the rotary action to the drill string which passes through its centre.
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.
SIP	Social Investment Plan.
SPE PRMS standards	Society of Petroleum Engineers Petroleum Resource Management System Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet to be discovered accumulations, resource evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resource management system provides a consistent approach to estimating petroleum quantities, evaluating development projects and presenting results within a comprehensive classification framework.
spud	To start drilling a new well.
STI	Short-term incentive.
Tcf	Trillion cubic feet (1,000,000,000,000 cubic feet).
Tcfe	Trillion cubic feet equivalent.
trap	A formation in the earth's subsurface which prevents the onward migration of hydrocarbons.
TRIR	Total Recordable Incident Rate.
TSR	Total shareholder return.
unrisked	A risk value has not been applied to an estimate of hydrocarbon volume either in place or recoverable.
USD or US$	United States dollars.

Corporate Directory

Board of Directors
Dr David Klingner – Independent Non-Executive Chairman
Mr Robert Hosking – Managing Director
Mr Mark Smith – Executive Director
Mr Geoff Atkins – Independent Non-Executive Director
Mr Clark Davey – Independent Non-Executive Director
Mr Peter Turnbull – Independent Non-Executive Director
Mr Bernard Wheelahan – Independent Non-Executive Director
Mr Jose Coutinho Barbosa – Non-Executive Director

Company Secretary
Mr Scott Hosking

Audit Committee Members
Mr Clark Davey (Chairman of Committee)
Mr Geoff Atkins
Mr Peter Turnbull

Nomination Committee Members
Mr Geoff Atkins (Chairman of Committee)
Mr Clark Davey
Mr Peter Turnbull
Mr Bernard Wheelahan

Remuneration Committee Members
Mr Peter Turnbull (Chairman of Committee)
Dr David Klingner
Mr Clark Davey

Risk and Governance Committee
Mr Peter Turnbull (Chairman of Committee)
Dr David Klingner
Mr Clark Davey
Mr Bernard Wheelahan

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Share Registrar
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia

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+ 61 3 9415 5000 (outside Australia)
Facsimile + 61 3 9473 2500
Website www.computershare.com

Securities Exchange Listing
The Company's ordinary shares are listed on the ASX.
The home exchange is Melbourne VIC.

ASX code KAR

Notice of Annual General Meeting
The Annual General Meeting of Karoon Gas Australia Ltd will be held at:

Club Pavilion at the RACV City Club
Level 2, 501 Bourke Street
Melbourne VIC 3000

Time 11.00am Melbourne time
(registration opens at 10.00am)

Date Thursday 22 October 2015

Printed on recycled paper.

Karoon
Gas Australia Ltd