

Annual Report
2014



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2013-2014 Highlights

Sold Poseidon gas resource
(WA-315-P & WA-398-P) for up to
US\$800 million.

Return on Investment ~25% p.a.

Exploration led growth strategy delivering
67% exploration drilling success
during the financial year.

78% exploration drilling success
in the last 24 months.

Farm-out 50% interest in WA-482-P
to Apache for US\$9 million

**+ 90% of the cost of
one exploration well
up to US\$70 million.**

**Completed 2,704 sq km of
3D seismic acquisition.**

Independent majority established for the
Board of Directors.

Secured regulatory approvals and long
lead items for up to 4 wells for a high impact
Kangaroo oil discovery appraisal and exploration
drilling program in the Santos Basin.

Independently assessed NET risked prospective resource Best Estimate of 555 mmbbls oil and 344 Bcf of wet gas across the Peruvian and Australian acreage. NET unrisked prospective resource Best Estimate 2,910 mmbbls oil and 1,096 Bcf wet gas.

Chairman's Review

The 2014 financial year was a significant year for Karoon. The Company continued its world class exploration track record, realised up to approximately A\$1 billion in value through asset deals, focused the forward program on near term oil opportunities and restructured the Board to build for the future.

Despite the successes of the year, the oil and gas sector worldwide remains in an asset divestment phase, which impacted the timing of Karoon's farm-out deals through the financial year. The share price performance of exploration focused companies globally has, in general, been disappointing.

The decision to divest Karoon's most advanced asset, the Poseidon gas resource (Browse Basin exploration permits WA-315-P and WA-398-P) was a significant decision for the Board. While the long-term cash generation of an LNG project is attractive, capital intensity, long dated cash flows and payback of an LNG project provide significant financing challenges for a company of Karoon's size to maintain a material interest through the appraisal and development phase.

Importantly, the Poseidon gas resource was still not without risks. Uncertainties remained with respect to the final resource size, development concept selection, capital expenditure requirement and LNG contract pricing. Based on Karoon's assessment of the most likely development scenario, the Board believes it was able to achieve a healthy premium valuation for the asset through the sales process.

Based on these factors and Karoon's other acreage commitments, the Board made the decision to divest these exploration permits and focus on less capital intensive, higher returning oil opportunities, along with other early stage oil and gas exploration acreage.

When Karoon acquired the initial acreage position in the Browse Basin the Company had a market capitalisation of \$30 million, a share price of less than 35 cents per ordinary share and approximately \$10 million in the bank. Today the Company is a global, offshore oil and gas explorer company with a market capitalisation of approximately A\$1 billion, a share price approaching A\$4, 3 oil discoveries, acreage in 5 basins worldwide within proven, working oil systems and US\$600 million cash from the Browse Basin permits' sale.

The monetisation of the 2 Browse Basin permits and removal of the potential LNG project capital expenditure overhang has enabled Karoon, subsequent to the end of the financial year, to launch a capital management initiative to return money to shareholders.

The Board and management remain committed to an exploration led growth strategy and focused on converting the successful exploration results to date into production opportunities. The medium term strategy is to grow into a self-funding oil and gas production company.

Looking ahead, Karoon is well funded and focused on the appraisal of the Kangaroo oil discovery in Brazil and the planned high impact multi-well oil exploration drilling program targeting approximately 1.1 billion barrels of oil equivalent net unrisked prospective resource in Brazil, Australia and Peru.

Business Model Endorsed

Despite the sector wide asset divestiture trend over the past 2 years, Karoon realised 2 competitively priced transactions being the Browse Basin divestment and the Carnarvon Basin farm-out.

The sale of exploration permits WA-315-P and WA-398-P for up to US\$800 million realised premiums to Karoon's internal valuation, to the PetroChina/ConocoPhillips transaction in the same permits 18 months earlier and to Karoon's market capitalisation at the time of signing the deal.

The original farm-out to ConocoPhillips helped finance the Poseidon discovery and early drilling, with the Origin transaction monetising the expanded, de-risked Poseidon gas resource. Karoon realised a return on investment of approximately 25% per annum from the original acquisition of the permits.

The level of interest along with the realised terms on the farm-out of exploration permit WA-482-P to Apache was a further endorsement of Karoon's ability to recognise and secure highly prospective early stage exploration acreage.

Focused on Production Opportunities

Karoon's operational efforts are focused on the appraisal of the Kangaroo oil discovery as part of the second phase drilling campaign in the Santos Basin, Brazil. The 'Olinda Star' semi-submersible drilling rig was contracted during July 2014 and drilling is expected to commence during the fourth quarter of calendar year 2014.

The primary focus of the drilling campaign is the Kangaroo-2 appraisal well which is designed to confirm the size of the oil column, reservoir continuity and flow rates for the Kangaroo oil discovery. A successful appraisal of the Kangaroo oil field would provide Karoon with the opportunity to transition into a producing company over a medium term.

Exploration Led Growth Strategy

Over the last 2 years, Karoon had a 78% exploration drilling success rate and a proven track record of converting early stage exploration acreage into discoveries. During the financial year, additional discoveries in the Browse Basin were made in the Proteus-1 and Poseidon North-1 exploration wells, followed by the Pharos-1 exploration well during July 2014.

The forward exploration drilling program over the next 18 months includes 4 exploration wells targeting approximately 1.1 billion barrels of oil equivalent of net unrisked prospective resource Best Estimate across 3 basins. The drilling program includes the first phase exploration drilling programs in the Carnarvon and Tumbes Basins.

In the Carnarvon Basin permit WA-482-P, the Levitt prospect was selected as the first exploration well drilling location, providing the next exciting leg of exploration led growth at a modest cost to Karoon. It should be noted there is a significant amount of activity adjacent to and around WA-482-P. The Phoenix South oil discovery was made by Apache during August 2014, Woodside and Shell commenced a multi-well exploration program to the north-east and BHP farmed into Repsol's block adjacent to the north during the financial year.

During April 2014, the independent resource assessment firm DeGolyer and MacNaughton provided a combined net unrisked prospective resource assessment for Karoon's Australian (Carnarvon and Browse Basins) and Peruvian (Tumbes and Marañón Basins) assets of 2,910 mmbbls of oil and 1,096 Bcf of wet gas, highlighting the significant prospectivity that remains in Karoon's portfolio.

Karoon also completed 2,704 square kilometres of marine 3D seismic acquisition in Australian exploration permits WA-482-P and WA-314-P.

Capital Management

During August and September 2013 Karoon raised \$169.5 million in net cash via a well-supported equity raising to strengthen the balance sheet while farm-out negotiations were continuing. I would like to thank shareholders for their support during this time.

Following the sale of the Browse Basin permits, Karoon conducted a review of its capital position and funding requirements over the medium term. The Board made the decision to return surplus capital to shareholders via a share buy-back for up to 10% of the Company's ordinary shares on issue.

Following careful analysis of Karoon's register with respect to investor type and location and lack of franking credits, the Board selected an on-market share buy-back as the most effective mechanism to return surplus capital to shareholders.

A share buy-back will result in a reduction of the ordinary shares on issue, increasing the per share exposure for all shareholders to the upcoming appraisal of the Kangaroo oil discovery along with the planned 18 month exploration program across the Santos, Carnarvon and Tumbes Basins.

Board Restructuring

During June 2014, Mr Peter Turnbull and Mr Bernard Wheelahan AM were appointed as independent Non-Executive Directors following the resignation of Mr Stephen Power, a Non-Independent Director. As a result, the Board now has an independent majority consisting of a total of 7 Directors, with four independent Non-Executive Directors. The Board thanks Mr Power for his many years of dedication and valuable contribution.

As outlined during the financial year, the role of Executive Chairman/CEO will be split. After consultation with the Board and Nomination Committee, I will be taking up the role of Managing Director.

The Board and the Nomination Committee are preparing roles and responsibilities for the separated functions. When complete, the Board will appoint a global executive search consultant to assist with sourcing the appropriate Chairperson. This process is expected to be completed and a new Independent Chairperson appointed during the financial year ending on 30 June 2015.

The restructure is designed to ensure Karoon shareholders are represented by an independent Chairperson along with a majority independent Board and that the Board has the appropriate composition and skills mix to manage evolving business risks as Karoon progresses into an appraisal and development phase.

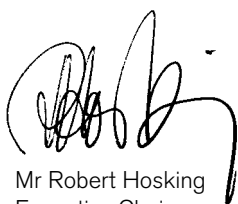
In addition, Karoon commenced a process to review and strengthen the Company's internal risk management processes and risk oversight function to ensure the structure is appropriate for the current growth phase of the Company.

As part of the risk management review, a new Risk and Governance Committee has now been established, chaired by Mr Peter Turnbull. This will result in a strengthening of the risk management oversight function going forward.

Karoon will continue to manage its ownership interests and work program commitments ensuring the Group's exposure and capital allocation is appropriate for the size and risk profile of the Company.

While the 2014 financial year closed with some very positive and significant milestones for the Company, the year was not without its challenges. I believe that after the events of the past 12 months, the Company has emerged stronger and better prepared to meet the challenges that lie ahead. I would like to thank Karoon's management and staff for all their hard work, commitment and loyalty over the past 12 months.

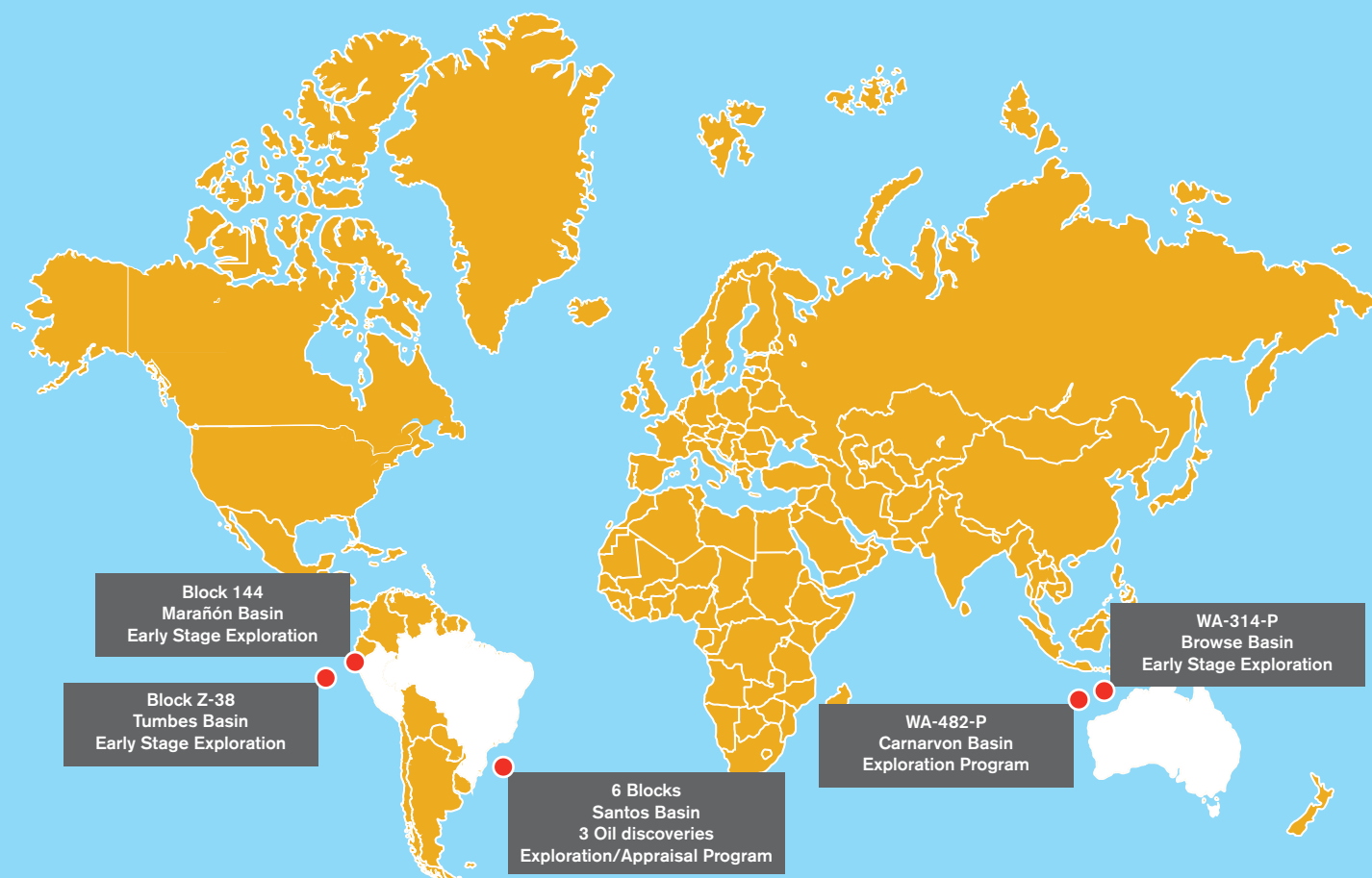
The Board would like to thank shareholders for their continued support and patience throughout the year. As we look to the 2015 financial year, the Board eagerly anticipates the up-coming drilling programs and possible transition into development.

A handwritten signature in black ink, appearing to be 'R. Hosking', with a stylized flourish at the end.

Mr Robert Hosking
Executive Chairman

11 September 2014

Where We Operate



Permit/Block	Interest	Operator	Country	Basin	Gross Acreage	Water Depth	Type	Status
WA-314-P	100%	Karoon	Australia	Browse	1,953 sq km	500 m	Wet Gas	Geological and geophysical studies
WA-482-P	50%	Apache	Australia	Carnarvon	13,539 sq km	400-2,000 m	Oil	Pre-drill; 3D seismic processing
Block S-M-1037, 1101, 1102, 1165, 1166	65%	Karoon	Brazil	Santos	549 sq km	400 m	Oil	Discovery appraisal
Block S-M-1352	20%	Petróbras	Brazil	Santos	50 sq km	300 m	Oil	Technical and development studies
Block Z-38	75%	Karoon	Peru	Tumbes	4,750 sq km	300-3,000 m	Oil	Force majeure (pre-drill)
Block 144	100%	Karoon	Peru	Marañón	6,836 sq km	Onshore	Oil	Force majeure (pre-seismic acquisition)

Resource Summary

Independently Assessed Resources – DeGolyer & MacNaughton

Permit	Interest	Basin	Country	Type	NET Unrisked Prospective Resource (Undiscovered)		
					Low	Best	High
WA-314-P	100%	Browse	Australia	Wet Gas (Bcf)	559	1,096	2,051
Total – Wet Gas (Bcf)					559	1,096	2,051

Permit / Block	Interest	Basin	Country	Type	Low	Best	High
WA-482-P	50%	Carnarvon	Australia	Oil (mmbbls)	375	1,117	2,837
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)					1,113	2,910	6,796

The prospective resource volume estimates presented for Australia and Peru have been previously disclosed 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 resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

Karoon Internally Assessed Resources

					Net Contingent Resource		
Discovered Resources	Interest	Basin	Country	Type	1C	2C	3C
Kangaroo – Discovery	65%	Santos	Brazil	Oil (mmbbls)	7	88	317

					Net Unrisked Prospective Resource		
Undiscovered Resources	Interest	Basin	Country	Type	Low	Best	High
Kangaroo West – Prospect	65%	Santos	Brazil	Oil (mmbbls)	15	330	1,193

The Kangaroo contingent resource estimate, 31 July 2013, along with the Kangaroo West prospective resource estimate, 30 April 2014, were assessed by Karoon Gas Australia Ltd's Engineering Manager, Mr Lino Barro and are based on seismic survey data, nearby well data and other geologic information. They are prepared on a deterministic method in accordance with the Petroleum Resources Management System ('PRMS') approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers.

The discovered contingent resource is categorised as contingent because further evaluation is required to confirm commerciality. The Kangaroo contingent resource and Kangaroo West prospective resource estimates have previously been disclosed by Karoon in the June 2014 Corporate Review, 2 June 2014. Karoon is not aware of any new information or data that may materially affect the resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

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.

Competent Persons Statement

Mr Lino Barro, Engineering Manager, Karoon Gas Australia Ltd

Any petroleum reserves, contingent resources and prospective resources information relating specifically to Santos Basin, Brazil, exploration blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1166 are based on, and fairly represent, information and supporting documents prepared by, or under the supervision of, Mr Lino Barro, Karoon Gas Australia Ltd's Engineering Manager. Mr Barro has the following qualifications B.Eng. (Chemical), MBA. Mr Barro is a member of the Society of Petroleum Engineers. Mr Barro has consented in writing to the inclusion of this information in the format and context in which it appears.

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, resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects and presenting results within a comprehensive classification framework.

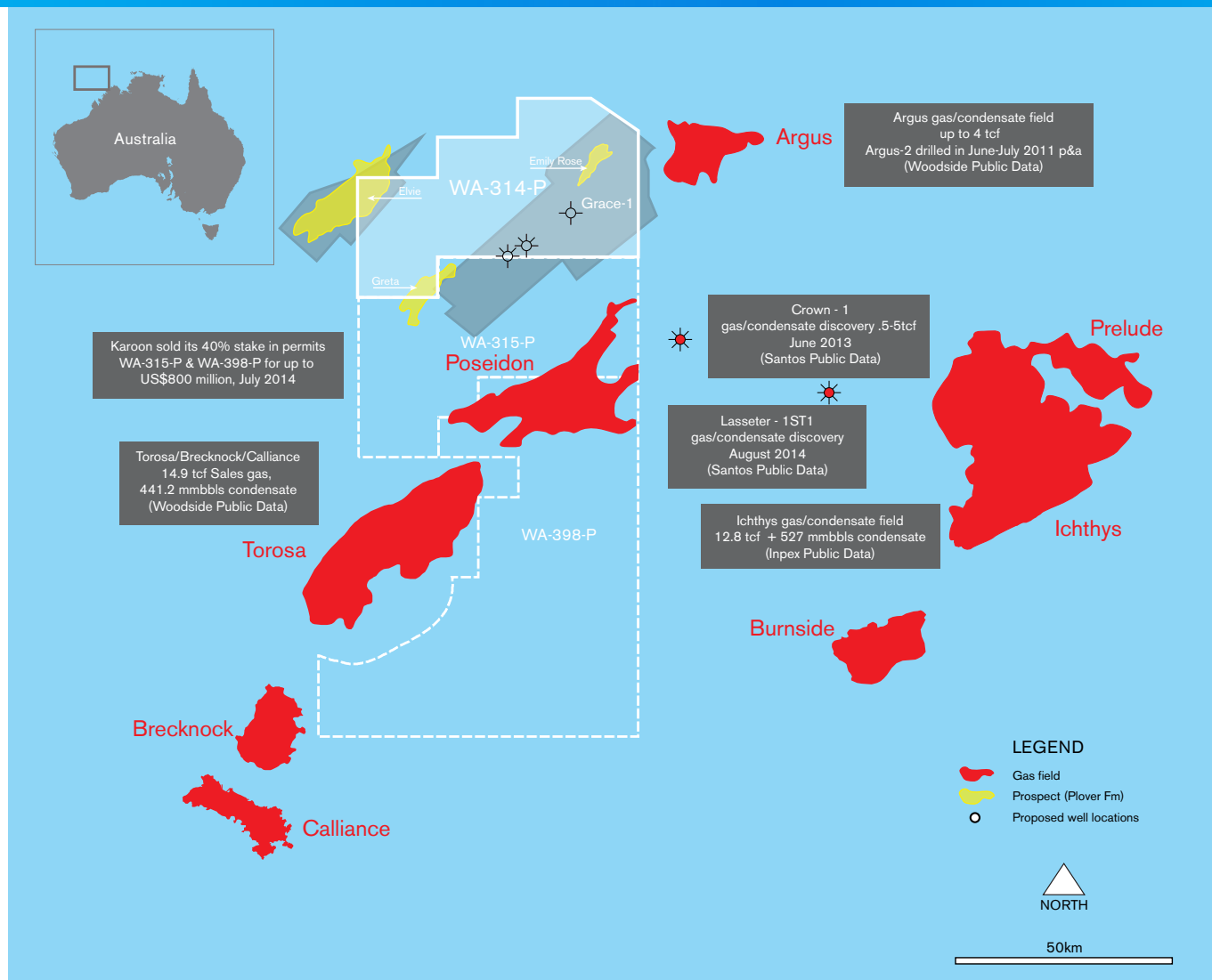
Operations Review

For the Financial Year Ended 30 June 2014

Browse Basin, Australia

Key Statistics

Permit:	WA-314-P
Interest:	100%
Operator:	Karooon
Gross Acreage:	1,953 sq km
Water Depth:	500 metres
Type:	Wet Gas
Status:	Geological and geophysical studies



Independently Assessed	NET Unrisked Prospective Resource ¹ (Undiscovered)		
Permit	Low	Best	High
WA-314-P	559	1,096	2,051

1. Refer to Resource Summary on page 7.

Browse Basin Permits

During 2004, Karoon acquired a 100% interest in exploration permits WA-314-P and WA-315-P. Consistent with the corporate strategy, Karoon signed agreements during 2006 to farm-out a 60% interest to ConocoPhillips to retain a 40% interest. The Karoon/ConocoPhillips joint operation added exploration permit WA-398-P during 2007. The permits are located approximately 350 kilometres offshore from the north-western Australian coast and have a combined gross area of 7,828 square kilometres.

The first phase drilling campaign delivered early exploration success at the Poseidon-1 gas discovery during 2009 in WA-315-P and at follow-up discoveries, Poseidon-2 and Kronos-1, drilled between July 2009 and June 2010 in WA-398-P.

The 'Transocean Legend' semi-submersible drilling rig, contracted by ConocoPhillips, was used for the second phase exploration drilling campaign, which commenced during April 2012. The six well campaign was completed during August 2014. Following the successful first phase drilling campaign, additional gas discoveries were made in WA-315-P and WA-398-P at the Boreas-1 and Zephyros-1 exploration wells.

During the financial year follow-on discoveries were made in the WA-315-P and WA-398-P permits at the Proteus-1 exploration well, drilled to a total depth of 5,250 mRT and the Poseidon North-1 exploration well, drilled to a total depth of 5,288 mRT. Subsequent to year end, a further discovery was made at the Pharos-1 exploration well drilled to a total depth of 5,220 mRT. A flow test was conducted during the year at the Proteus-1 well location.

The fourth exploration well in the program, Grace-1, was drilled to a total depth of 5,069 mRT in exploration permit WA-314-P encountering no significant hydrocarbons.

No safety incidents occurred during or subsequent to the end of the financial year.

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

During June 2014, Karoon announced the sale of its 40% equity interest in exploration permits WA-315-P and WA-398-P, which includes the greater Poseidon resource, to Origin for up to US\$800 million plus the reimbursement of costs paid by Karoon associated with the final well, Pharos-1.

As per the terms of the Sale and Purchase Agreement, a US\$600 million upfront cash payment was received from Origin on 11 August 2014 and payments made by Karoon relating to the Pharos-1 exploration well have been reimbursed. The outstanding deferred milestone payments of US\$75 million due at Final Investment Decision ('FID'), US\$75 million due at first production and a resource step up payment of up to US\$50 million payable on first production (US\$5 million for every 100 Bcfe of independently certified 2P reserves exceeding 3.25 Tcfe across the permits at the time of FID up to a maximum of US\$50 million) remain contingent.

As a result of the sale, Karoon has no remaining interest in exploration permits WA-315-P and WA-398-P.

Permit WA-314-P

During the financial year, ConocoPhillips notified Karoon of its intention to withdraw from exploration permit WA-314-P. Subsequent to the end of the financial year, transfer documentation was signed by both parties and Karoon assumed ConocoPhillips' 10% interest in the permit for \$Nil consideration, taking Karoon's interest to 100%. The transfer was approved by the regulator during July 2014 and Karoon was subsequently approved as operator.

Subsequent to the financial year end, Karoon successfully negotiated with the regulator for a variation to the current permit term's Year 6 work program. A Year 6 well commitment was replaced with geological and geophysical studies.

During the financial year, DeGolyer and MacNaughton ('D&M') provided an independent prospective resource assessment as at 31 December 2013. The gross unrisks prospective resource Best Estimate¹ is 1,096 Bcf of wet gas (Karoon's interest 100%).

3D Seismic Acquisition, Processing and Interpretation

During August 2013, Karoon contracted the CGGVeritas vessel the 'Geo Caspian' to conduct the Kraken 318 square kilometre marine 3D seismic data acquisition over the Elvie lead. Receipt of the final Kraken data is expected during the fourth quarter of calendar year to 2014.

Farm-out

Consistent with the corporate strategy, Karoon expects to farm-out an interest in WA-314-P prior to committing to any further exploration drilling in the permit. The farm-out process will recommence upon the receipt of the final Kraken 3D seismic data.

Equity Interest

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

Karoon Gas Browse Basin Pty Ltd (Operator)	100%
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1. Refer to Resource Summary on page 7.

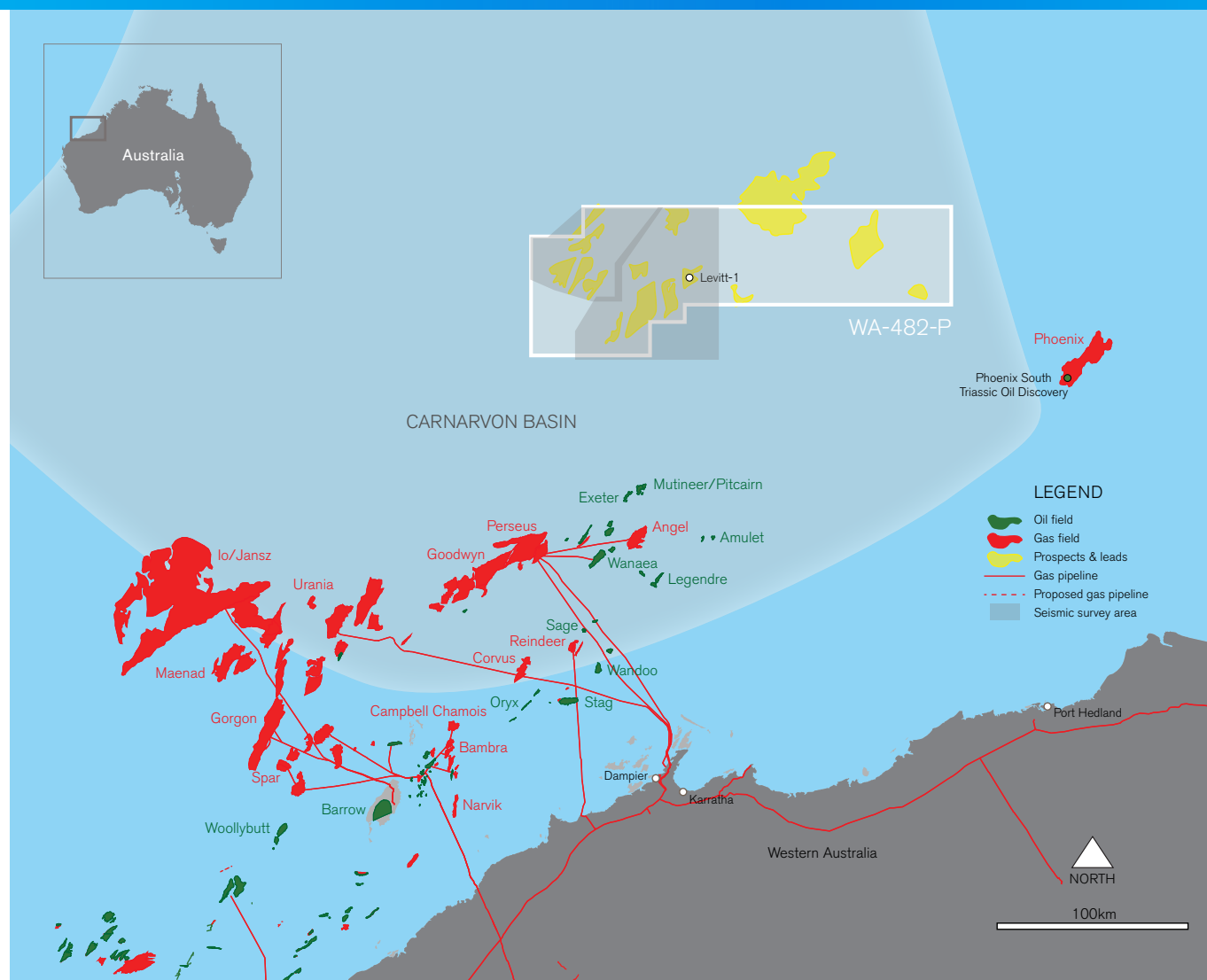
Operations Review continued

For the Financial Year Ended 30 June 2014

Carnarvon Basin, Australia

Key Statistics

Permit:	WA-482-P
Interest:	50%
Operator:	Apache
Gross Acreage:	13,539 sq km
Water Depth:	400 to 2,000 metres
Type:	Oil
Status:	Pre-drill (expected first half CY2015)



Independently Assessed	NET Unrisked Prospective Resource ¹ (Undiscovered)		
Permit	Low	Best	High
WA-482-P	375	1,117	2,837

1. Refer to Resource Summary on page 7.

Carnarvon Basin Permit WA-482-P

During September 2012, Karoon entered into a farm-in agreement to acquire 100% of exploration permit WA-482-P in the Carnarvon Basin. 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.

Karoon was approved by the regulator and registered on title during October 2013. It has satisfied all farm-in obligations.

Consistent with its corporate strategy, during May 2014 Karoon farmed out a 50% interest in WA-482-P to Apache Northwest Pty Ltd ('Apache'), a wholly owned subsidiary of Apache Corporation, for an upfront payment of US\$9 million with Apache committing to cover 90% of the cost of one exploration well up to US\$70 million. As part of the farm-out agreement, Apache became Operator and committed to drill the first exploration well during the first half of calendar year 2015.

The transfer of the 50% interest was approved by the regulator and Apache was registered on title during July 2014.

During the financial year, D&M provided an independent prospective resource assessment as at 31 December 2013. The gross unrisks prospective resource Best Estimate¹ is 2,234 mmbbls of oil or 1,117 mmbbls net to Karoon based on a 50% equity interest, identified across 6 prospects.

The D&M prospective resource estimate is based on historical, reprocessed and interpreted 3D seismic survey data, covering approximately one third of the permit area.

3D Seismic Acquisition, Processing and Interpretation

During June 2013, Karoon completed the acquisition of the Chrysalids 2,386 square kilometre marine 3D seismic survey using the CGGVeritas vessel the 'Geo Caspian' over the western part of WA-482-P. The final processed data is expected during the December 2014 quarter. This survey aims to delineate additional prospects identified on 2D seismic.

The data from the Chrysalids marine 3D seismic survey is not included in the D&M prospective resource assessment and could potentially add additional prospective resources to the overall estimate.

Forward Program

The first exploration well location, Levitt-1, was selected and approved by the joint operation during August 2014. As per the farm-out agreement, Apache has committed to drill the well during the first half of calendar year 2015 at the latest and carry Karoon for 90% of the cost of the well up to US\$70 million.

The Levitt-1 well location is designed to test for the presence of the interpreted oil prone source rock kitchen in order to evaluate the significant prospective resource potential in the permit.

Equity Interests

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

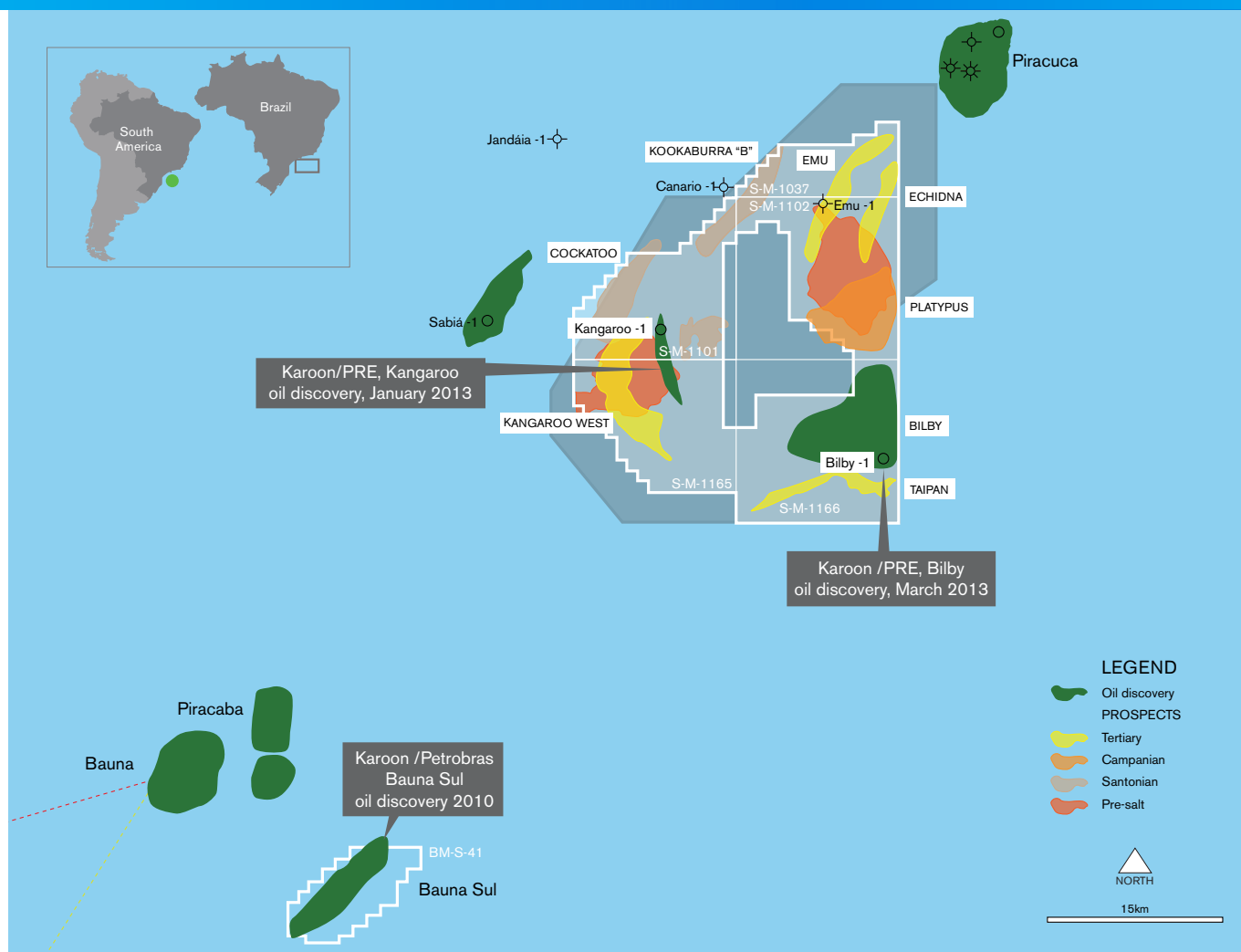
Karoon Gas (FPSO) Pty Ltd	50%
Apache Northwest Pty Ltd (Operator)	50%

1. Refer to Resource Summary on page 7.

Santos Basin, Brazil

Key Statistics

Block:	S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1166	Block:	S-M-1352
Interest:	65%	Interest:	20%
Operator:	Karoon	Operator:	Petróbras
Gross Acreage:	549 sq km	Gross Acreage:	50 sq km
Water Depth:	500 metres	Water Depth:	300 metres
Type:	Oil	Type:	Oil
Status:	Pre-drill (expected fourth quarter of CY2014)	Status:	Technical and development studies on-going



Independently Assessed	Net Contingent Resource ¹ (Discovered)			NET Unrisked Prospective Resource ¹ (Undiscovered)		
	1C	2C	3C	Low	Best	High
Kangaroo – Discovery	7	88	317	-	-	-
Kangaroo West – Prospect	-	-	-	15	330	1,193

1. Refer to Resource Summary on page 7.

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 112 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. Consistent with the corporate strategy, during September 2012 Karoon farmed out a 35% interest in the Blocks to Pacific Rubiales Energy Corp. ('Pacific Rubiales'). The transaction was approved by the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP) during the financial year.

During August 2013, following the receipt of additional data from laboratory testing of physical samples taken from the Kangaroo-1 oil discovery, Karoon announced an upward revision to the preliminary April 2013 contingent resource estimate for the Kangaroo oil discovery. The Kangaroo gross contingent resource estimate was revised up to 1C: 11 mmbbls, 2C: 135 mmbbls, 3C: 487 mmbbls, net to Karoon¹ 1C: 7 mmbbls, 2C: 88 mmbbls, 3C: 317 mmbbls based on a 65% equity interest. During the financial year, a zero incident safety record was recorded in Brazil.

Discovery Appraisal Plan

Following the successful first phase exploration drilling campaign, the next stage of the Concession Agreements, the Discovery Appraisal Plan (Plano de Avaliação de Descobertas or 'PAD') was approved during December 2013 by the ANP. The PAD outlines the forward appraisal work program commitments on the Blocks, and consistent with normal Block licencing practices, the joint operation was required to relinquish part of the acreage. The revised area of the Blocks covers approximately 549 square kilometres, previously 865 square kilometres. The PAD consolidates the Blocks into one work program comprising a number of firm commitments to be completed by 31 December 2014 and contingent commitments, to be completed by 31 December 2016.

The key focus of the PAD is to confirm the size of the oil column, reservoir continuity and properties and flow rates at the Kangaroo oil discovery, along with testing additional nearby targets. Karoon has a firm commitment to drill the Kangaroo-2 appraisal well and the Kangaroo West-1 exploration well, along with seismic reprocessing, quantitative inversion ('QI') and further basin modelling studies. During August 2014 Karoon received a 180 day extension from the ANP to the deadline for the drilling of the Kangaroo-2 and Kangaroo West-1 wells.

The 2015 and 2016 commitments are contingent on the results from the 2014 work program and may include up to 4 additional wells, along with further QI studies.

3D Seismic Processing and Interpretation

Seismic processing and interpretation and QI studies remained on-going in the lead up to the commencement of the Santos Basin Phase 2 drilling campaign.

Forward Program

Subsequent to the financial year end, Karoon contracted the 'Olinda Star' semi-submersible drilling rig for the upcoming appraisal and exploration drilling campaign in the Santos Basin, expected to commence during the fourth quarter calendar year 2014. The contract is for up to 4 wells, consisting of the Kangaroo-2 appraisal well and the Kangaroo West-1 exploration well, along with 2 option wells.

The rig contract gives Karoon the maximum flexibility for the appraisal of the Kangaroo discovery along with possible appraisal of the Kangaroo West prospect in the event of success in the first 2 wells. Long lead items are in place for up to 4 wells. Subject to appraisal and exploration success in this next phase of drilling, Karoon expects to progress the Kangaroo project into the Front End Engineering and Design phase.

Equity Interests

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

Karoon Petróleo & Gas Ltda (Operator)	65%
Pacific Rubiales Energy Corp.	35%

Santos Basin Block S-M-1352

During August 2010, Karoon's wholly owned subsidiary Karoon Petróleo & Gas Ltda entered into a farm-in agreement with Petróleo Brasileiro SA ('Petróbras') to acquire a 20% interest in Block S-M-1352. Karoon was approved on title by the ANP during October 2013. The operator, Petróbras, is currently continuing its technical and commercial assessment of the Bauna Sul (formerly named Maruja) oil discovery and is currently working on a Development Plan.

Equity Interests

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

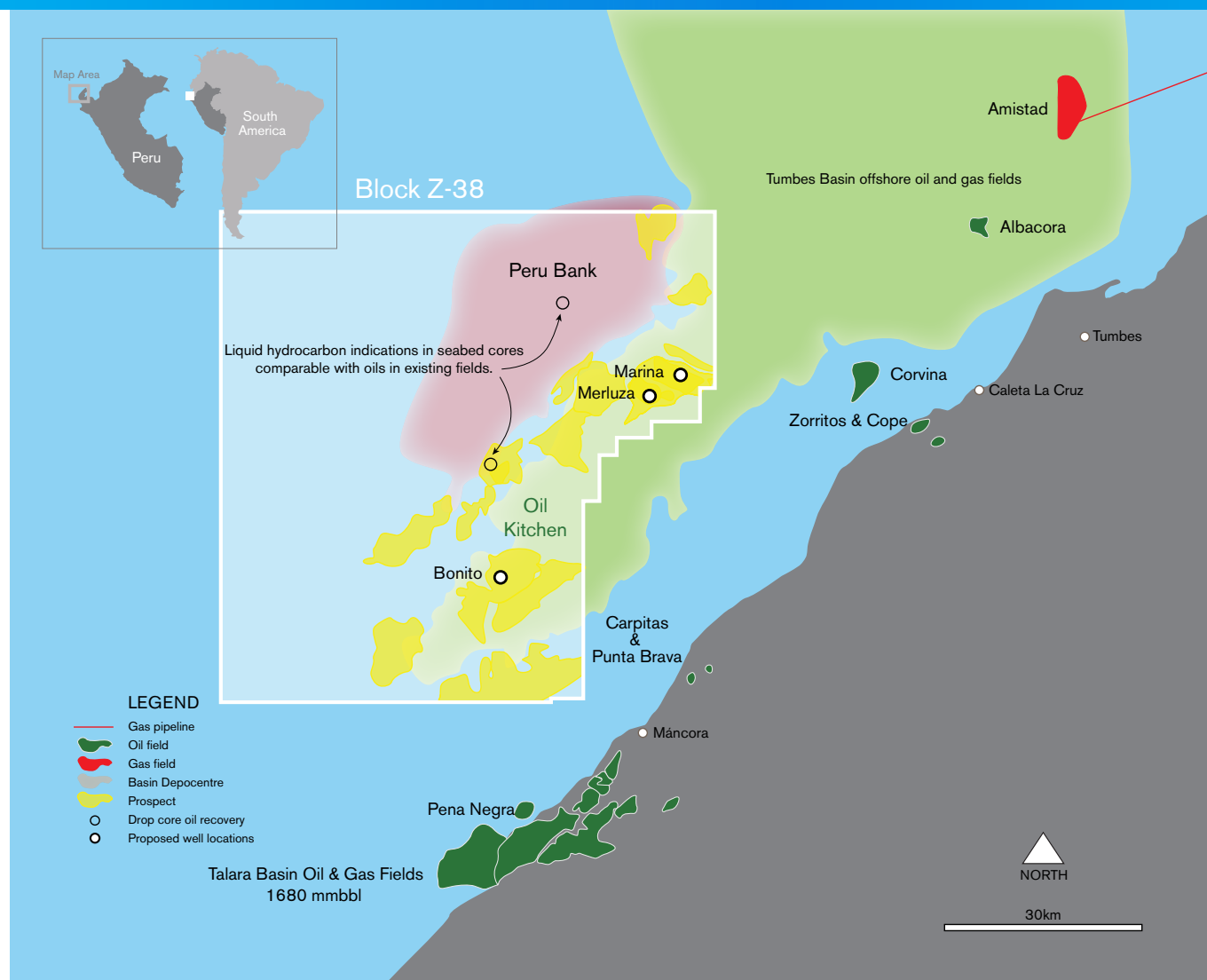
Petróleo Brasileiro SA (Operator)	80%
Karoon Petróleo & Gas Ltda	20%

1. Refer to Resource Summary on page 7.

Tumbes Basin, Peru

Key Statistics

Block:	Z-38
Interest:	75%
Operator:	Karooon
Gross Acreage:	4,750 sq km
Water Depth:	300 – 3,000 metres
Type:	Oil
Status:	Force majeure, pre-drill



Independently Assessed	NET Unrisked Prospective Resource ¹ (Undiscovered)		
Block	Low	Best	High
Z-38	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 north-west 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 1800's, which has produced over 1.6 billion barrels of oil to date. Historically, there has been very little exploration in the offshore portion of the Talara or Tumbes Basins, in particular in water depths over 120 metres. Karoon's Block Z-38 lies adjacent to BPZ Energy's Z-1 block where BPZ Energy farmed-out a 49% interest in Z-1 to Pacific Rubiales for US\$362 million during April 2012.

During June 2013, Karoon secured regulatory approval for the proposed Tumbes Basin drilling campaign Environmental Impact Assessment and long lead items have been delivered. Preliminary prospect evaluation is complete.

During the financial year, D&M provided an independent prospective resource assessment as at 31 December 2013. The gross unrisks prospective resource Best Estimate¹ is 2,248 mmbbls of oil, or 1,686 mmbbls of oil net to Karoon based on a 75% equity interest, identified across 18 prospects.

During the financial year, a zero incident safety record was maintained in Peru.

Subsequent to the end of the financial year, Block Z-38 was placed into force majeure, effective 1 September 2013. The third period term has approximately 22 months remaining once force majeure is lifted.

Farm-out

Consistent with the corporate strategy, the farm-out process for Block Z-38 is underway and is expected to be completed ahead of the Tumbes Basin exploration drilling campaign. Karoon intends to farm-out a 30-40% equity interest and remains in non-exclusive negotiations with major international oil and gas companies.

Forward Program

Once force majeure is lifted the third period term has approximately 22 months remaining. The current drilling plan is to drill 2 exploration wells during calendar year 2015. Approvals and long lead items are in place for the drilling program and the preliminary well locations have been selected on the Marina and Bonito prospects.

The Marina prospect has a gross unrisks prospective resource Best Estimate of 320 mmbbls of oil as assessed by D&M. The preliminary plans are to test the Marina Tumbes Formation with the first well.

The Bonito prospect has a gross unrisks prospective resource Best Estimate of 554 mmbbls of oil as assessed by D&M. The Bonito prospect has a Zorritos Formation target in a faulted four-way dip closed structure. The preliminary plans are to test the Bonito Zorritos Formation with the second well.

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%

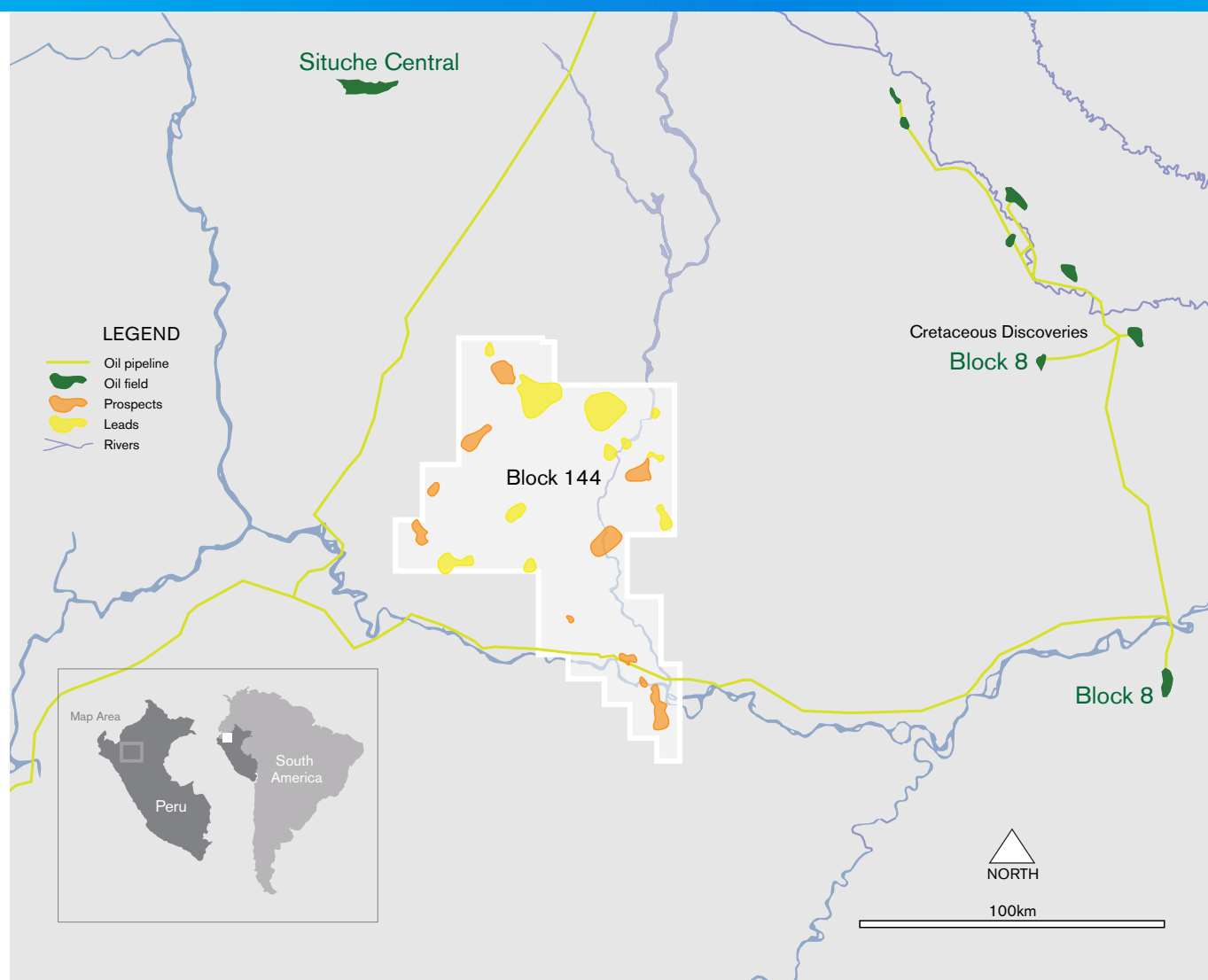
* Karoon's 75% equity interest is subject to completion of farm-in obligations.

1. Refer to Resource Summary on page 7.

Marañón Basin, Peru

Key Statistics

Block:	144
Interest:	100%
Operator:	Karoon
Gross Acreage:	6,836 sq km
Water Depth:	NA - Onshore
Type:	Oil
Status:	Force majeure, pre-seismic acquisition



Independently Assessed		NET Unrisked Prospective Resource¹ (Undiscovered)		
Block		Low	Best	High
144		53	107	195

1. Refer to Resource Summary on page 7.

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.

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

During the financial year, D&M provided an independent prospective resource assessment as at 31 December 2013. The gross unrisks prospective resource Best Estimate¹ is 107 mmbbls of oil identified across 2 prospects (Karoon's interest 100%).

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 completed. Karoon is continuing geotechnical and social work along with undergoing an Environmental Impact Assessment 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.

Equity Interest

Equity interest of the participant in Block 144 is:

KEI (Peru 112) Pty Ltd, Sucursal del Peru (Operator)	100%
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1. Refer to Resource Summary on page 7.

Operations Review continued

For the Financial Year Ended 30 June 2014

Corporate Strategy

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

The Company looks for high equity interest, early stage exploration opportunities with large potential targets in basins with 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 residual non-operated equity interests into production.

Strategy, Strengths and Specific Risks

Strategy

Focus on under explored early stage exploration acreage located within proven basins with working petroleum systems.

Target large scale opportunities with the potential to deliver world class assets.

Acquire significant equity interests in exploration acreage through farm-in arrangements, bid rounds or strategic asset swaps.

Manage significant equity interests to fund exploration and appraisal campaigns.

Leverage off extensive technical and petroleum industry expertise.

Use of leading edge exploration and analysis technology.

Develop additional strategic value adding alliances with leading oil and gas companies.

Continue to retain and recruit highly qualified and experienced personnel.

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.

Proven track record of monetising exploration and evaluation assets.

Application of state-of-the-art seismic techniques.

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 maybe 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.

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.

Corporate Responsibility Report

For the Financial Year Ended 30 June 2014

Philosophy

The nature of the oil and gas industry presents significant health, safety, environmental and social challenges. The successful identification and management of these challenges is paramount and necessary for the long-term success and sustainability of Karoon's business.

Karoon strives to achieve a strong, top down led health and safety culture for employees and contractors through a commitment to industry best practice, regular training and empowering employees to ensure long-term success.

Furthermore, Karoon recognises its social and environmental responsibilities and is proud of the Company's achievements to date. Karoon focuses on the equitable and sustainable development of local communities in operational regions, looking to create opportunities to develop stronger educational, health and economic practices for the benefit of current and future generations.

Health and Safety of Workforce

The health and safety of Karoon's workforce is paramount for the long-term success of the Company.

Karoon's Board and management are committed to industry best practice Health, Safety and Environment (HSE), strongly focussed on prevention, to ensure the wellbeing of the Company's workforce. This is achieved through the integration of Karoon's HSE Policy and Management System in the workplace which includes comprehensive training of employees and contractors.

HSE training is essential to developing the right health and safety culture in the workplace.

In addition to project specific HSE training, broader training program initiatives include advanced defensive driver, first aid and CPR training. Internal Safety committees have also been established in Karoon's South American offices to consider improvements in business practices, the work environment and/or job execution. It is the responsibility of the committees to communicate any observations or recommendations to local management.

During the financial year, a complete revision and update of Karoon's HSE Policy and Management System was conducted to ensure compliance with new regulatory requirements.

Health, Safety and Environmental Record and Planning

There were no Lost Time Incidents, environmental incidents or fatalities during the financial year resulting in a Total Recordable Incident Rate of zero incidents per 200,000 man hours worked (2013: 0.93 incidents per 200,000 man hours worked).

During the financial year, HSE planning was underway for the Santos Basin drilling campaign, planned to commence during the 2015 financial year. The HSE lessons learned during 2013 from the 3 well exploration drilling campaign in the Santos Basin have been evaluated and addressed to improve operational efficiency and reduce the probability of incidents in the new program.

Karoon has developed a risk matrix using risk assessment tools based on the likelihood and severity of possible incidents. Based on this matrix, the Company aims to manage operational risks to levels categorised as low as reasonably possible.

As part of the planning and training process, Karoon adopts a multi-disciplinary approach with participation from the drilling team, technical department, HSE department, contractors and management to ensure safe and reliable operations.

In accordance with the Company's HSE management plan, Karoon conducts audits of all operated acreage to ensure equipment, policies and procedures are maintained to international best practice standards.

With respect to Karoon's non-operated acreage, Karoon's strategy is to be an active participant in the joint operation activities. This gives Karoon a better understanding of the value, risks and operational outcomes associated with each project, should issues arise or key decisions be required.

Corporate Responsibility Report continued

For the Financial Year Ended 30 June 2014

Respect for Communities

Karoon is committed to its social and environmental responsibilities to local communities in the regions where the Company operates. Karoon is proud of its level of commitment, track record and positive community outcomes to date.

As in previous years, Peru continues to be the cornerstone for Karoon's social and environmental programs globally. It represents the operational location where investment in social and environmental programs present the best chance to make a significant and positive contribution. Karoon's philosophy and programs are focused on empowering both individuals and communities by creating opportunities for improved healthcare, education, training and business.

Karoon continues to execute on its communications strategy and maintains frequent and transparent dialogue with local communities in both operated Blocks in Peru. The Citizen Participation Plan ('CPP', direct participation with communities and local authorities), together with the Karoon Social Investment Plan ('SIP') continue to be effective programs to outline planned exploration activities and identify the best opportunities to support the communities.

Karoon's early programs were designed to have immediate impact, however, this focus is shifting to programs with enduring benefits for local communities. These long-term programs are targeted at education and the development of sustainable micro-business program that will support themselves and the community over the long-term.

The need to create a sustainable second income for families with a low socio-economic background in the Tumbes region was identified as a key area of focus. To achieve this, Karoon established a program training women in local handicraft micro-businesses and provided assistance for the training of 20 women who qualified for the program based on merit. The aim was to empower women to operate independently, building a sustainable and strong business with an enduring and positive impact on the local community.

Karoon continued to support the micro-business program assisting in the launch of the Mutumbi (Women of Tumbes) artisanal jewellery brand during November 2013.

Karoon is pleased to announce that after two years of the program operating, the handicraft micro-business is being managed by 13 women from the Tumbes region and is already self-sustainable. Mutumbi is using the proceeds from previous sales to prepare a new collection for spring, along with planning the launch of their brand locally and ongoing marketing in Lima.

Karoon provides ongoing business management consulting services.

Education programs have provided materials for over 700 students and essential computer training for teachers at 6 primary and secondary schools in the Marañón. Karoon initiated a means tested merit based University Scholarship Program designed to assist students in the Tumbes region. Since the program's inception, 9 scholarships have been awarded with 8 of the original 9 recipients continuing to meet the educational requirements and remain on scholarship.

Working together with the Tumbes University, the University Scholarship Program has been broadened to include a student exchange program. Currently, Karoon has supported 2 students to study for 6 months at the Federal University of Sao Paulo.

Healthcare initiatives have included basic first aid training and the provision of first aid materials to 15 communities in the Datem del Marañón province, located in the Loreto region. Karoon also provided equipment, furnishing and nutritional support to an aged care facility and a disabled association in Tumbes.

Another healthcare initiative launched during the financial year is a program designed to educate and train local nurses in the treatment of common diseases through the use of naturally occurring remedies. 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 requested the assistance of the Peruvian Amazon Research Institute ('IIAP') to help train the nurses on how to use plants from the Amazon to produce basic medicine. The IIAP researches the sustainable use of biological diversity in the Amazon region. To date, Karoon has successfully trained 7 nurses through the program.

Due to the success of the program, and the interest of the nurses, Karoon is in the process of organising additional training set to commence during the second half of calendar year 2014.

During 2013, Karoon established land titling programs for communities in the Block 144 area. To date, 7 communities received funding to formally define their geographic boundaries, enabling official registration and qualifying them to be eligible for governmental assistance and employment programs.

Karoon contributes donations and sponsorships to charitable and local community organisations in non-operated regions.

Environmental Stewardship

Karoon continued its commitment to environmental sustainability during the financial year through the on-going investment in the mangrove ecosystem protection program, the Fragata Project (the 'Project'), which was established during the 2013 financial year. The Project is designed to increase the awareness of and to protect the Magnificent Frigatebird (*Fregatta magnificens*) or Man of War in the mangroves of the Bird Islands of Puerto Pizarro, nearby Karoon's Block Z-38, Peru.

The Project aims to improve the quality of tourism, increase the number of visitors (especially bird watchers) and boost employment opportunities in tourism. The investment includes the installation of video equipment, tour guide training, improvements to the Tourist Interpretation Centre and environmental education programs in the region. Magnificent Frigatebird research grants are also available to students from Tumbes University through the Karoon mentoring program.

During the financial year, the Project received a significant amount of local media interest, helping to boost the awareness and profile of the birds and their mangrove habitat. This helped to boost tourism in Puerto Pizarro by approximately 15% during the past 12 months. In addition, based on the research results obtained to date through the program, a technical report on the ecosystem is currently being produced which is expected to be available for Peruvian Universities, Government and Tourism agencies during the second half of calendar year 2014.

Looking Forward

As Karoon prepares for another year, the Company is looking forward to creating more opportunities for local communities to live and work in a healthy, safe and prosperous environment.

In Peru, the current CPP and SIP will remain a focus ahead of the planned exploration drilling campaign. As part of the communications strategy, Karoon has established a Community Relations Office in Zorritos along with the publication of a quarterly newsletter. In addition, as the planned exploration drilling campaign gets closer, Karoon will work with Peru Petro SA (the Peruvian Petroleum Agency) and visit communities to conduct educational workshops regarding drilling exploration and production.

The Peru drilling campaign planned for calendar year 2015 is expected to provide employment opportunities for up to 120 local people. Karoon will also continue to educate its workforce to ensure its employees and contractors are aware of and respectful of all cultures.



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 2014 (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:

Mr Robert M. Hosking, 67

Executive Chairman and Chief Executive Officer

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 18 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, 58

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 and North America. The bulk of this experience was gained while working with BHP Petroleum. Mark has been directly involved with 14 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, 66

FIE Aust. RMIT Dip. Civ Eng.

Independent Non-Executive Director

Appointed 22 February 2005.

Geoff has over 40 years experience in investigation, planning, design, documentation and project management of numerous significant port, harbour and maritime projects. These include container terminals, LNG jetties, heavy lift wharves, cement, coal, bauxite, iron ore and other bulk terminals 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.

Chairman of the Remuneration Committee.

Member of the Audit Committee and Risk and Governance Committee.

Mr Clark Davey, 58
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.

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

Mr Peter Turnbull, 56
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 publicly 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 regimes. He is an Executive Committee member of several global organisations which promote good governance.

Chairman of the Risk and Governance Committee.

Member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr Bernard Wheelahan AM, 73
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, 74
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 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).

Directors' Report continued

Mr Stephen Power

B. Juris LLB

Non-Executive Director

Appointed 28 June 2005.

Resigned 6 June 2014.

Stephen is a commercial lawyer who has spent over 25 years providing advice to participants in the resources industry in Australia and overseas. Stephen was previously a partner in a boutique law firm that provided commercial advice to a predominantly listed client base. Stephen has extensive experience in all facets of commercial and resources law, including the oil and gas sector, both in an Australian and International context including farm-in arrangements, joint ventures, production agreements and other facets of resources related commercial transactions as well as capital raisings and the planning and implementation of mergers and acquisitions.

Current directorships of other listed companies include Antipa Minerals Limited since 1 November 2010.

Stephen was a member of the Audit Committee, Nomination Committee and Remuneration Committee until his resignation.

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 17 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	
	A	B	A	B	A	B	A	B
Mr Robert Hosking	15	15	-	-	-	-	-	-
Mr Mark Smith	15	12	-	-	-	-	-	-
Mr Geoff Atkins	15	15	9	9	1	1	1	1
Mr Clark Davey	15	15	9	9	1	1	1	1
Mr Peter Turnbull	-	-	-	-	-	-	-	-
Mr Bernard Wheelahan	-	-	-	-	-	-	-	-
Mr Stephen Power	15	13	9	9	1	1	1	1
Mr Jose Coutinho Barbosa	15	11	-	-	-	-	-	-

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 and Options

As at the date of this Directors' Report, the Directors held the following number of ordinary shares and options or performance rights over unissued ordinary shares in the Company:

Director	Ordinary Shares, Fully Paid	Unlisted Other Share Options	Unlisted Performance Rights
Mr Robert Hosking	11,874,462	800,000	-
Mr Mark Smith	2,892,037	800,000	-
Mr Geoff Atkins	696,784	-	-
Mr Clark Davey	24,294	500,000	-
Mr Peter Turnbull	-	-	-
Mr Bernard Wheelahan	30,000	-	-
Mr Jose Coutinho Barbosa	-	200,000	-

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 the financial year, the Company successfully completed \$175,546,141 in new equity capital raisings:

- 29,700,000 ordinary shares were issued during August 2013 to sophisticated and professional investors via a share placement at \$5.10 per ordinary share that raised gross proceeds of \$151,470,000; and
- 4,720,812 ordinary shares were issued during September 2013 to shareholders via a share purchase plan at \$5.10 per ordinary share that raised gross proceeds of \$24,076,141.

Results

The consolidated result of the Group for the financial year was a loss after tax of \$5,518,780 (2013: loss of \$10,930,403). The loss for the financial year included employee benefits expense (net), which recognised share-based payments expense of \$4,301,570. The loss for the financial year also included exploration and evaluation expenditure expensed, in accordance with the Group's accounting policy, of \$2,535,928 relating to Block S-M-1354 which was relinquished during January 2011 (but not recognised until approval from the ANP was received for Karoon's farm-in to the Block) and \$607,018 from reviewing new exploration ventures (predominantly in Brazil and Australia). Also included in the loss for the financial year was Brazilian, Peruvian and Australian farm-out costs of \$1,394,260. The majority was incurred on farm-out activity for exploration permits WA-482-P, WA-315-P and WA-398-P.

Partially offsetting the loss for the financial year was interest income of \$5,595,155 earned on interest bearing cash assets and security deposits and net foreign currency gains of \$1,100,817. A reduction of interest bearing cash and cash equivalents and security deposits compared to the previous financial year, together with lower interest rates overall resulted in reduced interest income earned during the financial year. The net foreign currency gains were almost entirely attributable to realised foreign currency gains as a result of the movement in the United States dollar against the Australian dollar on cash assets and security deposits held in United States dollars.

Financial Position

At the end of June 2014, the Group has a cash and cash equivalents balance of \$39,013,343 (2013: \$204,519,641) and no debt. Included in this balance were short-term bank deposits of \$3,896,532 (2013: \$93,297,136) and the Group's share of joint operation cash balances of \$2,039,720 (2013: \$2,648,027).

The Group's working capital, being current assets less current liabilities, increased from \$181,192,483 as at 30 June 2013 to \$416,963,558 as at 30 June 2014 predominantly as a result of exploration and evaluation expenditure carried forward on exploration permits WA-315-P and WA-398-P having been classified as held for sale as the carrying amount will be recovered principally through a sale transaction; and the settlement of the farm-out with Pacific Rubiales. During the financial year, the Group received approval from the ANP for the assignment to Pacific Rubiales of a 35% equity interest in Santos Basin exploration blocks S-M-1101, S-M-1102, S-M-1037, S-M-1165 and S-M-1166 and disposed of the related capitalised exploration and evaluation expenditure carried forward for those Blocks and settled the Pacific Rubiales related advances, interest payable and financial liability.

During the financial year, total assets decreased from \$945,943,931 to \$800,312,561, total liabilities decreased from \$346,103,034 to \$33,838,630 and total equity increased by \$166,633,034 to \$766,473,931. The major changes in the consolidated statement of financial position were largely due to the following:

- exploration and evaluation expenditure in Australia, Brazil and Peru;
- a successful equity capital raising during August and September 2013 of \$169,554,668 (net cash);
- farm-out of 50% equity interest in WA-482-P to Apache, along with recoupment of past costs of \$9,793,267;
- the effect of the assignment of the 35% interest in each of the Group's Santos Basin exploration Blocks to Pacific Rubiales (refer Notes 14, 20 and 21 of the consolidated financial statements);
- long lead inventory items purchased for Brazil and Peru; 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:REAL2.0392 as at 30 June 2013 to AUD1:REAL2.076 as at 30 June 2014.

Exploration and evaluation expenditure of \$289,927,552 (2013: \$359,051,091) was incurred during the financial year, with major expenditure in the following operating segments:

- Australia, the Group completed a total of four exploration wells in the Browse Basin (Proteus-1 in WA-398-P, Grace-1 in WA-314-P, Poseidon North-1 in WA-315-P and Pharos-1 in WA-398-P), along with 3D seismic acquisition (Kraken 3D marine survey over the Elvie lead in permit WA-314-P and the Chrysalids marine 3D survey over the western section of the Carnarvon Basin permit WA-482-P), processing and interpretation, at a total cost of \$224,111,962;
- Brazil, the Group undertook preparatory work and planning for the anticipated Kangaroo-2 appraisal well and Kangaroo West-1 exploration well campaign, undertook pre-FEED studies, along with 3D seismic processing and interpretation and completion of the farm-in of exploration block S-M-1352 with Petróbras, at a total cost of \$55,893,210; and
- Peru, the Group undertook preparatory work and planning for the anticipated two well exploration drilling campaign, including environmental and social work, along with seismic reprocessing and interpretation, at a total cost of \$9,922,380.

The contributed equity of the Company increased by \$171,352,110 during the financial year through a share placement and share purchase plan. The purpose of the share placement to sophisticated and professional investors and the share purchase plan during August and September 2013 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.

The market capitalisation of the Company was \$785 million as at 30 June 2014 (30 June 2013: \$1.127 billion), based on the financial year end closing market price of \$3.07 per fully paid ordinary share and 255,841,581 fully paid ordinary shares on issue.

Review of Operations

Information on the operations of the Group is set out in the Operations Review on pages 8 to 18 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.

Options and Performance Rights

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

Type of Option	Grant Date	Date of Expiry	Exercise Price Per Option	Number of Options
ESOP options	3 September 2010	31 October 2014	\$9.77	525,000
ESOP options	12 January 2011	31 October 2014	\$9.77	300,000
Other share options	18 November 2010	18 November 2014	\$9.48	500,000
ESOP options	18 November 2010	18 November 2014	\$9.77	100,000
ESOP options	10 November 2011	31 October 2015	\$7.30	750,000
ESOP options	10 October 2011	31 October 2015	\$7.30	1,110,000
Other share options	10 November 2011	1 May 2015	\$9.95	1,200,000
Other share options	10 November 2011	1 May 2016	\$10.98	400,000
ESOP options	30 November 2012	29 November 2016	\$6.85	1,017,917
ESOP options	14 January 2013	29 November 2016	\$6.85	74,334
Other share options	30 November 2012	29 November 2016	\$6.85	200,000
ESOP options	9 August 2013	30 June 2017	\$6.74	780,987
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	607,518
				8,848,072

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	30 November 2012	29 November 2015	\$-	72,067
Performance rights	14 January 2013	29 November 2015	\$-	13,593
Performance rights	9 August 2013	30 June 2016	\$-	230,186
Performance rights	1 November 2013	30 June 2016	\$-	44,246
				360,092

For details of 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 2014 as a result of exercise of Employee Share Option Plan ('ESOP') options and other share options since that date. 156,109 fully paid ordinary shares have been issued since 1 July 2014 as a result of the vesting of Karoon Gas Australia 2012 Performance Rights Plan ('PRP') performance rights.

Options and Performance Rights continued

Information relating to the Company's PRP, ESOP and other share options, including details of performance rights and options granted, exercised, cancelled, forfeited and expired during the financial year and performance rights and options outstanding at the end of the financial year, is set out in Note 31 of the consolidated financial statements.

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

Indemnification of Directors and Officers

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 ten 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 ten years following cessation, to any Company records which are either prepared or provided to the Director during the time period they were a Director of the Company.

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 is set out on pages 104 to 117 of this Annual Report.

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. Under the carbon pricing mechanism, liable entities have 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 operated carbon dioxide emissions being below the mandated threshold levels, the Company is not a liable entity and therefore, has no direct obligations under the carbon pricing mechanism.

In addition to the carbon pricing mechanism, greenhouse gas emissions, energy consumption and energy production reporting obligations arise under the *National Greenhouse and Energy Reporting Act 2007 (Cth)* ('NGER Act'). The Group was not required to register and report greenhouse gas emissions, energy consumption or energy production under the NGER Act for this financial year, as it did not meet any of the relevant thresholds from activities conducted within Australia for the relevant period. However, the Group's global carbon footprint during the financial year was 44,405 tonnes (2013: 26,550), resulting primarily from non-operated drilling operations in Australia, operated seismic surveys and administration emissions from global offices and Company vehicles. The Company continues to assess cost effective, reliable and environmentally efficient methods of dealing with its future greenhouse gas emissions and energy consumption.

Karoon is continuing to work with external contractors to design a carbon offsetting project which is sustainable and meets the short-term Company emissions but scalable to meet the potential future emissions from its operations.

During the financial year, the Company did not operate any exploration wells. The total greenhouse gas emissions from Karoon's administrative functions totalled 232 tonnes.

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 53 of this Annual Report.

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

Matters Arising Subsequent to the End of the Financial Year

Other than the matters disclosed in Note 34 of the consolidated financial statements, no other matter or circumstance has arisen since 30 June 2014 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.

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 2014.

This year, the focus of the Remuneration Committee has continued to be in ensuring that our executive and Non-Executive Director remuneration arrangements contribute towards the achievement of our business strategy, ultimately creating value for shareholders. During the 2014 financial year, we have also carefully balanced the need to attract, retain and reward our executives, with maintaining the cash balance required for operational activities. Share-based grants have therefore again been used for both our short and long-term incentive plans.

Under the 2014 short-term incentive award, performance was measured against the financial and operational performance of the Company and personal performance based on the individual's performance review outcome. In recognition of the Company's performance over the financial year, executives were eligible to receive the personal performance component of the award, in addition to 33% of the operational and financial award. Actual outcomes are reflective of each individual's achievement against this measure for the financial year ended 30 June 2014.

For Executive Directors, under the third tranche of the Bonus Options plan, in respect of the Safety component of the award, 150,000 of the options vested. However, the Executive Directors both considered it appropriate to forfeit their vested options. The Board, respectively, was supportive of this decision.

Addressing the 2013 Remuneration Report vote

At last year's Annual General Meeting, a significant number of shareholders did not support our 2013 Remuneration Report, with concerns raised around the disclosure of our variable remuneration framework and outcomes, and the remuneration arrangements for our Executive Directors. To ensure a better understanding of shareholder concerns, so that they could be appropriately addressed, we engaged with various shareholders and proxy advisor groups during the 2014 financial year.

Following the expiry of the Executive Directors' historical remuneration arrangements, the Executive Directors' remuneration arrangements were brought into line with the other executives, with differences only in mix between fixed and variable remuneration.

We have also made a concerted effort in the 2014 Remuneration Report to better explain the rationale behind our remuneration arrangements. Clear and transparent disclosures of the Company's remuneration outcomes for 2014 have been detailed in a separate section of the Remuneration Report to demonstrate to shareholders how executive reward is closely linked to operational performance and the delivery of shareholder value.

Finally, following an internal review and based on discussions with shareholders, we have made several changes to the remuneration arrangements for our executives and Executive Directors for the financial year ending 30 June 2015. These include changes to the short and long-term incentive plan performance measures to better align executive reward with Company performance.

We believe our efforts over the last 12 months have provided a clearer understanding of the Remuneration Committee's objectives for remuneration and welcome your feedback.



Geoff Atkins
Chairman, Remuneration Committee

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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, directly or indirectly, having the authority and responsibility for planning, directing and controlling the major activities of the Company and Group.

For the financial year ended 30 June 2014, the KMP disclosed in the Remuneration Report are as follows:

Name	Position	Term as KMP
Executive Directors		
Mr Robert Hosking	Executive Chairman and Chief Executive Officer	Full financial year
Mr Mark Smith	Executive Director and Exploration Director	Full financial year
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	Appointed 6 June 2014
Mr Bernard Wheelahan	Independent Non-Executive Director	Appointed 24 June 2014
Mr Stephen Power	Non-Executive Director	Resigned 6 June 2014
Mr Jose Coutinho Barbosa	Non-Executive Director	Full financial year
Other KMP		
Mr Scott Hosking	Company Secretary 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 2014 and before the date the of this Directors' Report.

For the purposes of the Remuneration Report, the term 'executive' refers to the Executive Chairman/Chief Executive Officer, the Executive Director/Exploration Director and other executives of the Group and Company.

The Remuneration Report for the financial year ended 30 June 2014 outlines the remuneration arrangements of the KMP of the Group and Company 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 *Corporations Act 2001*. The Remuneration Report forms part of the Directors' Report.

Remuneration Report (Audited) continued

Section 2. Remuneration Committee Oversight

To assist in ensuring good governance of remuneration at Karoon, the Board has established 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 regarding:

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

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

The Company's Corporate Governance Statement (set out on pages 108 to 117 of this Annual Report) provides more detailed information on the role of the Remuneration Committee.

Use of Independent Remuneration Consultants

During the financial year ended 30 June 2014, no external advice was sought by, or remuneration recommendations (as defined by *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*) provided to, the Company by remuneration consultants.

However, in order to assist the Company with the implementation of changes made to its remuneration arrangements for the financial year ending 30 June 2015, Karoon engaged Ernst & Young as an external remuneration advisor, engaged by and reporting directly to the Chairman of the Remuneration Committee. To date, this has included the provision of executive and Non-Executive Director market remuneration benchmarking information, market information in respect of incentive plans and an assessment of absolute and relative total shareholder return ('TSR') performance for the purposes of calculating potential vesting of the Executive Directors' Bonus Options.

Addressing the 2013 Remuneration Report Vote

At the Company's 2013 Annual General Meeting, the Company's Remuneration Report received a vote against the resolution of 49.6%. Feedback on the Remuneration Report was not received during the 2013 Annual General Meeting. However, the Company did seek and received specific feedback, during meetings held in the financial year ended 30 June 2014, with major shareholders and proxy advisors, which it has looked to address for the future.

Key issues raised by shareholders were the vesting of options under the Executive Directors' share option plan where performance conditions had not been met over the performance period (notwithstanding the performance conditions would have been achieved a month either side of the vesting date), the level of disclosure of specific performance conditions and outcomes under the short-term incentive plan and business specific arrangements for the Executive Directors. For the most part, the feedback was addressed with a detailed discussion in respect of the Company's remuneration structure and performance testing outcomes.

The Board and Remuneration Committee have continued to focus on addressing shareholder concerns and, as a result, made the following changes to the Company's executive remuneration framework:

- an internal review was conducted in respect of the Executive Directors' total remuneration arrangements, resulting in a change to their remuneration structure from 1 June 2014, such that it is aligned with the other executives;
- from 1 July 2014, the short-term incentive plan performance conditions will be based solely on Karoon's Company-Wide Operational Objectives in order to focus executives on the achievement of operational performance; and
- in recognition of Karoon's global nature and current operational phase, the Board reviewed the companies against which Karoon compares its TSR and has replaced the S&P ASX 200 Energy Index with a bespoke of Australian market and global peers that better reflect the current size, operations and business model of the Company.

The Board has also focused on improving 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 Directors, officers and other KMP 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 options and performance rights). Directors and executives are prohibited from entering into any hedging arrangements over unvested 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, Company Secretary or their authorised representative to gain approval to trade and ensure that trading restrictions are not in force.

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 evaluation phase, the Company's success is measured by its ability to acquire, assess and confirm new hydrocarbon discoveries, along with its ability to complete asset equity management activities.

The remuneration arrangements for the Executive Directors and other KMP for the financial year ended 30 June 2014, have been structured to directly align with the business. In particular, the decision to use performance tested, share-based grants for its incentive plans, reflects the Board's 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 considers linking variable remuneration to Company operational performance in the short-term and to share price performance relative to peers in the long-term, is the most appropriate method of incentivising executives and employees given Karoon's current business strategy and exploration and appraisal phase.

Broadly, the objectives of the Group'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 Group'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 a sustained growth in shareholder returns through operational success and increase in value accretion relative to competitor companies;
- remuneration outcomes provide recognition of contribution to growth in shareholder wealth 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

The Group aims to reward executives with a level and mix of remuneration appropriate to their position, responsibilities and performance, while ensuring appropriate alignment with market practice and business strategy.

The following table summarises the target remuneration mix for executives for the financial year ended 30 June 2014, based on maximum achievement of incentive plan outcomes:

	Fixed	At Risk	
	FAR	STI	LTI
Executive Directors	40%	60% ¹	
Other Executives	50%	25%	25%

1. For Executive Directors, variable remuneration relates to the grants of options made during the financial year ending 30 June 2012, vesting in the financial years ending 30 June 2012, 2013 and 2014. These grants operated as both the STI and LTI component of their remuneration package.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework continued

Fixed Remuneration ('FAR')

FAR 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, experience and qualifications, including length of service with Karoon;
- the individual's overall contribution to the success of the business;
- the size and complexity of the business;
- Karoon's geographical footprint;
- the complexity and importance of strategic decisions facing the Company; and
- the employment location and labour market conditions in that location.

For the Executive Directors, determination of cash salary also takes into consideration their unique role as founders of the Company. This is also reflected within the remuneration mix for Executive Directors, which includes a higher proportion of share-based remuneration than for the other executives.

Share-based Remuneration

Executive Directors each had a three-year fixed remuneration package which also included share-based remuneration in the form of 600,000 share options (base options) each, which were not subject to any performance conditions. The base options were issued at the start of the three-year period, vesting in each of the financial years ended 30 June 2012, 2013 and 2014, at exercise prices of \$8.92, \$9.95 and \$10.98 respectively. These exercise prices reflected a 30%, 45% and 60% premium to the share price at the pricing determination date.

The Board considered that these premium priced share options represented a cost effective means of remunerating Executive Directors at an appropriate level while creating shareholder alignment. The options only conferred value if the share price exceeded the exercise price at the date of vesting and shareholders, therefore, received share price appreciation over the option term.

As at 31 May 2014, the Executive Directors' remuneration structure, as set out and approved by shareholders at the Company's 2011 Annual General Meeting, came to an end. Executive Directors will now receive a remuneration package structured similarly to the other executives and will no longer receive share-based remuneration as part of their fixed remuneration.

Specific details on the new arrangements for the Executive Directors are provided at Section 3C.

Superannuation

The Australian executives of the Company received statutory superannuation contributions of 9.25% of cash remuneration, up to the maximum contribution base. 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 Group is required to contribute 27% of Brazilian executive total 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 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. The purpose of providing variable remuneration is to:

- motivate and reward employees by generating a link between operating performance and remuneration received;

- encourage employees to achieve personal and business targets, improve the performance of the Company and, in turn, provide value for shareholders;
- provide a mechanism for employees to share the rewards of the success of the Company through the issue of performance rights under the short-term incentive, and options under the long-term incentive, plans; and
- assist in facilitating capital management by enabling the Company to preserve cash reserves for expenditure on principal activities.

Short-term Incentive Plan ('STI')

Executives, other than the Executive Directors, have the opportunity to earn an annual incentive award through the STI. 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 operational needs. The issue of performance rights rather than cash payments is considered appropriate by the Company in its current exploration and appraisal phase as while these activities are not currently generating earnings or sales revenue, growth and overall value will be created by operational success. The key features of the PRP award for the financial year ended 30 June 2014 ('FY14 award') are outlined in the table below:

Participation	Executives, other than the Executive Directors, who participated in a separate share-based incentive scheme.
STI opportunity	<p>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.</p> <p>The maximum STI opportunity available to an executive is 25% of total remuneration.</p> <p>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.</p>
Form of award	Performance rights. Each performance right provides the participant with the right to receive one fully paid ordinary share in Karoon for no consideration, subject to the achievement of the relevant performance conditions.
Performance period	12-month period from 1 July 2013 to 30 June 2014.
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 year after the performance period is complete.
Performance conditions	<p>Company-wide operational objectives and personal performance including:</p> <ul style="list-style-type: none"> • Personal performance assessment, measured by the outcome of the individual's performance review process (50%); • Safety, measured by a zero incident safety and environment record (16.67%); • Operational, measured by the Company's success in exploration drilling target selection and completion of farm-out activities (16.67%); and • Cost and time budgeting (16.67%). <p>Further detail on the performance conditions, targets and outcomes for the FY14 award are provided in the following section.</p>
Grant date	Performance rights were granted during August 2013 and October 2013, following finalisation of the 30 June 2013 audited accounts and in the case of Scott Hosking and Tim Hosking, after receiving shareholder approval at the Company's 2013 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. However, in recent years, discretion has not been exercised to allow any performance rights to vest.
Change of control	Upon a change of control, the Board 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	<p>Linking STI outcomes to operational performance develops an essential alignment between the Company's year-to-year 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.</p> <p>In setting objectives for the performance period, the Remuneration Committee assesses the operational goals and upcoming key value drivers within the Company's operations, allowing for transparent measurement of performance against these objectives. Safety metric consideration missing.</p>

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework continued

Long-term Incentive Plan ('LTI')

Bonus and Company Milestone Options (Executive Directors only)

Executive Directors had previously received grants of Bonus and Company Milestone Options which were issued in three tranches, vesting in the financial years ended 30 June 2012, 2013 and 2014. The options will only confer value where the share price exceeds the exercise price during the period between vesting and expiry of the options and shareholders receive share price appreciation over the term of the incentive. The final tranche was performance tested during the 2014 financial year ended 30 June 2014, with the testing outcomes discussed in Section 3B of this Remuneration Report.

No grants of options were made to Executive Directors during the financial year ended 30 June 2014. From 1 June 2014, when the Executive Directors moved to the new remuneration structure, no further grants of Bonus or Company Milestone Options will be made.

Employee Share Option Plan

All other executives received grants of share options during the financial year ended 30 June 2014, 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 options to employees with the intent of rewarding long-term performance and superior shareholder returns. Under the plan, 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 2014 ('FY14') are outlined in the table below:

Participation	<p>Executives, other than the Executive Directors, who participated in a separate share-based incentive scheme for FY14.</p> <p>Participation in the ESOP is at the discretion of the Board (on the recommendation of the Remuneration Committee and/or senior executives) and no employee has a contractual right to receive a grant under the plan.</p>										
LTI opportunity	<p>The LTI opportunity level of each executive is a pre-determined proportion of an employees' total remuneration. The quantum of share options received is determined by dividing the LTI opportunity for each employee by the fair value of an option, using a binomial option pricing formula.</p> <p>Further detail in respect of the allocation methodology used by Karoon is provided within the 2013 Notice of Meeting.</p> <p>The maximum LTI opportunity available to an executive is 25% of total remuneration.</p>										
Form of award	<p>Options under the 2012 ESOP. Each option provides the participant with the right to acquire one fully paid ordinary share in Karoon at the exercise price determined upon grant, subject to the achievement of the relevant performance conditions.</p> <p>The exercise price is based on the volume weighted average price of the Company's ordinary shares traded on the ASX during the 90 days of trading before the ESOP options were offered, plus a 30% premium to the market price.</p>										
Performance period	Three-year period from 1 July 2013 to 30 June 2016.										
Performance conditions	<p>Relative TSR against the companies (weighted by company size) in the S&P/ASX 200 Energy Index. Vesting will occur in accordance with the following schedule:</p> <table> <tr> <th>Performance Against the Comparator Group</th><th>Proportion of Options Vesting</th></tr> <tr> <td>Less than 50th percentile</td><td>0%</td></tr> <tr> <td>At 50th percentile</td><td>50%</td></tr> <tr> <td>Between 50th and 75th percentile</td><td>50% plus 2% for each additional percentile ranking above the 50th percentile</td></tr> <tr> <td>At or above 75th percentile</td><td>100%</td></tr> </table>	Performance Against the Comparator Group	Proportion of Options Vesting	Less than 50th percentile	0%	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%
Performance Against the Comparator Group	Proportion of Options Vesting										
Less than 50th percentile	0%										
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%										
Grant date	Options were granted during August 2013 and October 2013, following finalisation of the 30 June 2013 audited accounts and in the case of Mr Scott Hosking and Mr Tim Hosking, after receiving shareholder approval at the Company's 2013 Annual General Meeting.										

Exercise period	Options will remain exercisable for a period of one-year following vesting, provided the individual remains an employee of the Company during this period.
Termination of employment	Unvested (and unexercised) 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 options to vest.
Change of control	Upon a change of control, the Board may determine that a portion of the individual's unvested options will vest, based on pro-rata achievement of the performance conditions.
Link between performance and reward	The Board considers 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.

Options will remain exercisable for a period of one-year following vesting, provided the individual remains an employee of Karoon during this period.

B. Executive Remuneration Outcomes

Relationship between the Executive Remuneration Framework and Company Performance

Notwithstanding that the Group is still in the exploration and evaluation phase of activities and is still incurring operating losses (excluding foreign currency gains and losses), the Company believes its current policy was effective in increasing long-term shareholder wealth through strengthening the Group's asset base and its prospective resources through exploration success.

The tables below set out summary information about the Group's earnings, net assets and movements in shareholder wealth from 1 July 2006 to 30 June 2014:

Financial Year Ended	30 June 2007 \$	30 June 2008 \$	30 June 2009 \$	30 June 2010 \$	30 June 2011 \$	30 June 2012 \$	30 June 2013 \$	30 June 2014 \$
Revenue	2,878,695	5,320,930	4,868,541	6,459,623	14,225,048	13,601,653	7,782,174	5,595,155
Loss before income tax	(14,642,257)	(6,055,339)	4,452,766	(14,665,017)	(23,304,914)	(3,287,382)	(10,930,403)	(19,503,668)
Loss for financial year	(14,642,257)	(6,055,339)	4,452,766	(14,893,839)	(23,304,914)	(3,287,382)	(10,930,403)	(5,518,780)
Net assets at end of financial year	81,136,721	130,742,056	334,658,839	361,703,571	617,867,324	600,599,921	599,840,897	766,473,931

Financial Year Ended	30 June 2007 \$	30 June 2008 \$	30 June 2009 \$	30 June 2010 \$	30 June 2011 \$	30 June 2012 \$	30 June 2013 \$	30 June 2014 \$
Share price at beginning of financial year	1.45	2.38	4.54	9.09	5.95	5.23	4.03	5.09
Share price at end of financial year	2.38	4.54	9.09	5.95	5.23	4.03	5.09	3.07
Basic loss per ordinary share	(0.2035)	(0.0485)	0.0302	(0.0842)	(0.1119)	(0.0148)	(0.0494)	(0.0220)
Diluted loss per ordinary share	(0.2035)	(0.0485)	0.0300	(0.0485)	0.0300	(0.0148)	(0.0494)	(0.0220)

The Company's share price has fluctuated considerably in recent financial years. As such, no vested options have been exercised and ordinary shares issued, since the financial year ended 30 June 2011.

During the financial year ended 30 June 2014 and over the previous three financial years in the case of the Bonus and Company Milestone Options grants, the Company's performance in some areas did not meet the targets set and the incentives linked to those targets were not vested or were forfeited, as outlined on page 38.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

B. Executive Remuneration Outcomes continued

STI Outcomes

The following table outlines performance against the STI performance targets for the financial year ended 30 June 2014:

Performance Condition	Achievement Against Target	STI Vesting Outcome (% of Maximum STI Opportunity)
Personal Performance	Individual performance ratings were at or above an 'Effective' level for each executive, resulting in some level of vesting depending on the rating received and other individual assessments conducted over the performance period.	Vesting between 25% and 50%, depending on the individual's performance assessment.
Safety	Zero lost time incidents, including injuries and environmental incidents, were recorded during the performance period, resulting in full vesting under this measure.	16.67%
Operational	Exploration drilling target not met in WA-314-P, despite ongoing successful results in appraisal drilling programs. Two of four major farm-outs were finalised during the financial year, the remaining farm-outs are on-going.	0%
Cost and time budgeting	Partial satisfaction, therefore no vesting as the target has not been met in full. During the financial year, the Company experienced higher than expected net exposure to non-operated joint ventures, which resulted in lower than expected cash reserves.	0%

LTI Outcomes

Bonus Options (Executive Directors only)

During the financial year ended 30 June 2012, the Executive Directors were each issued a total of 1,300,000 Bonus Options. Under the issue, vesting was subject to achievement of the following performance conditions:

- relative TSR as judged by share value appreciation that outperforms the S&P/ASX 200 Energy Index during the performance period (50%);
- absolute TSR to exceed 10% p.a. during the performance period (25%); and
- maintenance of a zero incident safety record during the performance period (25%).

The bonus options were issued in tranches of 300,000 options, 400,000 options and 600,000 options, vesting in each of the financial years ending 30 June 2012, 2013 and 2014, at exercise prices of \$8.92, \$9.95 and \$10.98 respectively. These exercise prices reflected a 30%, 45% and 60% premium to the share price at the pricing determination date.

The Executive Directors each had the third and final tranche of 600,000 bonus share options tested against the relevant performance conditions during the financial year. The following table outlines performance against the relevant performance targets:

Performance Condition	Achievement Against Target	LTI Vesting Outcome (% of Grant Opportunity)
Relative TSR	Karoon's TSR performance did not exceed the S&P/ASX 200 Energy Index.	0%
Absolute TSR	Karoon's TSR performance did not exceed 10% p.a.	0%
Safety	Zero lost time incidents and fatalities were recorded during the performance period.	25%

In the case where a particular performance condition is considered 'out of the control' of the Executive Director and not achieved, the Remuneration Committee has the discretion to allow some or all of the Bonus Options to vest and be exercised. However, the Remuneration Committee considered it appropriate to allow this final tranche to lapse, reflecting overall corporate performance.

Performance against the above conditions resulted in 150,000 options vesting to each of the Executive Directors, however, the Executive Directors elected to forfeit these options, in recognition of the Company's recent performance.

Company Milestone Options (Executive Directors only)

A separate bonus option component of 500,000 options was issued to each Executive Director during the financial year ended 30 June 2012. Vesting was subject to achievement of a single performance condition, being the outperformance of the S&P/ASX 200 Energy Index by 50% or more over the period beginning 1 May 2011 and ended 1 May 2014. The exercise price for these options was \$10.98, set at a 60% premium to the share price at the pricing determination date.

The grant was performance tested during the financial year ended 30 June 2014. As Karoon's TSR performance did not exceed the S&P/ASX 200 Energy Index by 50% or more during the three-year performance period, the performance condition was not met and the unvested options lapsed.

In the case where the performance condition is not achieved, the Remuneration Committee has the discretion to allow some or all of the Company Milestone Options to vest and be exercised. The Remuneration Committee considered it appropriate to allow the options to lapse.

Share Options

The Company currently has two share option plans in place, the Karoon Gas Australia 2009 Employee Share Option Plan (2009 ESOP, approved by shareholders at the Company's 2009 Annual General Meeting) and the Karoon Gas Australia 2012 Employee Share Option Plan (2012 ESOP, approved by shareholders at the Company's 2012 Annual General Meeting). All options issued during the financial year ended 30 June 2014, were issued under the Karoon Gas Australia 2012 ESOP. However, there remain unexercised options under the 2009 ESOP that were issued in previous financial years.

No performance testing occurred during the financial year ended 30 June 2014.

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 will be tested during the financial year ending 30 June 2015.

C. Key Changes for the Financial Year Ending 30 June 2015

As part of a broader review of remuneration conducted by the Board, several key changes were made to the remuneration arrangements for executives, including the Executive Directors, to apply for the financial year ending 30 June 2015.

New Remuneration Framework for Executive Directors

Following the end of the Executive Directors' three-year remuneration packages (on 31 May 2014), the remuneration arrangements of both Executive Directors have been aligned with other executives. However, more emphasis has been placed on variable remuneration when setting the overall remuneration levels. This reflects feedback received by shareholders following the Company's 2013 Annual General Meeting, as well as providing consistency across the executive team. The Remuneration Committee also believes the new structure creates better alignment with industry practice and a clearer link between Company performance and remuneration.

Remuneration is now divided in to three components:

- fixed remuneration, comprising cash salary, superannuation and salary sacrifice items or non-monetary benefits;
- short-term incentive award based on Company-Wide Operational Objective measures under the Karoon 2012 PRP; and
- long-term incentive award based on pre-determined performance conditions under the Karoon 2012 ESOP.

Annual cash salary (plus superannuation) for the Executive Directors was assessed during the financial year ended 30 June 2014, against peer companies of a similar market capitalisation to Karoon, having regard to the overall size and composition of the total remuneration package. As a result, the cash salary for Executive Directors will be set at \$618,475 for the financial year ending 30 June 2015. Section 3D 'Executive Agreements' contains remuneration details and other key terms of employment for the Executive Directors.

The maximum remuneration mix for the financial year ending 30 June 2015 will be as follows:

	Fixed	At Risk	
	FAR	STI	LTI
Executive Directors ¹	40%	30%	30%
Other Executives	60-70%	13-25%	13-25%

1. From 1 June 2014, the Executive Directors' remuneration arrangements are aligned to those of the other executives. Details of this change are provided in Section 3A of this Remuneration Report.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

C. Key Changes for the Financial Year Ending 30 June 2015 continued

Short-term Incentive ('STI')

The Remuneration Committee has elected to remove the personal performance criteria from the short-term incentive plan, with the award to be based solely on Company-Wide Operational Objectives. The removal of the personal performance criteria will more closely align the operational performance of the Company with the remuneration received by executives.

The Company-Wide Operational Objectives, for the performance period from 1 July 2014 to 30 June 2015, are outlined in the table below. Vesting under each objective will occur upon full satisfaction of the performance condition.

Performance Condition	Rationale for Condition	Weighting
Safety Based on performance against leading indicators of Karoon's HSE Policy and Management System.	Karoon considers safety to be paramount to its operations and that Executives and employee's contribute to ongoing HSE performance by contributing to training, HSE audits and implementation of safety initiatives, which build an overall safety culture and reduce Lost Time Incidents through cognisant awareness of safety and environmental best practice throughout the Company.	20%
Operational Success in the Brazilian drilling program	The Brazilian drilling program is the main avenue to first production for Karoon. The Remuneration Committee, therefore, considers confirmation of a contingent resource at Kangaroo-2 and potential resource expansion at Kangaroo West-1, to be key value drivers for Karoon shareholders in the financial year ending 30 June 2015.	35%
Success in the Carnarvon Basin drilling program	The acquisition, identification and drilling of exploration targets in the Carnarvon Basin is a key component of Karoon's overall business and continuing to test exploration targets in this area is critical to setting up future growth for the business.	20%
Cost and time budgeting Completion of existing farm-out process in the South American portfolio	Farming out assets is the key to sustainable funding requirements and reducing the Company's exposure to ongoing exploration and evaluation risk. The completion of South American farm-outs allows Karoon to allocate more capital towards the development of Brazilian assets and offsets the cost of drilling exploration wells in Peru.	25%

During previous financial years, the grant of performance rights under the STI has occurred at the start of the performance period. The Remuneration Committee has now shifted the grant date to the end of the performance period, in order to simplify the STI process and alleviate issues around issuing performance rights subject to performance conditions not yet met, which can result in the cancellation of unvested performance rights. At the completion of the performance period, achievement against the relevant conditions will be determined and the appropriate number of performance rights granted. Vesting of these performance rights will occur at the completion of a one-year retention period, from the date of grant.

Long-term Incentive ('LTI')

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.

As a result of this assessment, it was determined that the current TSR comparator group, being the S&P/ASX 200 Energy Index, does not provide the best reference point for performance measurement, as it results in a substantial weighting towards companies that are significantly larger in size than Karoon and/or are not purely exploration or production companies. In addition, with Karoon becoming a more global company, many of its true peers sit outside the S&P/ASX 200 Energy Index.

The S&P/ASX 200 Energy Index has therefore been replaced by a bespoke TSR comparator group, comprising a selection of Australian and global companies specifically chosen by the Board because they either operate similar business models to Karoon, have high growth potential tied to exploration results, operate in similar regions, or are companies that investors may consider when looking to invest in a company such as Karoon.

For the financial year ending 30 June 2015, the peer group will be as follows:

Australian market peers	Global peers
AWE Limited	Origin Energy Limited
Beach Energy Limited	Cobalt International Energy Inc
Buru Energy Limited	GeoPark Limited
Drillsearch Energy Limited	Senex Energy Limited
Horizon Energy Limited	Gran Tierra Energy Inc
Oil Search Limited	Kosmos' Energy Limited
	Ophir Energy plc
	Tullow Oil plc

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 shareholders 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 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.

D. Executive Agreements

Remuneration and other terms of employment for the Executive Chairman, Executive Director, 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, ESOP and other equity plans. 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 ¹	Related Entity	Share Option Eligible	Performance Rights Eligible	Base Salary (Including Post Employment Benefit Entitlements) Amount
Executive Directors								
Mr Robert Hosking	From 1 May 2011, ongoing	Ongoing	In writing 6 months	Fundamental change upon a change of control: one-year	Ropat Nominees Pty Ltd; Hosking Superannuation Fund	Yes	Yes	\$618,475
Mr Mark Smith	From 1 May 2011, ongoing	Ongoing	In writing 6 months	Fundamental change upon a change of control: one-year	IERS (Australia) Pty Ltd; Bonnie Doon Superannuation Fund	Yes	Yes	\$618,475
Other key management personnel (Group)								
Mr Scott Hosking	Ongoing	Ongoing	In writing 6 months	Fundamental change upon a change of control: one-year		Yes	Yes	\$436,783
Mr Tim Hosking	From 1 December 2010, ongoing	Ongoing	In writing 1 month	Fundamental change upon a change of control: one-year		Yes	Yes	\$520,493
Mr Edward Munks	From 1 January 2011, ongoing	Ongoing	In writing 6 months	Fundamental change upon a change of control: one-year		Yes	Yes	\$541,283

1. Executives are contractually entitled to receive a termination payment equivalent to one-years' base salary, in the event their role is fundamentally reduced upon a change of control.

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. Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands, which are placed on, and the responsibilities of the Directors of Karoon. The Company reviews Non-Executive Director remuneration annually and assesses the change to the Company's activities and overall responsibilities of each Non-Executive Director. To assist the Remuneration Committee with its review of Non-Executive Director fees, the Company obtains market-based comparisons through publicly available information about peer non-executive director fees and conducts an internal review of fee levels within the S&P/ASX 200. Confirmation of market remuneration levels may be sought from an external remuneration advisor where the Remuneration Committee determines this to be necessary.

There have been no changes to Non-Executive Directors' base or committee member fees for the financial year ended 30 June 2014. 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. No increase in the aggregate directors' fee pool is being sought at the Company's 2014 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 development phase, Non-Executive Directors had been issued with unlisted other share options. These other share options had been 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 not to grant 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 2015

No changes will be made to base or committee fees for the financial year ending 30 June 2015. However, recognising the importance of managing risk and good governance within Karoon, the Company has established a Risk and Governance Committee comprising all of the Independent Non-Executive Directors. Fees for this committee have been determined with reference to the expected workload of the committee for the upcoming financial year.

Non-Executive Directors fees for the financial year ended 30 June 2014 and ending 30 June 2015 (excluding superannuation contribution) are outlined in the following table:

	From 1 July 2014	From 1 July 2013
Base Fee:		
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	
Member	\$12,000	

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 (as identified in accordance with the *Corporations Act 2001* as those who had authority and responsibility for planning, directing and controlling the Group and/or Company activities) for the financial year and previous financial year are set out in the following tables:

Financial Year Ended 30 June 2014	Short-term Benefits		Post-Employment Benefits		Long-term Benefits	Share-based Payments Expense	Remuneration Consisting of Options and Performance Rights*	Total Remuneration
Name	Cash Salary and Fees \$	Non-Monetary Benefits \$	Superannuation Contributions \$	Social Security & Indemnity Fund Contributions \$	Long Service Leave \$	Options/Performance Rights \$	Options and Performance Rights* %	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

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

The amounts disclosed for the remuneration of Directors and other key management personnel include the assessed fair values of options and performance rights granted during the financial year, at the date they were granted. The value attributable to options and performance rights is allocated to particular financial periods in accordance with AASB 2 '*Share-based Payment*', which requires the value of an 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 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.

Fair value of 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 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 option.

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

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

Financial Year Ended 30 June 2013	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 & Indemnity Fund Contributions \$	Long Service Leave \$	Options/ Performance Rights \$	Remuneration Consisting of Options and Performance Rights* %	Total Remuneration \$
Executive Directors								
Mr Robert Hosking	533,530	43,566	16,470	-	4,419	1,046,321	63.6	1,644,306
Mr Mark Smith	533,530	26,113	16,470	-	17,491	1,046,321	63.8	1,639,925
Non-Executive Directors								
Mr Geoff Atkins	130,000	967	11,700	-	-	136,894	49.0	279,561
Mr Clark Davey	130,000	967	11,700	-	-	457,915	76.2	600,582
Mr Stephen Power	130,000	563	11,700	-	-	136,894	49.0	279,157
Mr Jose Coutinho Barbosa	100,000	-	-	-	-	50,213	33.4	150,213
Total Directors' remuneration	1,557,060	72,176	68,040	-	21,910	2,874,558		4,593,744
Other key management personnel (Group)								
Mr Scott Hosking	363,462	25,843	16,470	-	23,620	182,576	29.8	611,971
Mr Tim Hosking	321,084	5,728	-	111,611	-	182,063	29.3	620,486
Mr Lino Barro	322,928	-	16,470	-	9,865	140,714	28.7	489,977
Mr Edward Munks	450,000	967	16,470	-	3,961	299,787	38.9	771,185
Total other key management personnel remuneration (Group)	1,457,474	32,538	49,410	111,611	37,446	805,140		2,493,619
Total key management personnel remuneration (Group)	3,014,534	104,714	117,450	111,611	59,356	3,679,698		7,087,363

* The percentage of total remuneration consisting of options and performance rights, based on the value of options and performance rights expensed in the consolidated statement of profit or loss and other comprehensive income during the previous 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*		STI (Performance Rights)		LTI**		Other Share Options		Remuneration Consisting of Options***	
Name	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Executive Directors												
Mr Robert Hosking	53.7%	36.4%	35.6%	46.6%	-	-	-	-	10.7%	17.0%	46.3%	63.6%
Mr Mark Smith	53.1%	36.2%	36.1%	46.8%	-	-	-	-	10.8%	17.0%	46.9%	63.8%
Non-Executive Directors												
Mr Geoff Atkins	100.0%	51.0%	-	49.0%	-	-	-	-	-	-	-	49.0%
Mr Clark Davey	47.1%	23.8%	52.9%	76.2%	-	-	-	-	-	-	52.9%	76.2%
Mr Peter Turnbull (appointed 6 June 2014)	100.0%	-	-	-	-	-	-	-	-	-	-	-
Mr Bernard Wheelahan (appointed 24 June 2014)	100.0%	-	-	-	-	-	-	-	-	-	-	-
Mr Stephen Power (resigned 6 June 2014)	100.0%	51.0%	-	49.0%	-	-	-	-	-	-	-	49.0%
Mr Jose Coutinho Barbosa	53.7%	66.6%	-	-	-	-	-	-	46.3%	33.4%	46.3%	33.4%
Other key management personnel (Group)												
Mr Scott Hosking	65.6%	70.2%	6.2%	20.4%	18.2%	5.2%	10.1%	4.2%	-	-	16.3%	24.6%
Mr Tim Hosking	71.9%	70.7%	5.9%	20.2%	13.9%	5.1%	8.3%	4.0%	-	-	14.2%	24.2%
Mr Edward Munks	60.3%	61.1%	6.4%	31.5%	20.3%	4.1%	13.0%	3.3%	-	-	19.4%	34.8%

* Other share options and Karoon Gas Australia 2009 Employee Share Option Plan options.

** Karoon Gas Australia 2012 Employee Share Option Plan options.

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

Prior to 1 July 2012, ESOP options and other share options to Non-Executive Directors had historically been issued without the use of performance conditions. All issued options had, however, been issued at a premium to share trading prices at issue, with zero to two-year vesting periods and three to four year expiry dates. The Company was of the opinion that the issue of premium priced ESOP options and other share options had represented a cost effective means of properly remunerating experienced professionals at an appropriate level but also directly aligned share-based remuneration with shareholder wealth accretion.

Using a premium to the market price ensures rewards to Executive Directors, Non-Executive Directors and other key management personnel from options granted as part of their remuneration is only available when value has been created for shareholders through share price appreciation. During the previous three financial years, the growth in shareholder value through share price appreciation has varied considerably. As such, no ordinary shares of the Company have been issued since 2 May 2011 from the exercise of ESOP options or other share options since that date.

All ESOP options, performance rights and other share options have been granted subject to continued employment with the Company.

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

While options issued under the Karoon Gas Australia 2009 Employee Share Option Plan are not subject to the individual meeting pre-determined performance conditions, options issued under the Karoon Gas Australia 2012 Employee Share Option Plan do require the satisfaction of pre-determined performance conditions for vesting. Other share options, issued during a previous financial year to Non-Executive Directors, are on the same terms and conditions that apply to the issue of options to eligible employees under the Karoon Gas Australia 2012 Employee Share Option Plan.

Other share options (Bonus Options and 'Company Milestone' options) issued during previous financial years to Executive Directors, in addition to continued employment with the Company, were subject to meeting pre-determined performance conditions which were not met and these options lapsed (were forfeited) unexercised.

Options have vesting periods of zero to three years from the date of this report, dependent upon the tranche of options being granted and the time elapsed between formal approval and issue of options.

Performance rights have vesting periods of one to two years, dependent upon the time elapsed between formal approval and the issue of performance rights.

Further information on options and performance rights is set out in Note 31 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 Company currently has three share-based payment plans; these were approved by shareholders during the 2009 and 2012 Annual General Meetings.

The Company had also granted other share options to Directors in the past. Options issued to Directors were approved, on a case-by-case basis, by shareholders at relevant general meetings. The Company does not intend to grant share-based remuneration to Non-Executive Directors in the future.

The issuance of 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 options and performance rights is kept to a minimum. The lowest strike price of any option on issuance is currently \$4.06 and the highest strike price is \$10.98. There is currently 8,848,072 options (3,963,072 remain unvested) and 360,092 performance rights (274,432 remain unvested) issued under the 2009 ESOP, 2012 ESOP or 2012 PRP, representing approximately 3.6% of the Company's total number of ordinary shares issued.

The terms and conditions of each grant of 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 Option or Performance Right	Fair Value Per Option or Performance Right at Grant Date	% Vested	Performance Condition Achieved
ESOP options						
10 October 2011	31 October 2013	31 October 2015	\$7.30	\$1.65	100	Not applicable*
30 November 2012	29 November 2015	29 November 2016	\$6.85	\$1.29	-	To be determined
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
Other share options						
18 November 2010	18 November 2013	18 November 2014	\$9.48	\$2.75	100	Not applicable**
10 November 2011	1 May 2014	1 May 2016	\$10.98	\$1.30	15	Bonus Options and 'Company Milestone' options forfeited due to performance conditions not being met
30 November 2012	29 November 2015	29 November 2016	\$6.85	\$1.29	-	To be determined***
Performance rights						
30 November 2012	1 July 2014	29 November 2015	\$-	\$4.90	-	Performance conditions met
9 August 2013	30 June 2015	30 June 2016	\$-	\$4.32	-	To be determined
1 November 2013	30 June 2015	30 June 2016	\$-	\$5.27	-	To be determined

* Karoon Gas Australia 2009 Employee Share Option Plan options have historically been issued without the use of performance conditions.

** Other share options issued to Non-Executive Directors have historically been issued without the use of performance conditions.

*** 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 options to eligible employees under the Karoon Gas Australia 2012 Employee Share Option Plan.

Options are granted for no consideration. When exercisable, each option is convertible into one ordinary share of the Company.

New ESOP options expire four years after they are granted. The exercise price of ESOP options, issued during the financial year, was based on the volume weighted average price at which the Company's ordinary shares traded on the ASX during the 90 days of trading before the ESOP options were offered plus a 30% premium to the market price.

There was no other share options issued during the financial year.

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 (performance and service) have been met. When vested, each performance right is convertible into one ordinary share of the Company.

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;
- unexercised Karoon Gas Australia 2012 Employee Share Option Plan options, a percentage amount of unvested options may vest on the basis of the pro-rata achievement of pre-determined performance conditions; and
- unexercised performance rights issued pursuant to the Company's PRP, a percentage amount of unvested performance rights may vest based on the pro-rata achievement of pre-determined performance conditions.

Further information on options and performance rights is set out in Note 31 of the consolidated financial statements.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

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

Details of 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 Options and Performance Rights Granted During Financial Year	Fair Value per Options and Performance Rights at Grant Date*	Value of Options and Performance Rights at Grant Date*	Number of Options and Performance Rights Vested During Financial Year	Number of Options and Performance Rights Forfeited	Value of Options and Performance Rights Forfeited
Executive Directors						
Mr Robert Hosking						
– Other share options	-	-	-	200,000	1,100,000	\$2,706,000**
Mr Mark Smith						
– Other share options	-	-	-	200,000	1,100,000	\$2,706,000**
Non-Executive Directors						
Mr Geoff Atkins	-	-	-	-	-	\$-
Mr Clark Davey						
– Other share options	-	-	-	500,000	-	\$-
Mr Peter Turnbull (appointed 6 June 2014)	-	-	-	-	-	\$-
Mr Bernard Wheelahan (appointed 24 June 2014)	-	-	-	-	-	\$-
Mr Stephen Power (resigned 6 June 2014)						
– Other share options	-	-	-	-	-	\$-
Mr Jose Coutinho Barbosa						
– Other share options	-	-	-	-	-	\$-
Other key management personnel (Group)						
Mr Scott Hosking						
– ESOP options	91,112	\$1.08	\$98,401	150,000	-	\$-
– Performance rights	40,279	\$4.32	\$174,005	-	-	\$-
Mr Tim Hosking						
– ESOP options	59,009	\$1.08	\$63,730	220,000	-	\$-
– Performance rights	26,087	\$4.32	\$112,696	-	-	\$-
Mr Edward Munks						
– ESOP options	109,170	\$2.00	\$218,340	-	-	\$-
– Performance rights	48,263	\$5.27	\$254,346	-	-	\$-
Total key management personnel (Group)						
– Options	259,291		\$380,471	1,270,000	2,200,000	\$5,412,000
– Performance rights	114,629		\$541,047	-	-	\$-

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

** The value of other share options forfeited (lapsed) during the financial year because a vesting condition was not satisfied was determined at the time of lapsing (1 May 2014), but assuming the condition was satisfied, based on the intrinsic value of the other share options at that date.

No 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 1,100,000 other share options that were forfeited for each Executive Director.

Shares Issued on the Exercise of Options or Performance Rights Provided as Remuneration

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

Details of Remuneration – Options and Performance Rights

For each grant of 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 Options or Performance Rights May Vest	Maximum Total Value of Grant Yet to Vest
Executive Directors					
Mr Robert Hosking					
– Other share options	30 June 2012	15	85	-	\$-
Mr Mark Smith					
– Other share options	30 June 2012	15	85	-	\$-
Non-Executive Directors					
Mr Geoff Atkins	-	-	-	-	\$-
Mr Clark Davey					
– Other share options	30 June 2011	100	-	-	\$-
Mr Peter Turnbull (appointed 6 June 2014)	-	-	-	-	\$-
Mr Bernard Wheelahan (appointed 24 June 2014)	-	-	-	-	\$-
Mr Stephen Power (resigned 6 June 2014)	-	-	-	-	\$-
Mr Jose Coutinho Barbosa					
– Other share options	30 June 2013	-	-	30 June 2016	\$121,709
Other key management personnel (Group)					
Mr Scott Hosking					
– ESOP options	30 June 2012	100	-	-	\$-
– ESOP options	30 June 2013	-	-	30 June 2016	\$62,096
– Performance rights	30 June 2013	-	-	30 June 2015	\$22,467
– ESOP options	30 June 2014	-	-	30 June 2016	\$73,767
– Performance rights	30 June 2014	-	-	30 June 2015	\$104,135
Mr Tim Hosking					
– ESOP options	30 June 2012	100	-	-	\$-
– ESOP options	30 June 2013	-	-	30 June 2016	\$60,854
– Performance rights	30 June 2013	-	-	30 June 2015	\$22,467
– ESOP options	30 June 2014	-	-	30 June 2016	\$47,775
– Performance rights	30 June 2014	-	-	30 June 2015	\$67,444
Mr Edward Munks					
– ESOP options	30 June 2012	100	-	-	\$-
– ESOP options	30 June 2013	-	-	30 June 2016	\$62,096
– Performance rights	30 June 2013	-	-	30 June 2015	\$22,467
– ESOP options	30 June 2014	-	-	30 June 2016	\$149,161
– Performance rights	30 June 2014	-	-	30 June 2015	\$131,013

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

The maximum value of options and performance rights yet to vest was determined as the amount of the grant date fair value of the 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

Options and Performance Rights Over Unissued Ordinary Shares in the Company as at 30 June 2014

During the financial year 259,291 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 114,629 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 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 2013	Granted as Remuneration	Exercised (Options)/ Vested (Performance Rights)	Expired	Options or Performance Rights Forfeited	Balance as at 30 June 2014	Total Vested and Exercisable as at 30 June 2014	Total Unvested as at 30 June 2014
Executive Directors								
Mr Robert Hosking								
– Other share options	2,325,000	-	-	(425,000)	(1,100,000)	800,000	800,000	-
Mr Mark Smith								
– Other share options	2,325,000	-	-	(425,000)	(1,100,000)	800,000	800,000	-
Non-Executive Directors								
Mr Geoff Atkins								
– Other share options	500,000	-	-	(500,000)	-	-	-	-
Mr Clark Davey								
– Other share options	500,000	-	-	-	-	500,000	500,000	-
Mr Peter Turnbull (appointed 6 June 2014)	-	-	-	-	-	-	-	-
Mr Bernard Wheelahan (appointed 24 June 2014)	-	-	-	-	-	-	-	-
Mr Stephen Power (resigned 6 June 2014)								
– Other share options	500,000	-	-	(500,000)	-	-	-	-
Mr Jose Coutinho Barbosa								
– Other share options	570,000	-	-	(300,000)	-	270,000	70,000	200,000
Other key management personnel								
Mr Scott Hosking								
– ESOP options	652,041	91,112	-	(300,000)	-	443,153	250,000	193,153
– Performance rights	22,124	40,279	-	-	-	62,403	n/a	62,403
Mr Tim Hosking								
– ESOP options	550,000	59,009	-	(230,000)	-	379,009	220,000	159,009
– Performance rights	22,124	26,087	-	-	-	48,211	n/a	48,211
Mr Edward Munks								
– ESOP options	502,041	109,170	-	-	-	611,211	200,000	411,211
– Performance rights	22,124	48,263	-	-	-	70,387	n/a	70,387
Total key management personnel								
– Options	8,424,082	259,291	-	(2,680,000)	(2,200,000)	3,803,373	2,840,000	963,373
– Performance rights	66,372	114,629	-	-	-	181,001	n/a	181,001

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 2014 was as follows:

	Balance as at 1 July 2013	Received as Remuneration	Exercised (Options)/ Vested (Performance Rights)	Ordinary Shares Purchased	Ordinary Shares Sold	Other	Balance as at 30 June 2014
Executive Directors							
Mr Robert Hosking	12,759,222	-	-	-	(500,000)	-	12,259,222
Mr Mark Smith	2,892,037	-	-	-	-	-	2,892,037
Non-Executive Directors							
Mr Geoff Atkins	714,676	-	-	10,000	(4,000)	-	720,676
Mr Clark Davey	23,144	-	-	-	-	1,150	24,294
Mr Peter Turnbull (appointed 6 June 2014)	-	-	-	-	-	-	-
Mr Bernard Wheelahan (appointed 24 June 2014)	-	-	-	20,000	-	-	20,000
Mr Stephen Power (resigned 6 June 2014)	502,142	-	-	-	-	(502,142)	-
Mr Jose Coutinho Barbosa	-	-	-	-	-	-	-
Other key management personnel							
Mr Scott Hosking	245,659	-	-	-	-	-	245,659
Mr Tim Hosking	220,055	-	-	-	(5,000)	-	215,055
Mr Edward Munks	942,885	-	-	-	-	-	942,885
Total key management personnel	18,299,820	-	-	30,000	(509,000)	(500,992)	17,319,828

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

During the financial year, Mr Stephen Power, a Non-Executive Director (who resigned on 6 June 2014), had an interest in Napier Legal Pty Ltd which provided legal services to the Group. The value of these transactions during the 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 is \$60,000.

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 \$271,384. The balance outstanding included in current trade and other payables is \$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 Advisor in Brazil. The total value of her remuneration (including share-based payments expense) during the financial year was \$259,108, which includes social security and indemnity fund contributions of \$57,162. Ms Barbosa has been an employee of the Company since 2009, is a specialist in the Brazilian regulatory framework and facilitated the introduction of Non-Executive Director Mr Jose Coutinho Barbosa to the Company.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Other Transactions with Directors and Other Key Management Personnel continued

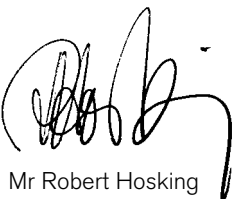
During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a key management person), was employed by the Group as the Community Relations and Social Projects Manager in Peru. The total value of her remuneration (including share-based payments expense) during the financial year was \$219,791, which includes social security and indemnity fund contributions of \$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 Peru. The Peruvian regulatory and business environment requires a strong social and environmental ethic that provides for transparent and clear communication with local and federal governments, and 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 Executive Chairman of the Company, was employed on a part-time basis by the Group in Australia. The total value of his remuneration during the financial year was \$15,765.

During the financial year and the previous financial year, Mr Mark Smith, a 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.

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
Executive Chairman

11 September 2014

Auditor's Independence Declaration



As lead auditor for the audit of Karoon Gas Australia Ltd for the financial year ended 30 June 2014, 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 period.

A handwritten signature in black ink that reads 'Nadia Carlin'.

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
11 September 2014

PricewaterhouseCoopers, ABN 52 780 433 757

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Consolidated Financial Statements

For the Financial Year Ended 30 June 2014

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 is Office 7A, 34-38 Lochiel Avenue, Mt Martha VIC 3934 Australia. 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.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For The Financial Year Ended 30 June 2014

		Consolidated	
	Note	2014 \$	2013 \$
Revenue	4	5,595,155	7,782,174
Other income	4	2,219,376	3,024,994
Total revenue and other income		7,814,531	10,807,168
Computer support		(1,163,758)	(982,172)
Consulting fees		(912,325)	(413,937)
Depreciation and amortisation expense	5	(1,035,657)	(1,010,099)
Employee benefits expense (net)		(11,946,942)	(11,061,666)
Exploration and evaluation expenditure expensed	5	(3,142,946)	(1,035,122)
Farm-out costs		(1,394,260)	(905,631)
Finance costs	5	(389,021)	(158,941)
Insurance expense		(663,853)	(1,386,224)
Legal fees		(331,155)	(363,861)
Property costs		(2,072,071)	(1,155,771)
Share registry and listing fees		(263,066)	(193,187)
Telephone and communication expenses		(375,940)	(430,856)
Travel and accommodation expenses		(989,620)	(1,132,766)
Other expenses		(2,637,585)	(1,507,338)
Total expenses		(27,318,199)	(21,737,571)
Loss before income tax		(19,503,668)	(10,930,403)
Tax income	6	13,984,888	-
Loss for financial year attributable to equity holders of the Company		(5,518,780)	(10,930,403)
Other comprehensive income (loss), net of income tax:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		(3,501,866)	5,053,759
Other comprehensive income (loss) for financial year, net of income tax		(3,501,866)	5,053,759
Total comprehensive loss for financial year attributable to equity holders of the Company, net of income tax		(9,020,646)	(5,876,644)
Loss per share attributable to equity holders of the Company:			
Basic loss per ordinary share	9	(0.0220)	(0.0494)
Diluted loss per ordinary share	9	(0.0220)	(0.0494)

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 2014

	Note	Consolidated 2014 \$	2013 \$
Current assets			
Cash and cash equivalents	10	39,013,343	204,519,641
Receivables	11	7,761,654	4,893,287
Inventories	12	5,563,313	28,793,537
Security deposits	13	41,337	15,908,100
Current tax asset	6	2,821,977	1,029,238
Assets classified as held for sale	14	386,667,150	267,219,136
Other assets	15	5,263,470	4,621,975
Total current assets		447,132,244	526,984,914
Non-current assets			
Inventories	12	31,569,743	-
Deferred tax asset	6	13,741,402	-
Plant and equipment	16	2,979,538	1,981,339
Intangible assets	17	467,256	418,610
Exploration and evaluation expenditure carried forward	18	296,389,492	408,319,787
Security deposits	13	8,032,886	8,239,281
Total non-current assets		353,180,317	418,959,017
Total assets		800,312,561	945,943,931
Current liabilities			
Trade and other payables	19	10,514,089	76,804,541
Liabilities directly associated with assets classified as held for sale	14	19,654,597	-
Financial liability	20	-	15,204,315
Other liabilities	21	-	253,783,575
Total current liabilities		30,168,686	345,792,431
Non-current liabilities			
Provisions	22	3,669,944	310,603
Total non-current liabilities		3,669,944	310,603
Total liabilities		33,838,630	346,103,034
Net assets		766,473,931	599,840,897
Equity			
Contributed equity	23	836,246,445	664,894,335
Accumulated losses		(77,751,919)	(72,233,139)
Share-based payments reserve		33,737,242	29,435,672
Foreign currency translation reserve		(25,757,837)	(22,255,971)
Total equity		766,473,931	599,840,897

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 2014

	Consolidated				
	Contributed Equity \$	Accumulated Losses \$	Share-based Payments Reserve \$	Foreign Currency Translation Reserve \$	Total Equity \$
Balance as at 1 July 2012	664,894,335	(61,302,736)	24,318,052	(27,309,730)	600,599,921
Loss for previous financial year	-	(10,930,403)	-	-	(10,930,403)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	5,053,759	5,053,759
Total comprehensive loss for previous financial year	-	(10,930,403)	-	5,053,759	(5,876,644)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	-	-	-	-	-
Transaction costs arising on ordinary shares issued	-	-	-	-	-
Share-based payments expense	-	-	5,117,620	-	5,117,620
	-	-	5,117,620	-	5,117,620
Balance as at 30 June 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

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 2014

		Consolidated	
	Note	2014 \$	2013 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST refunds)		2,674,261	154,635
Payments to suppliers and employees (inclusive of GST)		(18,803,071)	(14,568,741)
Payments for exploration and evaluation expenditure expensed		(3,142,946)	(1,065,517)
Interest received		8,723,896	6,784,151
Interest and other costs of finance paid		(2,630,697)	(158,941)
Income taxes refund (paid)		229,856	(519,594)
Net cash flows (used in) by operating activities	29	(12,948,701)	(9,374,007)
Cash flows from investing activities			
Purchase of plant and equipment		(1,813,645)	(626,884)
Purchase of computer software		(301,058)	(77,318)
Payments for exploration and evaluation expenditure capitalised		(338,024,598)	(305,528,805)
Recoupment of exploration and evaluation expenditure on WA-482-P farm-out		9,793,267	-
Repayment of security deposits		15,668,476	19,512,228
Advance payments (Brazilian farm-out)		8,043,616	254,189,054
Receipt (payment) of refundable share of insurance bond		(15,371,404)	14,798,836
Proceeds from disposal of non-current assets		33,710	-
Net cash flows used in investing activities		(321,971,636)	(17,732,889)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		175,546,141	-
Payments for transaction costs arising on ordinary shares issued		(5,991,473)	-
Proceeds from borrowings		5,105,921	-
Repayments of borrowings		(5,049,415)	-
Net cash flows provided by financing activities		169,611,174	-
Net decrease in cash and cash equivalents		(165,309,163)	(27,106,896)
Cash and cash equivalents at beginning of financial year		204,519,641	227,802,316
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(197,135)	3,824,221
Cash and cash equivalents at end of financial year	10	39,013,343	204,519,641

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

Notes to the Consolidated Financial Statements

For the Financial Year Ended 30 June 2014

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 2014.

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

- AASB 10 '*Consolidated Financial Statements*'. AASB 10 replaced the guidance on control and consolidation in AASB 127 '*Consolidated and Separate Financial Statements*' and in Interpretation 112 '*Consolidation – Special Purpose Entities*'. Under the new principles, 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 over the entity. The Group reviewed its investments in subsidiaries to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the consolidated financial statements was required as a result of the adoption of AASB 10.
- AASB 11 '*Joint Arrangements*'. Under AASB 11, joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations rather than the legal structure of the joint arrangement. The Group assessed the nature of its joint arrangements and determined them to be joint operations. The accounting for the Group's joint operations has not changed as a result of the adoption of AASB 11. The Group continues to recognise its direct right to the, and its share of, jointly held assets, liabilities, revenues and expenses of joint operations.
- AASB 12 '*Disclosure of Interests in Other Entities*' is a new disclosure standard and is applicable to the Group as it has interests in subsidiaries and joint arrangements. In general, the application of AASB 12 has resulted in additional disclosures in the consolidated financial statements but this has not had a material impact on the current financial year consolidated financial statements.
- AASB 119 '*Employee Benefits*'. In the current financial year, the Group has applied AASB 119 for the first time. AASB 119 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. These are not currently relevant for the Group and has not had any impact on the amounts recognised in the consolidated financial statements.

Other new Australian Accounting Standards that are applicable for the first time for the Group are AASB 13 '*Fair Value Measurement*', AASB 2012-2 '*Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*' and AASB 2012-5 '*Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*'. These standards have introduced new disclosures but did not affect the Group's accounting policies or any of the amounts recognised in the consolidated financial statements.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 1. Summary of Significant Accounting Policies continued

(a) Basis of Preparation continued

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

In addition, during July 2011, the AASB decided to remove the individual key management personnel disclosure requirements from AASB 124 *'Related Party Disclosures'*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this reduced the disclosures that are currently required in the notes to the consolidated financial statements, it did not affect any of the amounts recognised in the consolidated financial statements. The amendments applied from 1 July 2013.

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 2013.

(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 2014 and the results of all subsidiaries for the financial year then ended.

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

Interests in subsidiaries are set out in Note 24.

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 Executive Chairman/Chief Executive Officer 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.

Dividend Revenue

Dividend revenue is recognised when the right to receive a dividend has been established.

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

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

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

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 1. Summary of Significant Accounting Policies continued

(f) Income Taxes and Other Taxes continued

Deferred Tax continued

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.

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 receivables 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, performance bonds 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.

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).

Goodwill

Goodwill recognised in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 1. Summary of Significant Accounting Policies continued

(m) Intangibles continued

Impairment of Goodwill

For the purpose of impairment testing at the end of each reporting period, goodwill recognised in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates.

An impairment loss is recognised as an expense in the consolidated statement of profit or loss and other comprehensive income for the amount by which the asset's carrying amount exceeds its estimated recoverable amount.

Any impairment loss recognised for goodwill is not subsequently reversed.

(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 Goodwill and 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 31).

The fair value of 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 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 options or performance rights that are expected to vest.

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 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 options or performance rights that vest immediately, the value is expensed immediately.

The fair value of 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 option, the impact of dilution, the non-tradeable nature of the 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 option.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 1. Summary of Significant Accounting Policies continued

(q) Employee Benefits continued

Share-based Payments continued

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 options 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 Australian government bonds with terms of maturity that match the expected 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 or options are shown in equity as a deduction, net of any related tax income, 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.

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).

The Group's share of assets, liabilities, revenues and expenses employed in joint operations is set out in Note 26.

(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.

(x) Parent Company Financial Information

The financial information for the Parent Company, Karoon Gas Australia Ltd, disclosed in Note 33 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 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.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 1. Summary of Significant Accounting Policies continued

(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 9 'Financial Instruments', revised AASB 9 'Financial Instruments' (addressing accounting for financial liabilities and the derecognition of financial assets and financial liabilities), AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9', AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' and AASB 2012-6 'Amendments to Australian Accounting Standards-Mandatory Effective Date of AASB 9 and Transition Disclosures' (effective for annual reporting periods beginning on or after 1 January 2015)

AASB 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group is yet to assess AASB 9's full impact. However, there will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. 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 2016.

(ii) AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets' (effective 1 January 2014)

AASB 13 was released during June 2013. It makes certain amendments to recoverable amount disclosures so that only the recoverable amount of impaired assets is disclosed. It also introduces additional disclosures about fair value measurement when recoverable amount is based on fair value less costs of disposal. The Group is yet to assess its 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 2015.

(iii) AASB 2014-1 'Amendments to Australian Accounting Standards'

It comprises five parts, each of which has its own application date and transition provisions. The Group is yet to assess its full impact, if any. The Group does not intend to adopt any of the new standards before the relevant operative dates. Details of the five parts are as follows:

Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles

Part A makes amendments to various Australian Accounting Standards in response to the IASB's release of its Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle standards during December 2013 and also for a range of editorial corrections. The 2010-12 improvements standard made amendments for eight issues. The 2011-13 improvements standard made amendments for four issues. Part A is applicable to annual reporting periods beginning on or after 1 July 2014, except that the amendments to AASB 9 'Financial Instruments' apply only when that Standard is applied or operative. Early application of each amendment is allowed, subject to certain conditions.

Part B: Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)

Part B amends AASB 119 'Employee Benefits' to reflect the changes made to IAS 19 by the IASB in November 2013 via its amending standard Defined Benefit Plans: Employee Contributions (Amendments to IAS 19). The changes simplify the accounting for contributions to defined benefit plans from employees or third parties that are linked to service. Part B is applicable to annual reporting periods beginning on or after 1 July 2014, with early application allowed.

Part C: Materiality

Part C makes amendments to eight Australian Accounting Standards, deleting their references to AASB 1031 'Materiality' as part of its process to formally withdraw this standard. These standards are being amended for other purposes by AASB 2014 -1 and so the AASB is taking the opportunity to also remove the paragraphs in them that refer to materiality and AASB 1031. Part C is applicable to annual reporting periods beginning on or after 1 July 2014, with limited early application allowed.

Part D: Consequential Amendments arising from AASB 14

Part D makes consequential amendments to AASB 1 'First time Adoption of Australian Accounting Standards' necessitated by the release of AASB 14 'Regulatory Deferral Accounts'. Part D is applicable to annual reporting periods beginning on or after 1 January 2016, with early application allowed.

Part E: Financial Instruments

Part E makes amendments to reflect the AASB's decision to defer the mandatory application date of AASB 9 'Financial Instruments' to annual reporting periods beginning on or after 1 January 2018, in response to the IASB's latest decision regarding its application date. Part E also makes amendments to numerous Australian Accounting Standards as a consequence of the introduction of Chapter 6 Hedge Accounting into AASB 9 and to amend reduced disclosure requirements for AASB 7 'Financial Instruments: Disclosures' and AASB 101 'Presentation of Financial Statements'. Part E is applicable to annual reporting periods beginning on or after 1 January 2015, with some amendments only becoming mandatorily applicable from a later date. Early application is allowed, subject to certain conditions.

(iv) AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations' (effective 1 January 2016)

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 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 new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2017.

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 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 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.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 2. Significant Accounting Estimates, Assumptions and Judgements continued

(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 appraisal 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 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 co-operation with the Executive Chairman. 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 and a financial liability.

The Group had no off-statement of financial position financial assets or financial liabilities at either 30 June 2014 or 30 June 2013.

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

	Note	Consolidated 2014 \$	2013 \$
Financial assets			
Cash and cash equivalents	10	39,013,343	204,519,641
Receivables	11	7,761,654	4,893,287
Security deposits	13	8,074,223	24,147,381
Total financial assets		54,849,220	233,560,309
Financial liabilities			
Trade and other payables (refer note (a) below)		9,679,824	75,978,729
Liabilities directly associated with assets classified as held for sale	14	19,654,597	-
Financial liability	20	-	15,204,315
Total financial liabilities		29,334,421	91,183,044
Note:			
(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	10,514,089	76,804,541
Less: Leave liabilities		(834,265)	(825,812)
		9,679,824	75,978,729

(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 expenditures and cash and deposits held in United States dollars 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.

United States dollars 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.

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.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 3. Financial Risk Management continued

(a) Market Risk continued

(i) Foreign Exchange Risk continued

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:

Consolidated	2014				2013			
	AUD \$	USD \$	REAL \$	Total \$	AUD \$	USD \$	REAL \$	Total \$
Financial assets								
Cash and cash equivalents	6,309,337	27,388,895	5,315,111	39,013,343	43,016,336	53,611,907	107,891,398	204,519,641
Receivables	106,859	2,145,322	5,509,473	7,761,654	493,137	1,452,867	2,947,283	4,893,287
Security deposits	375,022	7,642,906	56,295	8,074,223	375,004	7,753,680	16,018,697	24,147,381
Total financial assets	6,791,218	37,177,123	10,880,879	54,849,220	43,884,477	62,818,454	126,857,378	233,560,309
Financial liabilities								
Trade and other payables	1,515,150	5,444,223	2,720,451	9,679,824	695,069	34,596,941	40,686,719	75,978,729
Liabilities directly associated with assets classified as held for sale	-	19,654,597	-	19,654,597	-	-	-	-
Financial liability	-	-	-	-	-	-	15,204,315	15,204,315
Total financial liabilities	1,515,150	25,098,820	2,720,451	29,334,421	695,069	34,596,941	55,891,034	91,183,044

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.

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	
	2014 \$	2013 \$	2014 \$	2013 \$
Change in profit (loss)				
– Improvement in AUD by 10.0%	-	-	(1,129,226)	(3,029,099)
– Decline in AUD by 10.0%	-	-	1,380,165	3,702,230
Change in financial assets				
– Improvement in AUD by 10.0%	(989,171)	(11,532,489)	(3,379,738)	(5,710,769)
– Decline in AUD by 10.0%	1,208,986	14,095,264	4,130,791	6,979,828
Change in financial liabilities				
– Improvement in AUD by 10.0%	247,314	5,081,003	2,281,711	3,145,176
– Decline in AUD by 10.0%	(302,272)	(6,210,115)	(2,788,758)	(3,844,105)
Change in foreign currency translation reserve				
– Improvement in AUD by 10.0%	741,857	6,451,486	(31,199)	(463,506)
– Decline in AUD by 10.0%	(906,714)	(7,885,149)	38,132	566,507

(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 2014 and 30 June 2013, 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 held in Brazil. Surplus cash is invested in short-term bank deposits due to uncertainty of the timing of major cash outflows. Whilst some of the invested cash is in United States dollars, the primary exposure is to Australian and Brazilian 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:

	Weighted Average Interest Rate % p.a.	Floating Interest Rate \$	Consolidated Fixed Interest Rate \$	Non-interest Bearing \$	Fair Value \$	Carrying Amount \$
2014						
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

	Weighted Average Interest Rate % p.a.	Floating Interest Rate \$	Consolidated Fixed Interest Rate \$	Non-interest Bearing \$	Fair Value \$	Carrying Amount \$
2013						
Financial assets						
Cash and cash equivalents	3.4	108,904,589	38,516,027	57,099,025	204,519,641	204,519,641
Receivables	-	-	-	4,893,287	4,893,287	4,893,287
Security deposits	4.5	16,003,489	8,067,126	76,766	24,147,381	24,147,381
Total financial assets		124,908,078	46,583,153	62,069,078	233,560,309	233,560,309
Financial liabilities						
Trade and other payables	-	-	-	75,978,729	75,978,729	75,978,729
Financial liability	-	-	-	15,204,315	15,204,315	15,204,315
Total financial liabilities		-	-	91,183,044	91,183,044	91,183,044

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.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 3. Financial Risk Management continued

(a) Market Risk continued

(ii) Interest Rate Risk continued

	Consolidated	
	2014	2013
	\$	\$
Change in profit (loss)		
– Increase of interest rate by 1.0% p.a.	310,173	1,249,081
– Decrease of interest rate by 1.0% p.a.	(104,317)	(762,689)
Change in financial assets		
– Increase of interest rate by 1.0% p.a.	310,173	1,249,081
– Decrease of interest rate by 1.0% p.a.	(104,317)	(762,689)

(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.

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 HSBC Group. The maximum amount of exposure to the HSBC Group as at 30 June 2014 was \$13,916,770 (2013: \$119,777,999).

As at 30 June 2014, there were \$Nil (30 June 2013: \$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 \$39,013,643 (30 June 2013: \$166,003,614) 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:

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

The Group has a secured USD100 million 'bridge' loan facility with the National Australia Bank Limited. As at 30 June 2014 the facility had not yet been drawn down upon. Refer to Note 34(c) on details of drawing, repayment and voluntary cancellation of this facility subsequent to 30 June 2014.

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

	Consolidated		Total
	Less than 6 Months	6-12 Months	
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
2013	\$	\$	\$
Financial liabilities			
Trade and other payables	75,978,729	-	75,978,729
Financial liability	-	15,204,315	15,204,315
Total financial liabilities	75,978,729	15,204,315	91,183,044

(d) Fair Value Estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 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 was a reasonable approximation of its fair value.

Financial Liability

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

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

	Note	Consolidated 2014 \$	2013 \$
Note 4. Revenue			
Interest income from unrelated entities		5,595,155	7,782,174
Total revenue		5,595,155	7,782,174
Net foreign currency gains		1,100,817	3,024,994
Services revenue from joint operations		1,118,091	-
Sundry income		468	-
Total other income		2,219,376	3,024,994

Note 5. Expenses

Loss before income tax includes the following specific expenses:

Depreciation and amortisation expense:			
– depreciation of plant and equipment	16	789,058	666,883
– amortisation of computer software	17	246,599	343,216
Total depreciation and amortisation expense		1,035,657	1,010,099
Exploration and evaluation expenditure expensed		3,142,946	1,035,122
Total exploration and evaluation expenditure expensed		3,142,946	1,035,122
Finance costs:			
– interest expense to unrelated entities		62,643	-
– discount unwinding on provision for restoration	22	47,040	-
– bank charges		279,338	158,941
Total finance costs		389,021	158,941
Share-based payments expense	31(e)	4,301,570	5,117,620
Rental expense on operating leases – minimum lease payments		1,746,502	875,624
Net loss on disposal of plant and equipment		62,809	4,160

		Consolidated	
	Note	2014	2013
		\$	\$

Note 6. Income Tax

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

Tax income comprises:

Current tax income	(942,584)	-
Deferred tax income	(1,310,906)	-
Adjustments in respect of current tax of the previous financial year	(2,373,161)	-
Recognition of temporary differences and tax losses not previously brought to account	(9,358,237)	-
Total tax income	(13,984,888)	-

The prima facie tax on loss before income tax is reconciled to tax income as follows:

Prima facie tax payable on loss before income tax, calculated at the Australian tax rate of 30% (2013: 30%)	(5,851,100)	(3,279,121)
Add the tax effect of:		
Share-based payments expense	1,290,471	1,535,286
Other non-deductible items	2,692,843	1,780,311
Tax losses and temporary tax differences not recognised	631,131	7,641
Subtract the tax effect of:		
Difference in overseas tax rates	(74,251)	(44,117)
Recognition of temporary differences and tax losses not previously brought to account	(9,358,237)	-
Adjustment for current tax of previous financial years	(1,274,816)	-
Research and development incentive	(2,040,929)	-
Total tax income	(13,984,888)	-

(b) Amounts Recognised Directly in Equity

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 equity	23(b)	(1,797,442)	-
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(c) Current Tax Asset

Income tax refund receivable	2,821,977	1,029,238
Total current tax asset	2,821,977	1,029,238

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 6. Income Tax continued

(d) Deferred Tax Balances

	Balance as at 1 July 2013 \$	Consolidated Charged (Credited) to Profit or Loss \$	Charged (Credited) Directly to Equity \$	Balance as at 30 June 2014 \$
<i>Temporary differences</i>				
Exploration and evaluation expenditure	-	(167,113,728)	-	(167,113,728)
Provisions and accruals	-	365,669	-	365,669
Equity raising transaction costs	-	279,657	1,797,442	2,077,099
Unrealised foreign currency losses	-	98,680	-	98,680
Farm-out expenditures	-	166,498	-	166,498
Other	-	17,808	-	17,808
Total temporary differences	-	(166,185,416)	1,797,442	(164,387,974)
<i>Unused tax losses</i>				
Tax losses	-	178,129,376	-	178,129,376
Total unused tax losses	-	178,129,376	-	178,129,376
Net deferred tax asset	-	11,943,960	1,797,442	13,741,402
Presented in the consolidated statement of financial position as follows:				
Deferred tax asset	-			13,741,402

	Consolidated 2014 \$	2013 \$
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(e) 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	-	1,796,072
Tax losses:		
– Australian operating losses at a tax rate of 30%	-	8,342,027
– Brazilian operating losses at a tax rate of 34%	1,735,430	762,971
Potential tax income	1,735,430	10,901,070

(f) Unrecognised Taxable Temporary Differences

Temporary tax differences relating to deferred tax liabilities	(11,905,467)	(114,430,785)
Offset by deferred tax assets relating to operating losses	11,905,467	114,430,785
Total deferred tax liabilities	-	-

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 liabilities and deferred 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.

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 2014 of \$86,336,523 (2013: \$94,900,578). 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 \$24,174,226 (2013: \$26,572,162). Of which \$3,453,908 (2013: \$3,715,677) relates to exploration permits WA-315-P and WA-398-P (refer to Note 34(b)).

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	
	2014	2013
	\$	\$

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

(i) Audit and other assurance services

Audit and review of financial statements	180,900	150,000
Total remuneration for audit and other assurance services	180,900	150,000

(ii) Other services (refer Note (a) below)

International tax and accounting advice	-	30,000
Total remuneration of PricewaterhouseCoopers Australia	180,900	180,000

(b) Related practices of PricewaterhouseCoopers Australia

(i) Audit and other assurance services

Audit and review of financial statements	149,692	85,620
Non-audit services	11,158	-
Total remuneration for audit and other assurance services of related practices	160,850	85,620

(ii) Other services (refer Note (a) below)

International tax and accounting advice	11,355	-
Total remuneration of related practices of PricewaterhouseCoopers	172,205	85,620
Total remuneration external auditors	353,105	265,620

(a) 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.

	Consolidated	
	2014	2013
	\$	\$

Note 8. Dividends

There were no ordinary dividends declared or paid during the financial year by the Group (2013: \$Nil).

Dividend franking account

Balance of franking account at end of financial year	-	-
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Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$
Note 9. Earnings Per Share		
Loss for financial year used to calculate basic and diluted loss per ordinary share:	(5,518,780)	(10,930,403)
(a) Basic loss per ordinary share	(0.0220)	(0.0494)
(b) Diluted loss per ordinary share*	(0.0220)	(0.0494)
* Diluted loss per ordinary share equates to basic loss per ordinary share because a loss per ordinary share is not considered dilutive for the purposes of calculating earnings per share pursuant to AASB 133 'Earnings per Share'.		
Weighted average number of ordinary shares on issue during the financial year used in calculating basic loss per ordinary share:	251,343,012	221,420,769
Weighted average number of potential ordinary shares:	744,639	149,029
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted loss per ordinary share (excluding anti-dilutive options outstanding):	252,087,651	221,569,798
Weighted average number of anti-dilutive options:	7,798,150	11,518,443

Potential ordinary shares

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 loss per ordinary share to the extent to which they are dilutive. The options have not been included in the determination of basic loss per ordinary share.

Note 10. Cash and Cash Equivalents

Cash at banks and on hand	35,116,811	111,222,505
Short-term bank deposits	3,896,532	93,297,136
Total cash and cash equivalents	39,013,343	204,519,641

(a) Cash at Banks and On Hand

Cash at banks and on hand includes share of joint operation cash balances. Refer to Note 26 for further details.

(b) Short-term Bank Deposits

Short-term bank deposits are made for varying periods of between one day and 180 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	
	2014	2013
	\$	\$

Note 11. Receivables

Current

Other receivables	7,761,654	4,893,287
Total current receivables	7,761,654	4,893,287

(a) Financial Risk Management

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

Note 12. Inventories

Current

Casing and other drilling inventory, at cost	5,563,313	28,793,537
Total current inventories	5,563,313	28,793,537

Non-current

Casing and other drilling inventory, at cost	31,569,743	-
Total non-current inventories	31,569,743	-

Note 13. Security Deposits

Current

Karoon Petróleo & Gas Ltda (refer Note (a) below)	-	11,867,812
Karoon Petróleo & Gas Ltda, KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer Note (d) below)	41,337	4,040,288
Total current security deposits	41,337	15,908,100

Non-current

Karoon Gas Australia Ltd (refer Note (b) below)	7,582,358	7,696,604
Karoon Gas Australia Ltd (2013: Karoon Gas Australia Ltd, Karoon Petróleo & Gas Ltda) (refer Note (c) below)	375,022	507,414
Karoon Petróleo & Gas Ltda, KEI (Peru Z38) Pty Ltd, Sucursal del Peru and KEI (Peru 112) Pty Ltd, Sucursal del Peru (refer Note (d) below)	75,506	35,263
Total non-current security deposits	8,032,886	8,239,281

(a) Performance Bonds

The Group had provided Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (the 'ANP', the Brazilian Petroleum Agency) insurance bonds (refer Note 27) to carry out minimum work programs in relation to the Group's exploration Block S-M-1166 in the Santos Basin, Brazil. An insurance bond was part funded to 50% of the value of the total bond provided to the ANP by establishment of an escrow account. The funds deposited in escrow were invested on term deposit and quarterly interest earned was released from escrow after the end of each quarter. The principal funds held in escrow were released during the financial year as work was undertaken to satisfy the work program.

(b) Performance Guarantees

Performance guarantees (via letters of credit) were provided to Peru Petro SA for Block Z-38 and Block 144 by the Group (refer Note 27) 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.

(c) Bank Guarantees

Cash deposits are held as security against bank guarantee facilities for bank guarantees (refer Note 27) given to lessors for the Group's compliance with its obligations in respect of operating lease rental agreements for office premises at Melbourne, Mount Martha and Brazil.

(d) Bonds

Cash deposits are held as bonds for the Group's compliance with its obligations in respect of agreements for the guarantee (refer Note 27) of payment obligations for various accommodation in Brazil and Peru (2013: cash and escrow deposits are held as bonds for the Group's compliance with its obligations in respect of agreements for the guarantee of payment obligations in contracts related to drilling in Brazil and various accommodation in Brazil and Peru).

(e) Financial Risk Management

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

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

		Consolidated	
	Note	2014 \$	2013 \$
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)		386,667,150	-
Exploration and evaluation expenditure carried forward held for sale (refer Note (b) below)		-	267,219,136
Total current assets classified as held for sale	18	386,667,150	267,219,136

(a) Exploration and evaluation expenditure carried forward on exploration permits WA-315-P and WA-398-P have been classified as held for sale and stated at the lower of its carrying amount and fair value less costs to sell as the carrying amount will be recovered through a sale transaction. For more information, refer to Note 34(b).

(b) During the financial year, the Group received approval from the ANP for the assignment to Pacific Rubiales of a 35% equity interest in Santos Basin exploration blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 (the 'Blocks') and disposed of the related capitalised exploration and evaluation expenditure carried forward.

Current liabilities directly associated with assets classified as held for sale			
Accrued expenditures (refer Note (c) below)		19,654,597	-
Total current liabilities directly associated with assets classified as held for sale		19,654,597	-

(c) Accrued expenditures related to exploration permits WA-315-P and WA-398-P have been classified as held for sale as the amounts will be settled through a sale transaction completion process.

Note 15. Other Assets

Current			
Prepayments		5,263,470	4,621,975
Total current other assets		5,263,470	4,621,975

Note 16. Plant and Equipment

Plant and equipment			
At cost		5,618,322	4,043,440
Accumulated depreciation		(2,638,784)	(2,062,101)
Total plant and equipment, at net book value		2,979,538	1,981,339

Reconciliation

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

Balance at beginning of financial year		1,981,339	2,036,567
Additions	25	1,849,865	598,352
Disposals		(52,635)	(4,160)
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(9,973)	17,463
Depreciation expense	5	(789,058)	(666,883)
Net carrying amount at end of financial year		2,979,538	1,981,339

		Consolidated	
	Note	2014	2013
		\$	\$

Note 17. Intangible Assets

Computer software

At cost		2,102,954	1,801,895
Accumulated amortisation		(1,635,698)	(1,383,285)
Total intangibles, at net book value		467,256	418,610

Reconciliation

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

Balance at beginning of financial year		418,610	679,426
Additions	25	299,856	78,419
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(4,611)	3,981
Amortisation expense	5	(246,599)	(343,216)
Net carrying amount at end of financial year		467,256	418,610

Note 18. Exploration and Evaluation Expenditure Carried Forward

Deferred geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs

296,389,492 408,319,787

Reconciliation

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

Balance at beginning of financial year		408,319,787	313,884,275
Additions	25	289,927,552	359,051,091
Transfer to assets classified as held for sale	14	(386,667,150)	(267,219,136)
Recoupment of exploration and evaluation expenditure on farm-out		(9,793,267)	-
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(5,397,430)	2,603,557
Total exploration and evaluation expenditure carried forward (refer Note (a) below)		296,389,492	408,319,787

Tangible		-	-
Intangible		296,389,492	408,319,787
Total exploration and evaluation expenditure carried forward		296,389,492	408,319,787

(a) 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 S-M-1352, Block Z-38 and Block 144 (30 June 2013: WA-314-P, WA-315-P, WA-398-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).

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.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

	Note	Consolidated 2014 \$	2013 \$
Note 19. Trade and Other Payables			
Current (unsecured)			
Trade payables		6,008,960	46,903,631
Sundry payables and accrued expenditure		4,505,129	29,900,910
Total current trade and other payables		10,514,089	76,804,541

(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. Financial Liability

Current (unsecured)		
Refundable insurance bond (refer Note (a) below)	-	15,204,315
Total current financial liability	-	15,204,315

(a) In accordance with farm-out agreements for Pacific Rubiales to acquire a 35% equity interest in Santos Basin exploration blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 (the 'Blocks'), Pacific Rubiales was required to advance a share of a refundable insurance bond (security deposit) totalling USD15.3 million. This amount was classified as a current (unsecured) financial liability in the consolidated statement of financial position as at 30 June 2013 and totalled \$15,204,315. This advance was repaid during the financial year.

(b) Financial Risk Management

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

Note 21. Other Liabilities

Current (unsecured)		
Advances (refer Note (a) below)	-	253,783,575
Total current other liabilities	-	253,783,575

(a) During the financial year, the Group received approval from the ANP for the assignment to Pacific Rubiales of a 35% equity interest in the Blocks.

Consideration for the disposal of equity interest in the Blocks to Pacific Rubiales, which was received in advance, was USD40 million cash consideration and a carry up to the first USD70 million of well costs for 3 wells and 35% of all well costs over and above the first USD70 million. As at 30 June 2013, \$253,783,575 had been received and recorded as an 'Other Liabilities' in the consolidated statement of financial position. During the financial year, this liability was settled with the completion of the assignment of a 35% equity interest in the Blocks.

	Note	Consolidated 2014 \$	Consolidated 2013 \$
Note 22. Provisions			
Non-current			
Provision for restoration (refer Note (a) below)		3,246,546	-
Provision for long service leave (refer Note (b) below)		423,398	310,603
Total non-current provisions		3,669,944	310,603
Reconciliation of provision for restoration			
Balance at beginning of financial year		-	-
Additions		3,198,917	-
Discount unwinding on provision for restoration	5	47,040	-
Net foreign currency difference on translation of financial statements of foreign subsidiaries		589	-
Total provision for restoration		3,246,546	-

(a) Provision for Restoration

A provision was recognised for a Brazilian restoration obligation. 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		Consolidated	
	2014 Number	2013 Number	2014 \$	2013 \$
Note 23. Contributed Equity and Reserves Within Equity				
(a) Contributed Equity				
Ordinary shares, fully paid	255,841,581	221,420,769	836,246,445	664,894,335
Total contributed equity			836,246,445	664,894,335

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.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 23. Contributed Equity and Reserves Within Equity continued

(b) Movement in Ordinary Shares

Date	Details	Note	Number of Ordinary Shares	Issue Price Per Ordinary Share	\$
1 July 2012	Opening balance in previous financial year		221,420,769		664,894,335
30 June 2013	Balance at end of 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 financial year				(5,991,473)
	Deferred tax credit recognised directly in equity	6(b)			1,797,442
30 June 2014	Balance at end of financial year		255,841,581		836,246,445

(i) Share Placement and Share Purchase Plan

The purpose of the share placement to sophisticated and professional investors and the share purchase plan during August and September 2013 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.

(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 Executive Chairman 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.

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 24. Subsidiaries

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

Name	Country of Incorporation or Registration	Business Activities Carried on in	Percentage of Equity and Voting Interests Held	
			2014 %	2013 %
Parent Company:				
Karooon Gas Australia Ltd	Australia	Australia		
Unlisted subsidiaries of Karoon Gas Australia Ltd:				
Karooon Energy International Pty Ltd	Australia	Australia	100	100
Karooon Gas Browse Basin Pty Ltd	Australia	Australia	100	100
Karooon 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:				
Karooon 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 25. Segment Information

(a) Description of Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Executive Chairman/Chief Executive Officer 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 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; 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).

'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.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 25. Segment Information continued

(b) Operating Segments

Segment Performance	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
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)*	(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)
Revenue for financial year ended 30 June 2013					
Segment revenue	-	-	-	-	-
Interest income from unrelated entities	3,625,646	4,156,501	27	-	7,782,174
Total revenue	3,625,646	4,156,501	27	-	7,782,174
Result for financial year ended 30 June 2013					
Revenue	3,625,646	4,156,501	27	-	7,782,174
Other income	4,182,887	(1,154,343)	(3,550)	-	3,024,994
Depreciation and amortisation expense	(763,440)	(185,606)	(61,053)	-	(1,010,099)
Employee benefits expense (net)^	(9,065,787)	(1,634,848)	(361,031)	-	(11,061,666)
Exploration and evaluation expenditure expensed	(642,381)	(356,909)	(18,150)	(17,682)	(1,035,122)
Finance costs	(65,686)	(83,820)	(9,435)	-	(158,941)
Property costs	(693,054)	(458,587)	(4,130)	-	(1,155,771)
Administration and other operating expenses	(4,091,255)	(2,497,454)	(727,263)	-	(7,315,972)
Loss before income tax	(7,513,070)	(2,215,066)	(1,184,585)	(17,682)	(10,930,403)
Tax expense	-	-	-	-	-
Loss for financial year	(7,513,070)	(2,215,066)	(1,184,585)	(17,682)	(10,930,403)

* Includes non-cash share-based payments expense of \$3,306,487 (Australia), \$816,405 (Brazil) and \$178,678 (Peru).

^ Includes non-cash share-based payments expense of \$4,481,435 (Australia) and \$636,185 (Brazil).

Segment Assets	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
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

As at 30 June 2013

Segment asset information					
Cash and cash equivalents	95,684,371	107,926,966	908,304	-	204,519,641
Exploration and evaluation expenditure carried forward	342,171,959	31,928,443	34,219,385	-	408,319,787
Security deposits	375,004	16,018,697	7,753,680	-	24,147,381
Inventories	2,562,547	12,951,159	13,279,831	-	28,793,537
Assets classified as held for sale	-	267,219,136	-	-	267,219,136
Other	3,435,735	7,764,512	1,744,202	-	12,944,449
Segment assets	444,229,616	443,808,913	57,905,402	-	945,943,931

Segment Liabilities

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

As at 30 June 2013

Segment liability information					
Trade and other payables	29,398,499	41,184,640	6,221,402	-	76,804,541
Financial liability	-	15,204,315	-	-	15,204,315
Other liabilities	-	253,783,575	-	-	253,783,575
Provisions	310,603	-	-	-	310,603
Segment liabilities	29,709,102	310,172,530	6,221,402	-	346,103,034

(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 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

Financial year ended 30 June 2013

Plant and equipment	346,832	182,077	69,443	-	598,352
Intangible assets	65,482	5,058	7,879	-	78,419
Exploration and evaluation expenditure carried forward	121,853,680	232,070,729	5,126,682	-	359,051,091

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 26. Joint Operations

The Group has an interest in the following joint operations as at 30 June 2014 as follows:

Exploration Permit	Unincorporated Interest 2014 %	Unincorporated Interest 2013 %	Principal Activities	Operator of Joint Operation
WA-314-P	- [#]	90	Exploration and evaluation	ConocoPhillips (as at 30 June 2013)
WA-315-P	40	40	Exploration and evaluation	ConocoPhillips
WA-398-P	40	40	Exploration and evaluation	ConocoPhillips
WA-482-P	50 [^]	-	Exploration and evaluation	Apache
Block Z-38	75 ^{^^}	75 ^{^^}	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	-	Exploration and evaluation	Karoon Petróleo & Gas Ltda (as at 30 June 2014)
Block S-M-1352	20	-	Exploration and evaluation	Petróbras

[#] As at 30 June 2013, the Group's unincorporated interest in the WA-314-P joint operation was 90%. Under the terms of the Deed of Assumption executed with ConocoPhillips on 30 June 2014, the Group's interests in WA-314-P was increased by 10% to 100% on the effective date (of 30 June 2014). The transfer of the 10% interest was approved by the regulator during July 2014. As at 30 June 2014, at a 100% equity interest, WA-314-P cannot be accounted for as a joint operation and it is therefore not included in the 30 June 2014 balances below.

[^] The transfer of the 50% interest from Karoon to Apache was approved by the regulator and Apache was registered on title during July 2014.

^{^^} The Group's 75% Block 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.

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	
	2014	2013
	\$	\$
Cash and cash equivalents	2,039,720	2,648,027
Receivables	5,913,496	798,624
Inventories	17,822,824	2,562,547
Assets classified as held for sale	386,667,150	-
Total current assets	412,443,190	6,009,198
Exploration and evaluation expenditure carried forward	137,417,264	363,571,966
Total non-current assets	137,417,264	363,571,966
Trade and other payables	1,764,721	19,318,097
Liabilities directly associated with assets classified as held for sale	19,654,597	-
Total current liabilities	21,419,318	19,318,097
Provision for restoration	3,246,546	-
Total non-current liabilities	3,246,546	-
Share of net assets employed in joint operations	525,194,590	350,263,067
Other income	1,732,942	(1,263,763)
Exploration and evaluation expenditure expensed	(2,535,929)	-
Discount unwinding on provision for restoration	(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 27. Exploration expenditure commitments and capital commitments in respect of joint operations are set out in Note 28.

Parent Company guarantees have 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 Browse Basin permit interests. In addition, a deed of cross charge has been entered into with ConocoPhillips and PetroChina International Investment (Australia) Pty Ltd by Karoon Gas Browse Basin Pty Ltd covering its WA-398-P and WA-315-P Browse Basin exploration permit interests.

	Consolidated
2014	2013
\$	\$

Note 27. Contingent Liabilities and Contingent Assets

(a) Contingent Liabilities

The Group has contingent liabilities as at 30 June 2014 that may become payable in respect of:

- | | | |
|--|-----------|------------|
| (i) The Group had provided the ANP an insurance bond (refer Note 13) to carry out minimum work programs in relation to the Group's exploration Block S-M-1166 in the Santos Basin, Brazil. During the financial year, the second period work program for Block S-M-1166 was acknowledged by the ANP as being completed, thereby removing the obligation to the ANP to complete the work. | - | 11,867,812 |
| (ii) Performance guarantees (via letters of credit) were provided to Peru Petro SA 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. | 7,582,358 | 7,696,604 |
| (iii) 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). | 375,022 | 507,414 |
| (iv) 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 (2013: cash and escrow deposits 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 in contracts related to drilling in Brazil and various accommodation in Brazil and Peru). | 116,843 | 4,075,551 |
| (v) On 30 August 2010, Karoon executed a Farm-in Agreement with Petróbras to acquire a 20% equity interest in blocks S-M-1352 and S-M-1354 in the Santos Basin, offshore Brazil. This transaction was conditional on obtaining regulatory approval from the ANP for the assignment of the blocks. As at 30 June 2013, the Group's best estimate of the share of the costs on both blocks was \$49,029,524, representing a contingent liability payable to Petróbras and an uplift fee of \$1,015,094 for a full license to non-exclusive seismic data is also payable upon the completion of this farm-in. | | |

During the financial year, the final assignment of Block S-M-1352 was approved by the ANP and completed with Petróbras.

- 50,044,618

(vi) Joint Operations

In accordance with normal industry practice, the Group has entered into joint operations with other parties for the purpose of exploring and evaluating its 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.

(vii) 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 2014, nor the financial effect of any potential fine by the ANP.

(b) Contingent Assets

The Group has no contingent assets as at 30 June 2014 (30 June 2013: \$Nil).

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$

Note 28. 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:

Drilling operations

Not later than one-year	47,858,610	115,324,838
Total capital expenditure commitments	47,858,610	115,324,838

(b) Operating Lease Rental Commitments

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

Not later than one-year	2,074,485	1,035,856
Later than one-year but not later than five years	2,598,643	2,142,864
Total operating lease rental commitments	4,673,128	3,178,720

The Group has an office lease for Level 25, 367 Collins Street, Melbourne with a primary six-year term that expires on 30 November 2016 and a 4% p.a. rental increase. Rent is payable monthly in advance. There is no option for renewal at the end of the lease term.

The Group has a lease for offices at 6, 7a and 7b, 34-38 Lochiel Avenue, Mount Martha with a secondary three-year term that expires on 31 January 2016. Rent is payable monthly in advance. Annually, from the commencement date, the rent is adjusted by reference to the consumer price index. There is an option to extend for two further terms, each of three years, except that a market review of rent will be triggered on renewal.

The Group has two office leases in Brazil. One at Avenida Afrânio de Melo Franco, 290 – 4º Andar – Salas 403/404, Leblon, Rio de Janeiro – RJ – 22430-060, Brazil with a primary three-year term that expires on 30 June 2016. Rent is payable monthly in advance. There is an option to extend for a further term, which is negotiable at the end of the lease. The second office lease is at Av Afonso Delambert Neto, 619 sala 5 Lagoa da Conceição, Florianópolis with a secondary one-year term that expires on 23 January 2015. Rent is payable monthly in advance. There is an option to extend for a further term, which is negotiable at the end of the lease.

The Group has an office lease in Peru at Av Santa Maria 110/140, Level 5, Miraflores, Lima with a primary four-year term that expires on 4 June 2017 and a 5% p.a. rental increase. Rent is payable monthly in advance. There is an option to renew for a further two years.

	Consolidated	
	2014	2013
	\$	\$

(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-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 (30 June 2013: WA-314-P, WA-315-P, WA-398-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) not provided for in the consolidated financial statements and payable. Included in exploration expenditure commitments are \$312,284,289 (30 June 2013: \$108,100,000) of commitments that relate to the non-guaranteed work commitments:

Not later than one-year	103,739,835	111,750,473
Later than one-year but not later than five years	456,177,071	353,611,540
Total exploration expenditure commitments	559,916,906	465,362,013

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

Not later than one-year	103,739,835	110,955,800
Later than one-year but not later than five years	435,157,962	165,667,919
Total joint operation exploration expenditure commitments	538,897,797	276,623,719

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) on page 92.

Note 29. Note to the Consolidated Statement of Cash Flows

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

	Consolidated	
	2014	2013
	\$	\$
Loss for financial year	(5,518,780)	(10,930,403)
Add (subtract):		
Depreciation of plant and equipment and amortisation of computer software	1,035,657	1,010,099
Net foreign currency losses (gains)	197,135	(3,824,221)
Discount unwinding on provision for restoration	47,040	-
Non-cash employee benefits expense: share-based payments expense	4,301,570	5,117,620
Items classified as investing/financing activities:		
Net foreign currency (gains) losses	(1,297,952)	799,227
Net loss on disposal of plant and equipment	62,809	4,160
Change in operating assets and liabilities		
(Increase) decrease in assets:		
Receivables – current	2,130,327	(1,589,030)
Current tax assets	(1,811,073)	(519,594)
Deferred tax assets	(11,943,960)	-
Other assets	(1,644,688)	657,436
Increase (decrease) in liabilities:		
Trade and other payables – current	1,380,419	(203,760)
Provisions	112,795	104,459
Net cash flows used in operating activities	(12,948,701)	(9,374,007)

Note 30. Loan Facilities

Short-term 'Bridge' Loan Facility

A USD100 million 'bridge' loan facility was put in place during June 2014 between the Company and National Australia Bank Limited to fund operational cash flow requirements. 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. is charged on any unused and uncanceled portion of the facility. Interest is 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.

As at 30 June 2014 the facility had not yet been drawn down upon. It expires on 30 November 2014 but was voluntary cancelled subsequent to 30 June 2014. Refer to Note 34(c).

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 had been fully repaid and discharged.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 31. 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 Plans ('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. 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 options may vest on the basis of the pro-rata achievement of pre-determined performance conditions.

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 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	
	2014	2014	2013	2013
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance at beginning of financial year	6,483,999	\$9.16	5,495,000	\$9.64
Granted during financial year	985,826	\$6.74	1,238,999	\$6.85
Exercised during financial year	-	-	-	-
Cancelled during financial year	(332,359)	\$6.36	(250,000)	\$8.29
Forfeited during financial year	-	-	-	-
Expired during financial year	(2,030,000)	\$12.17	-	-
Balance at end of financial year	5,107,466	\$7.59	6,483,999	\$9.16
Exercisable at end of financial year	2,985,000	\$8.15	3,135,000	\$11.32

The weighted average fair value of ESOP options granted during the financial year was \$1.86 (2013: \$1.27).

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

ESOP options outstanding as at 30 June 2014 had a range of exercise prices from \$6.74 to \$9.77 (30 June 2013: \$6.85 to \$14.07) with a weighted average remaining contractual life of 619 days (30 June 2013: 643 days).

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

Grant Date	Expiry Date	Exercise Price Per Option	Number
3 September 2010	31 October 2014	\$9.77	625,000
12 January 2011	31 October 2014	\$9.77	300,000
18 November 2010	18 November 2014	\$9.77	100,000
10 November 2011	31 October 2015	\$7.30	800,000
10 October 2011	31 October 2015	\$7.30	1,160,000
30 November 2012	29 November 2016	\$6.85	1,083,030
14 January 2013	29 November 2016	\$6.85	74,334
9 August 2013	30 June 2017	\$6.74	810,023
1 November 2013	30 June 2017	\$6.74	155,079
Total ESOP options			5,107,466

(b) Other Share Options

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

During the 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 2014		Consolidated 2013	
	2014 Number	Weighted Average Exercise Price	2013 Number	Weighted Average Exercise Price
Balance at beginning of financial year	6,350,000	\$10.75	6,150,000	\$10.87
Granted during financial year	-	-	200,000	\$6.85
Exercised during financial year	-	-	-	-
Forfeited during financial year	(2,200,000)	\$10.98	-	-
Expired during financial year	(1,850,000)	\$11.70	-	-
Balance at end of financial year	2,300,000	\$9.76	6,350,000	\$10.75
Exercisable at end of financial year	2,100,000	\$10.03	3,050,000	\$11.01

The weighted average fair value of other share options granted during the previous financial year was \$1.29.

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

Other share options outstanding as at 30 June 2014 had a range of exercise prices from \$6.85 to \$10.98 (30 June 2013: \$6.85 to \$14.07) with a weighted average remaining contractual life of 383 days (30 June 2013: 692 days).

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

Grant Date	Expiry Date	Exercise Price Per Option	Number
18 November 2010	18 November 2014	\$9.48	500,000
10 November 2011	1 May 2015	\$9.95	1,200,000
10 November 2011	1 May 2016	\$10.98	400,000
30 November 2012	29 November 2016	\$6.85	200,000
Total other share options			2,300,000

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 31. Share-based Payments continued

(c) Fair Value of Options

The fair value of each 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 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 option.

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

	2014	2013
Weighted average exercise price	\$6.74	\$6.85
Weighted average life of options	1,407 days	1,458 days
Weighted average share price	\$5.12	\$4.92
Expected share price volatility	54%	42%
Risk free interest rate	3.25%	3.24%
Weighted average option value	\$1.86	\$1.27

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.

(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	
	2014 Number	2013 Number
Balance at beginning of financial year	259,469	-
Granted during financial year	435,818	259,469
Vested during financial year	-	-
Cancelled during financial year	(26,862)	-
Forfeited during financial year	-	-
Expired during financial year	-	-
Balance at end of financial year	668,425	259,469

The weighted average fair value of performance rights granted during the financial year was \$5.12 (2013: \$4.92). 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.

There was no vesting of performance rights during the financial year.

Performance rights outstanding as at 30 June 2014 had a weighted average remaining contractual life of 654 days (2013: 882 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	228,176
14 January 2013	29 November 2015	13,593
9 August 2013	30 June 2016	358,098
1 November 2013	30 June 2016	68,558
Total performance rights		668,425

(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	
	2014	2013
	\$	\$
Options issued under ESOP	1,286,865	1,877,638
Other share options	1,402,810	2,874,558
Performance rights issued under PRP	1,611,895	365,424
Total share-based payments expense	4,301,570	5,117,620

Note 32. 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 24.

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 (2013: 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 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 provided to third parties guaranteeing a subsidiary's performance under joint operating agreements are set out in Note 26.

The obligations of the Company under the USD100 million 'bridge' loan facility with NAB have been guaranteed by Karoon Gas Browse Basin Pty Ltd.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 32. Related Party Transactions continued

(c) Remuneration of Key Management Personnel

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

	Consolidated	
	2014	2013
	\$	\$
Short-term employee benefits	3,075,528	3,119,248
Post-employment benefits	242,483	229,061
Long-term employee benefits (non-cash)	50,924	59,356
Share-based payments expense (non-cash)	2,185,262	3,679,698
Total key management personnel remuneration	5,554,197	7,087,363

Detailed remuneration disclosures for the Directors and other key management personnel are provided in Section 5 of the audited Remuneration Report on pages 43 to 44.

In addition to the above, the Group is committed to pay the Executive Directors and other key management personnel up to \$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 2014.

(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 9.25% p.a. (2013: 9.0% p.a.) of employee cash remuneration up to a cap of \$17,775 (2013: \$16,470). Contributions to superannuation funds, on behalf of Directors and employees, during the financial year by the Group amounted to \$442,790 (2013: \$367,699).

(e) Other Related Party Transactions Within the Group

During the financial year, Mr Stephen Power, a Non-Executive Director (who resigned on 6 June 2014), had an interest in Napier Legal Pty Ltd which provided legal services to the Group. The value of these transactions during the financial year, up until the date of his resignation as a Director, in the Group was \$243,760 (2013: \$97,340). The balance outstanding included in current trade and other payables is \$60,000 (2013: \$Nil).

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 \$Nil (2013: \$6,039). The balance outstanding included in current trade and other payables is \$Nil (2013: \$2,784). The amount and nature of these transactions 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 \$271,384 (2013: \$245,289). The balance outstanding included in current trade and other payables is \$22,101 (2013: \$44,420). 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 Advisor in Brazil. The total value of her remuneration (including share-based payments expense) during the financial year was \$259,108 (2013: \$257,651), which includes social security and indemnity fund contributions of \$57,162 (2013: \$48,977). Ms Barbosa has been an employee of the Company since 2009, is a specialist in the Brazilian regulatory framework and facilitated the introduction of Non-Executive Director Mr Jose Coutinho Barbosa to the Company.

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 Peru. The total value of her remuneration (including share-based payments expense) during the financial year was \$219,791 (2013: \$222,508), which includes social security and indemnity fund contributions of \$49,847 (2013: \$42,327). 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 Peru.

The Peruvian regulatory and business environment requires a strong social and environmental ethic that provides for transparent and clear communication with local and federal governments, and 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 Executive Chairman of the Company, was employed on a part-time basis by the Group in Australia. The total value of his remuneration during the financial year was \$15,765 (2013: \$12,851).

During the financial year and the previous financial year, Mr Mark Smith, a 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.

	Company	
	2014	2013
	\$	\$

Note 33. Parent Company Financial Information

(a) Summary Financial Information

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

Statement of financial position

Current assets	32,116,213	93,503,119
Non-current assets	734,550,551	505,247,807
Total assets	766,666,764	598,750,926
Current liabilities	1,976,323	667,546
Non-current liabilities	423,398	310,603
Total liabilities	2,399,721	978,149
Net assets	764,267,043	597,772,777
Contributed equity	836,246,445	664,894,335
Accumulated losses	(105,716,644)	(96,557,230)
Share-based payments reserve	33,737,242	29,435,672
Total equity	764,267,043	597,772,777
Loss for financial year	(9,159,414)	(4,751,484)
Total comprehensive loss for financial year	(9,159,414)	(4,751,484)

(b) Contingent Liabilities of Parent Company

(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).	375,022	375,004
(ii) Performance guarantees (via letters of credit) were provided to Peru Petro SA 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.	7,582,358	7,696,604
(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 provided to third parties guaranteeing a subsidiary's performance under joint operating agreements are set out in Note 26. The obligations of the Company under the USD100 million 'bridge' loan facility with the National Australia Bank Limited have been guaranteed by Karoon Gas Browse Basin Pty Ltd.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 30 June 2014

Note 34. Subsequent Events

The Annual Report was authorised for issue by the Board of Directors on 11 September 2014. The Board of Directors has the power to amend and reissue the consolidated financial statements and notes.

Since 30 June 2014, the following material events have occurred:

(a) Browse Basin Drilling Campaign

Pharos-1, the sixth and final exploration well in the Browse Basin Phase 2 drilling campaign, reached final total depth of 5,220 mRT on 10 July 2014 in exploration permit WA-398-P. The logging program indicated a gas charged Montara Formation sandstone reservoir.

(b) Completion of Sale of Browse Basin Exploration Permits WA-315-P and WA-398-P

On 2 June 2014, the Group announced the sale of its 40% equity interest in Browse Basin exploration permits WA-315-P and WA-398-P, which includes the greater Poseidon gas resource, to Origin for up to USD800 million plus the reimbursement of any costs paid by Karoon associated with the sixth and final well, Pharos-1, in the current drilling program. Completion of the Sale and Purchase Agreement ('SPA') was effective as at 31 July 2014.

As per the terms of the SPA, on 11 August 2014 a USD600 million upfront cash payment from Origin was received. In addition, payments made by Karoon relating to the Pharos-1 exploration well have been reimbursed by Origin.

The disposal date is the same as the date of completion, being 31 July 2014. The Group estimates a gain on disposal before income tax of \$270,860,000, representing the sales price consideration received during August 2014 less the carried forward book values as at 31 July 2014 relating to these two exploration permits and transaction costs incurred up to the date of disposal. The Group is still in the process of determining the tax consequences.

Outstanding deferred milestone payments of USD75 million due at FID, USD75 million due at First Production and a resource step-up payment of up to USD50 million payable on First Production remain contingent.

Following regulatory approval, the Group has no remaining interest in either exploration permit WA-315-P or WA-398-P. Accordingly, as at 31 July 2014, capital expenditure commitments and exploration expenditure commitments (arising from obligations to government pursuant to the award of exploration permits WA-315-P and WA-398-P) were reduced by \$29,598,118 and \$400,000 (which also includes commitments that relate to the non-guaranteed work commitments and joint operation exploration expenditure commitments) respectively.

(c) Drawdown and Repayment of USD20 million under 'Bridge' Loan Facility

During late July 2014, the USD100 million 'bridge' loan facility was first drawn down upon by USD20 million. While the facility has an expiry date of 30 November 2014, the USD100 million 'bridge' loan facility with the National Australia Bank Limited was voluntary cancelled during August 2014, after repayment of the USD20 million loan outstanding.

(d) Share Buy-back

On 20 August 2014, the Company announced its intention to undertake an on-market share buy-back over the next 12 months of up to 25,112,076 ordinary shares, or up to approximately 10% of the Company's ordinary shares on issue. The share buy-back commenced on 3 September 2014.

(e) Tumbes Basin Exploration Block Z-38 in Force Majeure

The Group received notification from the Peru Petro SA (the Peruvian oil and gas regulator) during July 2014 that its application to place the Tumbes Basin exploration Block Z-38 into force majeure has been received and approved. Force majeure has been granted effective 1 September 2013. As a result, the third period term has approximately 22 months remaining once force majeure is lifted.

Directors' Declaration

In the Directors' opinion:

(a) the consolidated financial statements and notes, set out on pages 55 to 100, 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 2014 and of its performance for the financial year ended on that date; and

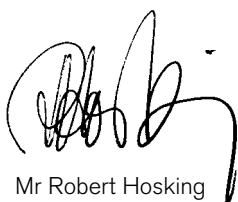
(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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 Executive Chairman 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.

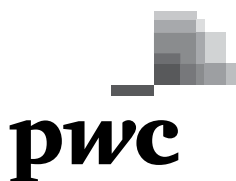
On behalf of the Directors:



Mr Robert Hosking
Executive Chairman

11 September 2014

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 2014, the consolidated statement of profit or loss and other comprehensive income, 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 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. Those 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 consolidated entity'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 opinion.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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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 2014 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*.
- (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 30 to 52 of the Directors' Report for the financial year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This 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 2014 included on Karoon Gas Australia Ltd's website. The Company's Directors are responsible for the integrity of Karoon Gas Australia Ltd's 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
11 September 2014

Corporate Governance Statement

The Company is committed to a high level of corporate governance and fostering a culture that values ethical behaviour, integrity and respect. Adopting and operating in accordance with high standards of corporate governance is essential for sustainable long-term performance and value creation. The Board has approved this statement, which reports on the Company's key governance principles and practices and is current at the date of this Annual Report.

The Company, as a listed entity, must comply with the *Corporations Act 2001* (Cth) ('*Corporations Act 2001*'), the Australian Securities Exchange ('ASX') Listing Rules and other Australian and international laws. The ASX Listing Rules require the Company to report on the extent to which it has followed the Corporate Governance Recommendations contained in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ('ASXCGC Recommendations'). These recommendations were reissued as a third edition on 27 March 2014. Although not required to do so until the financial year commencing 1 July 2014, Karoon has elected to adopt early the third edition of the ASXCGC Recommendations for the annual reporting period commencing 1 July 2013 ('annual reporting period').

A checklist cross-referencing the ASXCGC Recommendations to the relevant sections of this statement and the Annual Report is set out below with compliance recorded at the date of this Annual Report. In some cases, the Company did not follow the recommendations throughout the whole of the annual reporting period (for example, where the recommendation is new) and this is explained in the body of the text below. The Company's website contains copies of Board and Committee charters and copies of many of the policies and documents referred to in this statement.

ASXCGC Recommendations	Company's Practice	Compliance
Principle 1 – Lay solid foundations for management and oversight		
Disclose:	Paragraph 1.1 discloses the roles and responsibilities of the Board and senior executives. The Board charter is disclosed on the Company's website.	✓
<ul style="list-style-type: none"> the respective roles and responsibilities of the board and management; and those matters expressly reserved to the board and those delegated to management. 	Paragraph 1.1 discloses the matters expressly reserved to the Board and those delegated to management.	✓
<ul style="list-style-type: none"> Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a director. Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. 	Paragraph 1.4 confirms that appropriate checks are carried out and security holders are provided with all material information relevant to the election and re-election of Directors.	✓
<ul style="list-style-type: none"> Have a written agreement with each director and senior executive setting out the terms of their appointment. 	Paragraphs 1.4 and 1.5 confirm that each Director and senior executive have a written agreement relating to their appointment.	✓
<ul style="list-style-type: none"> The company secretary is accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. 	Paragraph 2.3 confirms that the Company Secretary is accountable directly to the Board, through the Chairman.	✓
<ul style="list-style-type: none"> Have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them. Disclose that policy or a summary of it. Disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: <ol style="list-style-type: none"> the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined 'senior executive' for these purposes); or if the entity is a 'relevant employer' under the <i>Workplace Gender Equality Act</i>, the entity's most recent 'Gender Equality Indicators', as defined in and published under that Act. 	<p>Paragraph 7.2 confirms that the Company has adopted and disclosed its Diversity Policy.</p> <p>Paragraph 7.2 sets out the measurable objectives to achieve gender diversity that the Board has set and the progress in achieving them.</p> <p>Paragraph 7.2 discloses the proportion of women employees and women in senior executive positions.</p> <p>Paragraph 7.2 specifies how the Company has defined senior executive for the purposes of its measurable objectives.</p> <p>Paragraph 1.2 indicates that there are currently no women on the Board.</p> <p>The Company is not a relevant employer under the <i>Workplace Gender Equality Act</i>.</p>	✓

ASXCGC Recommendations	Company's Practice	Compliance
<ul style="list-style-type: none"> Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors. Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. 	<p>Paragraphs 1.5 and 3 detail the process for evaluating the performance of the Board and its committees. The Board Performance Review Policy is disclosed on the Company's website.</p> <p>Paragraphs 1.5 and 3 confirm that performance evaluations have been undertaken in accordance with that process.</p>	✓
<ul style="list-style-type: none"> Have and disclose a process for periodically evaluating the performance of its senior executives. Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. 	<p>Paragraph 1.5 details the process for evaluating the performance of the Company's senior executives.</p> <p>Paragraph 1.5 confirms that performance evaluations have been undertaken in accordance with that process.</p>	✓
Principle 2 – Structure the Board to add value		
<ul style="list-style-type: none"> Have a nomination committee which: <ol style="list-style-type: none"> (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, Disclose: <ol style="list-style-type: none"> (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings. 	<p>Paragraphs 1.4 and 3.2 specify the role and membership of the Nomination Committee.</p> <p>The Nomination Charter is disclosed on the Company's website.</p> <p>Paragraph 3.2 confirms the number of meetings during the annual reporting period and the individual attendances at those meetings.</p>	✓
<ul style="list-style-type: none"> Have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership. 	<p>Paragraph 1.2 includes a Board skills matrix.</p>	✓
<p>Disclose:</p> <ul style="list-style-type: none"> the names of the directors considered by the board to be independent directors; if a director has an interest, position, association or relationship of the type described in the recommendations but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and the length of service of each director. 	<p>Paragraph 1.3 discloses the names of the independent Non-Executive Directors.</p> <p>There are no relevant interests, positions, associations or relationships with respect to the independent Non-Executive Directors.</p> <p>Paragraph 1.2 confirms that the length of service of each Director is disclosed in the Board of Directors section of the Directors' Report.</p>	✓
<ul style="list-style-type: none"> A majority of the board should be independent directors. 	<p>Paragraph 1.3 confirms that the Company has appointed a majority of independent Directors.</p>	✓
<ul style="list-style-type: none"> The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity. 	<p>Paragraph 1.2 identifies that the Chairman is currently the Executive Chairman and sets out why the Board considers it acceptable at this time.</p>	X
<ul style="list-style-type: none"> Have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively. 	<p>Paragraphs 1.2 and 1.4 confirm the Company has a program for inducting new Directors and that professional development opportunities are provided.</p>	✓

Corporate Governance Statement continued

ASXCGC Recommendations	Company's Practice	Compliance
Principle 3 – Act ethically and responsibly		
<ul style="list-style-type: none"> Have a code of conduct for its directors, senior executives and employees. Disclose that code or a summary of it. 	<p>Paragraph 7.1 confirms that the Company has adopted a Code of Conduct. A copy of the Code of Conduct is disclosed on the Company's website.</p>	✓
Principle 4 – Safeguard integrity in corporate reporting		
<ul style="list-style-type: none"> Have an audit committee which: <ol style="list-style-type: none"> has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and is chaired by an independent director, who is not the chair of the board, Disclose: <ol style="list-style-type: none"> the charter of the committee; the relevant qualifications and experience of the members of the committee; and in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings. 	<p>Paragraph 3.1 confirms the Company has adopted a formal Audit Committee Charter which is disclosed on the Company's website.</p> <p>Paragraph 3.1 confirms the membership of the Audit Committee.</p> <p>Paragraph 1.2 confirms that the skills, experience and expertise of the Directors (including those on the committee) are detailed in the Board of Directors section of the Directors' Report.</p> <p>Paragraph 3.1 confirms the number of meetings during the annual reporting period and the individual attendances at those meetings.</p>	✓
<ul style="list-style-type: none"> Before approving financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. 	<p>Paragraph 4 confirms that the Board has received this assurance from the Executive Chairman and Chief Financial Officer in respect of the annual reporting period and that the Company will ensure that the declaration is provided in respect of both the 30 June and 31 December financial periods.</p>	✓
<ul style="list-style-type: none"> Ensure that the external auditor attends the AGM and is available to answer questions from security holders relevant to the audit. 	<p>Paragraph 9 confirms that the external auditor will attend the Company's Annual General Meeting and be available to answer questions from security holders relevant to the audit.</p>	✓
Principle 5 – Make timely and balanced disclosure		
<ul style="list-style-type: none"> Have a written policy for complying with its continuous disclosure obligations under the ASX Listing Rules. Disclose that policy or a summary of it. 	<p>Paragraph 7.6 describes the Company's approach to disclosure and confirms that the Company has established a written Continuous Disclosure Policy which is available on the Company's website.</p>	✓
Principle 6 – Respect the rights of security holders		
<ul style="list-style-type: none"> Provide information about itself and its governance to investors via its website. 	<p>Paragraph 9 confirms that the Company provides information about itself and its governance on its website.</p>	✓
<ul style="list-style-type: none"> Design and implement an investor relations program to facilitate effective two-way communication with investors. 	<p>A summary of the Company's policy for communicating with shareholders is disclosed at Paragraph 9.</p>	✓
<ul style="list-style-type: none"> Disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders. 	<p>A summary of the Company's policy for communicating with shareholders is disclosed at Paragraph 9.</p>	✓
<ul style="list-style-type: none"> Give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically. 	<p>Paragraph 9 confirms that security holders may communicate electronically with the Company and its share registry.</p>	✓

ASXCGC Recommendations	Company's Practice	Compliance
Principle 7 – Recognise and manage risk		
<ul style="list-style-type: none"> Have a committee to oversee risk which: <ol style="list-style-type: none"> (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, Disclose: <ol style="list-style-type: none"> (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings. 	<p>Paragraph 3.4 confirms the Company has adopted a formal Risk and Governance Committee Charter which is disclosed on the Company's website.</p> <p>Paragraph 3.4 confirms the membership of the Risk and Governance Committee.</p> <p>Paragraph 3.4 confirms the number of meetings during the annual reporting period and the individual attendances at those meetings.</p>	✓
<ul style="list-style-type: none"> Review the entity's risk management framework at least annually to satisfy itself that it continues to be sound. Disclose, in relation to each reporting period, whether such a review has taken place. 	<p>Paragraphs 4 and 5 describe the Company's approach to risk management, internal controls and senior management's responsibility for implementing and reporting on effective risk management.</p> <p>Paragraph 5 confirms that a review of the Company's risk management framework has taken place.</p>	✓
<p>Disclose:</p> <ul style="list-style-type: none"> if there is an internal audit function, how the function is structured and what role it performs; or if no internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. 	<p>The Company does not consider it necessary to have a formal internal audit function at this time.</p> <p>Paragraph 5 describes the Company's processes for evaluating and improving its risk management and internal control processes.</p>	✓
<ul style="list-style-type: none"> Disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. 	<p>Paragraph 5 confirms that the special risks that affect the Company and how it manages those risks are described in the Annual Report.</p>	✓
Principle 8 – Remunerate fairly and responsibly		
<ul style="list-style-type: none"> Have a remuneration committee which: <ol style="list-style-type: none"> (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, Disclose: <ol style="list-style-type: none"> (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings. 	<p>Paragraph 3.3 confirms that the Board has established a Remuneration Committee.</p> <p>Paragraph 3.3 describes the membership of the Remuneration Committee.</p> <p>Paragraph 3.3 confirms the number of meetings during the annual reporting period and the individual attendances at those meetings.</p>	✓
<ul style="list-style-type: none"> A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives. Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme. 	<p>Paragraph 8 describes the Company's approach to the remuneration of Executive and Non-Executive Directors. Further information regarding the remuneration of Directors and other key management personnel is set out in the Directors' Report (Remuneration Report section) of the Annual Report.</p>	✓
<ul style="list-style-type: none"> Disclose that policy or a summary of it. 	<p>Paragraph 8 confirms that the Company restricts these type of transactions in its Share Trading Policy which is available on the Company's website.</p>	✓

1. Board of Directors

1.1 Role of the Board

The role and responsibilities of the Board are to oversee and direct the senior management of the Company by:

- defining and monitoring the strategic direction of the Company;
- defining policies and procedures to ensure the Company operates within the legal, ethical and social requirements of its environment;
- establishing control and accountability systems within the Group's operations to conform to the legal requirements and the expectations of shareholders and other stakeholders;
- defining and monitoring the management of an effective risk assessment strategy;
- securing funds to develop the Company's assets;
- driving Company performance;
- from time to time, reviewing and monitoring management and Company performance;
- appointing and appraising the Executive Chairman and any other Executive Director;
- ensuring there are adequate plans and procedures for succession planning;
- reviewing and approving the remuneration of the Executive Chairman, any other Executive Director and senior executives;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures; and
- approving and monitoring financial and other reporting.

The Executive Chairman is responsible for managing the Company in accordance with the strategy, plans and policies approved by the Board. The Executive Directors and other key management personnel are responsible for the day-to-day management and administration of the Company. The Board has policies and procedures in place to assess the performance of the Executive Directors.

The role and responsibilities of the Board are listed in the Company's Board Charter, which can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

In addition to the above, matters expressly reserved to the Board are:

- approval of the corporate budget; and
- approval for expenditure over a set limit.

The Board believes that this is appropriate at this time given the level and complexity of transactions.

1.2 Composition of the Board

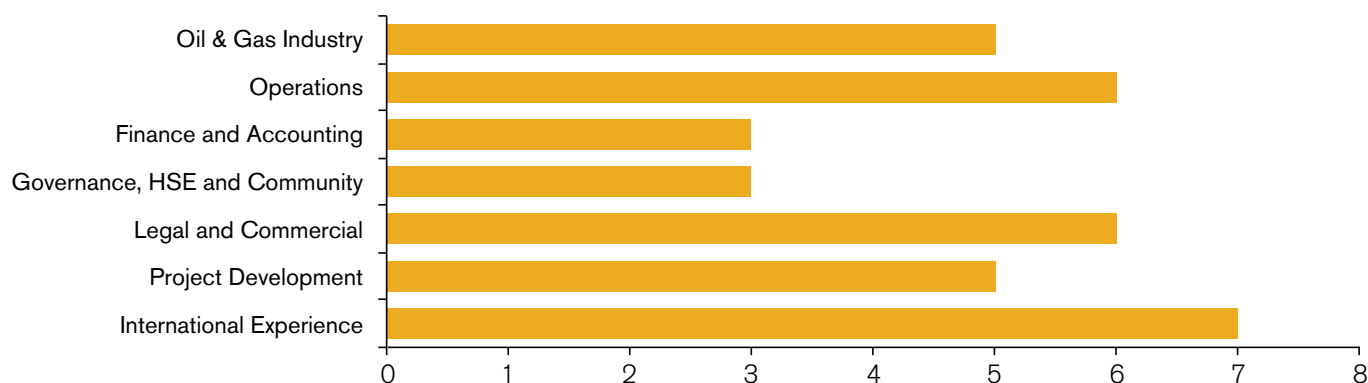
The Board is currently constituted by seven Directors, the majority of which are independent Non-Executive Directors. The skills, experience and expertise relevant to the position of each Director who is in office at the date of the Annual Report and their term of office are detailed in the Board of Directors section of the Directors' Report. As part of the Company's commitment to ongoing professional development, Directors may participate in the Company's professional development program.

The Company's Chairman also acts as its Chief Executive Officer. The Company's Chairman is the Company's founding Director and one of the Company's significant shareholders. Given the stage of the Company's growth, the Board considered it acceptable for the Chairman to also be the Chief Executive Officer and not independent. The Board recognises the need for a separation of the Chairman and Chief Executive Officer roles. The process of dividing these roles has commenced and is expected to be completed during the financial year ending on 30 June 2015.

The composition of the Board is reviewed on an ongoing basis having regard to the growth of the Company's business.

The Board considers that collectively its current composition is appropriate for the size and activities of the Company. Directors have the range of skills, knowledge and experience necessary to direct the Company effectively. The Non-Executive Directors contribute operational and international experience, an understanding of the industry in which the Company operates, knowledge of financial markets and an understanding of the health, safety, environmental and community matters that are important to the Company. The Executive Directors bring an additional perspective to the Board through a thorough understanding of the Group's business as a whole.

A Board skills matrix is set out on page 109. ASXCGC Recommendation 2.2 was not followed throughout the whole of the annual reporting period as this is a new requirement of the ASXCGC Recommendations that has now been adopted by the Board.



While the Directors on the Board represent a diverse range of backgrounds, the Board recognises the current gender imbalance and the need to address it in the future as the Company and Board evolve.

1.3 Independence of Directors

When determining the independent status of a Director, the Board has adopted the definition of independence as set out in the AGXCGC Recommendations. Accordingly, the Board considers the following factors when determining the independence of a Director, whether the Director:

- is, or has been, employed in an executive capacity by the entity or any of its child entities and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- is, or has within the last three years been, a partner, director or senior employee of a provider of material professional services to the entity or any of its child entities;
- is, or has been within the last three years, in a material business relationship (e.g. as a supplier or customer) with the entity or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship;
- is a substantial security holder of the entity or an officer of, or otherwise associated with, a substantial security holder of the entity;
- has a material contractual relationship with the entity or its child entities other than as a director;
- has close family ties with any person who falls within any of the categories described above; or
- has been a director of the entity for such a period that his or her independence may have been compromised.

In each case, the materiality of the interest, position, association or relation is assessed to determine whether it might interfere, or might reasonably be seen to interfere, with the Director's capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its shareholders generally. Materiality is considered from the perspective of the Company and its Group companies, the persons or organisations with which the Director has an affiliation and from the perspective of the Director.

The Non-Executive Directors of the Company are Mr Geoff Atkins, Mr Clark Davey, Mr Peter Turnbull, Mr Bernard Wheelahan and Mr Jose Coutinho Barbosa.

A majority of the Board, being Mr Geoff Atkins, Mr Clark Davey, Mr Peter Turnbull and Mr Bernard Wheelahan are considered to be independent Directors based on the above criteria.

The Company considers Mr Jose Coutinho Barbosa to be a non-independent Director, due to a company in which Mr Barbosa has an interest providing significant services to the Group. Services rendered are provided by the relevant related party company on normal commercial terms and conditions and at market rates. In practice, Mr Jose Coutinho Barbosa as a Non-Executive Director acts in a capacity of oversight and advice.

Prior to the appointment of Mr Peter Turnbull and Mr Bernard Wheelahan, Karoon had an equal number of independent and non-independent Non-Executive Directors. Karoon has now fulfilled its goal to have a majority independent Board.

Mr Stephen Power resigned on 6 June 2014, Mr Peter Turnbull was appointed on 6 June 2014 and Mr Bernard Wheelahan was appointed on 24 June 2014. As such, ASXCGC Recommendation 2.4 was not followed for the whole of the annual reporting period.

1.4 Selection and Appointment of Directors

The ongoing composition of the Board is overseen by the Nomination Committee which has specific responsibility for:

- identifying and recommending to the Board the nominees for membership of the Board, including the position of Chief Executive Officer;
- identifying and assessing the necessary and desirable competencies and characteristics for Board membership and regularly assessing the extent to which those competencies and characteristics are represented on the Board;
- developing and implementing processes to identify and assess necessary and desirable competencies and characteristics for Board members and reviewing the size of the Board;
- developing and implementing processes to evaluate the performance of the Board, its committees and Directors, including an evaluation of time required from Non-Executive Directors and whether such time requirements are being met;
- establishing succession plans to maintain an appropriate balance of skills and diversity on the Board and reviewing those plans;
- regularly assessing and reviewing the Selection and Appointment of Directors Policy; and
- recommending the removal or re-election of Directors.

The procedure for selecting and recommending candidates for appointment or re-appointment as Directors can be found in the Nomination Committee Charter, which can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

As part of the selection process:

- appropriate checks are carried out;
- security holders are provided with all material information relevant to the election and re-election of Directors;
- on appointment, a written agreement is entered into; and
- an induction program is carried out for new Directors.

1.5 Review of Board, Director and Senior Executive Performance

During the financial year, performance evaluation of the Executive Directors was undertaken in accordance with the Performance Review Policy and submitted to the Remuneration Committee. Non-Executive Directors also received a formal evaluation in accordance with the Performance Review Policy.

The Board, in consultation with the Executive Directors, establish the Executive Directors' performance targets for each performance period. The performance targets for senior executives are set in consultation with his or her superior on an annual basis.

Each senior executive has a written agreement describing their responsibilities. Performance evaluations for senior executives have taken place during the financial year, in accordance with the process described in the Performance Review Policy.

The Performance Review Policy for the Board and senior executives can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

2. Operation of the Board

2.1 Board Meetings

The Board meets at least every two months with additional committee meetings, if and when required, to discuss specific matters.

2.2 Independent Advice

Subject to the approval of the Board, an individual Director may engage an independent professional adviser, at the Company's expense, in appropriate circumstances.

2.3 Role of the Company Secretary

All Directors have access to the Company Secretary. The appointment and removal of the Company Secretary is a matter for decision by the Board.

The Company Secretary is accountable to the Board, through the Chairman, on all corporate governance matters.

The Company Secretary supports the effectiveness of the Board by monitoring compliance with Board policy and procedures and coordinating the completion and despatch of the Board papers.

3. Board Committees

The Board has the ability under the Company's Constitution to delegate its process and responsibilities to committees of the Board. The Board has established four standing committees to assist it in effectively exercising its responsibilities. These are the:

- Audit Committee;
- Nomination Committee;
- Remuneration Committee; and
- Risk and Governance Committee.

The Board reviews the performance of the committees and considers whether new committees are required. A review of each committee was undertaken in respect of the annual reporting period in accordance with that process, which review resulted in the creation of the Risk and Governance Committee as discussed below.

3.1 Audit Committee

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal financial control and the appropriate standards for the financial management of the Group. The Company has formally adopted an Audit Committee Charter. The Audit Committee also reviews the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The responsibilities of the Audit Committee include:

- reviewing the integrity of the Company's financial reporting and overseeing the independence of external auditors;
- liaising with external auditors and ensuring that the annual statutory audits and half year auditor reviews are conducted in an effective manner;
- reviewing internal controls and recommending improvements;
- reviewing the half year financial report prior to lodgement of this document with the ASX, and any significant adjustments required as a result of the review;
- reviewing the draft annual financial report and the independent auditor's report and making the necessary recommendations to the Board for approval of the annual financial report;
- reviewing treasury recommendations and making necessary recommendations to the Board for approval; and
- reviewing and reporting on any special reviews deemed necessary by the Board.

The Audit Committee reports to the Board after each Committee Meeting and minutes of meetings are provided to all Directors.

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

The Audit Committee consists of three independent Non-Executive Directors.

The Audit Committee consists of:

- Mr Clark Davey (Chairman of Committee);
- Mr Geoff Atkins; and
- Mr Peter Turnbull.

The record of attendance and qualifications for each of the members of the Audit Committee is set out in the Board of Directors section of the Directors' Report in the Annual Report.

Mr Stephen Power resigned from the Audit Committee on 6 June 2014. Mr Peter Turnbull was appointed to the Audit Committee on 11 July 2014.

3.2 Nomination Committee

The role of the Nomination Committee is described above at paragraph 1.4.

The Nomination Committee consists of four independent Non-Executive Directors.

The Nomination Committee consists of:

- Mr Geoff Atkins (Chairman of Committee);
- Mr Clark Davey;
- Mr Peter Turnbull; and
- Mr Bernard Wheelahan.

A full description of the role and responsibilities of the Nomination Committee, together with the Company's Selection and Appointment of Directors Policy, is contained in the Nomination Committee Charter, which can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

The record of attendance for each of the members of the Nomination Committee is set out in the Board of Directors section of the Directors' Report in the Annual Report.

Mr Stephen Power resigned from the Nomination Committee on 6 June 2014. Mr Peter Turnbull and Mr Bernard Wheelahan were appointed to the Nomination Committee on 11 July 2014.

3.3 Remuneration Committee

The Remuneration Committee is responsible for the review of and recommendation to the Board on:

- the Group's recruitment, retention and termination policies and procedures for senior executives;
- senior executives' and Executive Directors' remuneration and incentives;
- superannuation arrangements; and
- the remuneration framework for Non-Executive Directors.

The Company's remuneration policy is designed to ensure that:

- remuneration is competitive in order to attract and retain talented and motivated employees and Directors to the Group;
- there is a clear relationship between performance, responsibility, results delivered and remuneration; and
- a performance evaluation process is created to monitor the Board and senior executives.

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 Corporate Policies tab on the Company's website at www.karoongas.com.au.

The Remuneration Committee consists of three independent Non-Executive Directors.

The Remuneration Committee consists of:

- Mr Geoff Atkins (Chairman of Committee);
- Mr Clark Davey; and
- Mr Peter Turnbull.

The record of attendance for each of the members of the Remuneration Committee is set out in the Board of Directors section of the Directors' Report in the Annual Report.

Mr Stephen Power resigned from the Remuneration Committee on 6 June 2014. Mr Peter Turnbull was appointed to the Remuneration Committee on 11 July 2014.

3.4 Risk and Governance Committee

The Risk and Governance Committee is responsible for review and recommendations in respect of:

- leading the Company's strategic direction in the management of material business risks;
- working with the Board and management to determine the Company's risk appetite;

- risk management and internal compliance and control systems;
- review of the effectiveness of the Company's risk management framework in identifying and managing risks and controlling internal processes;
- the Company's insurance program;
- mitigation of material risks faced by the Company;
- a Risk Register identifying the main internal and external risk sources including material exposures to economic, environmental and social sustainability risks;
- continuous improvement of risk management and internal control processes;
- working with the Board to adopt the most appropriate ethical and governance standards in order to meet all relevant corporate governance requirements;
- working with the Board to ensure, so far as possible, that risk and governance policies are properly embedded within the Company's operations and that all who work for the Company embrace these policies and standards as a normal and necessary element of managing the Company to maximise value for shareholders; and
- review and provide recommendations to the Board on:
 - the Company's overall corporate governance framework on an annual basis,
 - best practice developments and trends in relation to corporate governance, compliance, regulatory and risk management policy and practice (including in relation to the ASX Corporate Governance Council's best practice recommendations).

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

The Risk and Governance Committee consists of four independent Non-Executive Directors.

The Risk and Governance Committee consists of:

- Mr Peter Turnbull (Chairman of Committee);
- Mr Geoff Atkins;
- Mr Clark Davey; and
- Mr Bernard Wheelahan.

The Risk and Governance Committee was established on 11 July 2014. As such, there were no meetings of the Committee during the financial year ended 30 June 2014.

4. Executive Chairman and Chief Financial Officer Assurances

The Board requires accountability for the Company's financial reporting by requiring both the Executive Chairman and Chief Financial Officer to confirm in writing to the Board that:

- the financial records of the Company for the financial period have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*;
- the consolidated financial statements and notes for the financial year ended 30 June comply with relevant Australian Accounting Standards;
- the consolidated financial statements and notes for the financial period give a true and fair view; and
- in respect of the financial year ended 30 June, any other matters that are prescribed by the regulations for the purposes of Section 295A(2)(d) of the *Corporations Act 2001* in relation to the consolidated financial statements and the notes for the financial year ended 30 June are satisfied,

and this opinion is formed on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Executive Chairman and Chief Financial Officer have provided written confirmation to the Board in respect of the matters referred to above in respect of the annual reporting period but not the financial half year reporting period. The requirement to report in respect of the financial half year reporting period is a new requirement of the ASXCGC Recommendations which has now been adopted by the Company. As such, ASXCGC Recommendation 4.2 was not followed for the whole of the annual reporting period. The Company will ensure that declarations will be provided in respect of both the 30 June and 31 December financial reporting periods.

5. Risk Assessment and Management

The Company has a formal Risk Management Policy. The Risk and Governance Committee was formed on 11 July 2014. Throughout the financial year ended 30 June 2014, senior management reported to the Board on the effectiveness of the Company's management of its material business risks and the Company has consequently reviewed and, where required, improved risk management and internal compliance and control systems.

The Company, with the oversight of the Risk and Governance Committee and the Board, will continue to review and improve its risk management systems and internal controls in conjunction with senior management over the coming financial periods.

A summary of the Company's policies for the oversight and management of material business and financial risks follows:

- the Board has formed a Risk and Governance Committee as described in Paragraph 3.4 above;
- financial controls are set in place by the use of an authority matrix, general purchasing principles and approval procedures. All material expenditure is closely monitored by the Audit Committee on behalf of the Board and reported on a periodic basis. The Chairman of the Audit Committee also works closely with the Company's finance personnel prior to Board meetings in order to understand financial risks and report such risks to the Board. Management accounts are prepared regularly for the Board to ensure information congruence between senior management and the Board. The Audit Committee also reviews and recommends improvements to internal controls;
- the Company offsets the risk of catastrophic operational failures using appropriate insurance, with covers for third party liability, well control, day-to-day office and business insurance and operator's extra expense;
- the Company protects its employees through the adoption and application of a Health, Safety and Environment Policy, global medivac membership program and travel insurance for periods where employees are travelling on business, along with membership to emergency assistance and management for all employees in overseas locations;
- operational reporting is submitted to the Board at each Board meeting to ensure decisions are made in an efficient and effective manner. Reports include reviews of operational assets, potential exploration, new ventures and general operational issues and/or opportunities;
- the Company's Risk Management Policy can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au; and
- special risks which affect the Company are listed in the Operations Review section of the Annual Report.

6. External Auditors

The Company appointed the current external auditors, PricewaterhouseCoopers, during the financial year ended 30 June 2009. The Audit Committee oversees the co-ordination of the external auditors and monitors the effectiveness and independence of the external auditor.

Furthermore, the Company has prepared an External Auditor Selection Policy, pursuant to which the External Auditor is required to rotate its audit partner so that no individual partner is responsible for the Company's accounts for a period of more than five consecutive years.

The Company's External Auditor Selection Policy can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

7. Ethical Standards and Responsible Decision Making

The Directors, officers, employees and consultants of the Company are required to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

7.1 Code of Conduct

The Company has developed a Code of Conduct for the Board, senior executives and employees. The Code includes:

- the practices necessary to maintain confidence in the Company's integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A copy of the Company's Code of Conduct can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

7.2 Diversity

The Board recognises the importance of diversity and has adopted a Diversity Policy in accordance with the ASXCGC Recommendations. The Company has introduced measurable objectives for achieving gender diversity and the Board assesses the objectives and progress towards achieving them on an annual basis. The measurable objectives for achieving gender diversity set by the Board for the financial year and the Company's progress towards achieving them are:

Measurable Objective	Company's Progress
Undertake an assessment of the current diversity of the Karoon workforce and diversity issues that Karoon employees face.	An assessment has been conducted and the Board and senior management are aware of issues concerning diversity.
Provide equal opportunity with respect to recruitment, compensation and promotion, including promotion to senior executive or Board positions.	Karoon considers itself an equal opportunity employer.
Structure the Board, senior executive and employee annual performance evaluations in a manner to ensure the Diversity Policy is considered.	All performance and remuneration evaluation practices take into account the Company's Diversity Policy and all employees are evaluated equally.
Promote equal pay for equal work for all employees and senior executives at all levels.	Karoon's remuneration practices are conducted on a position and performance basis only. Equal pay for equal work is established.
Develop a culture which takes account of domestic responsibilities of employees.	Karoon provides flexible work schedules for those that require them from time-to-time.

See the table below setting out the Karoon workforce gender profile:

	Female	Female %
Group (includes administration/technical/specialists)	28	36%
Senior executives*	-	-
Board	-	-

* The senior executives are the Executive Directors and the other Key Management Personnel (excluding the Non-Executive Directors) referred to in the Directors' Report.

The Company's Diversity Policy can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

7.3 Fair Dealings and Related Party Transactions

A Director, or entities in which a Director has a significant interest and/or influence, who proposes to enter into a transaction with the Company, must make full disclosure of all material elements of the transaction to the Chairman, or, if the Director involved is the Chairman, to the Board.

7.4 Policy and Procedure for Share Trading

Directors, officers, employees and consultants are prohibited from dealing in securities of the Company if they are in possession of information concerning the Group which, if made public, a reasonable person would expect to have a material impact on the price or value of the Company's securities (insider information).

Directors, officers, key management personnel and other designated persons are prohibited from dealing in securities of the Company during any embargo period declared by the Chairman or Company Secretary. Embargo periods include the period of 2 weeks prior to the release of the Company's half year results and final results to the ASX and the period from the close of trading 10 days before the Company's Annual General Meeting.

These restrictions in dealing in securities of the Company are subject to the discretion of the Chairman, to be exercised in exceptional circumstances.

Prior to dealing in securities of the Company, Directors, other key management personnel and other designated persons must:

- seek written clearance from the Chairman or Company Secretary of the proposed dealing to ensure that there is not any imminent ASX announcement that contains price sensitive information; and
- confirm to the Chairman or Company Secretary that he or she is not aware of any insider information that has not been released to the ASX.

Directors, officers, other key management personnel and other designated persons must advise the Company Secretary of any dealing in securities of the Company within two days of such dealing.

The Company's Share Trading Policy can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

7.5 Environment

The Company has a Health, Safety and Environment Policy and is committed to conducting all of its activities in a safe and environmentally responsible manner.

The Company's Health, Safety and Environment Policy can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

7.6 Disclosure of Information

The Company aims to provide honest and open disclosure of information in dealing with stakeholders, subject to appropriate commercial considerations associated with competitive and sensitive information.

The Company has developed a Continuous Disclosure Policy to ensure compliance by the Company with the *Corporations Act 2001* and the ASX Listing Rules obligations in relation to disclosure of information to the market and to ensure accountability at a senior management level for that compliance.

The Company's Continuous Disclosure Policy can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

8. Remuneration Policy

The Company seeks to remunerate in such a way that it motivates Directors and employees to pursue the long-term growth and success of the Company within an appropriate remuneration framework that demonstrates a clear relationship between performance and remuneration. The Remuneration Committee is responsible for senior executive remuneration and making recommendations to the Board.

Executive Director remuneration is set by the Board and may contain salary, bonuses and other share-based remuneration incentives.

Non-Executive Directors are remunerated by way of Directors' fees in the form of cash and superannuation contribution at market levels. The Company has not established any schemes for retirement benefits, other than superannuation, for Non-Executive Directors.

The aggregate Directors' fee pool to Non-Executive Directors is set and may not be increased without the prior approval of shareholders at a general meeting.

Unlisted options and performance rights over unissued ordinary shares of the Company issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

The Company has a policy restricting all recipients of options or rights under the Performance Rights Plan, Employee Share Option Plan and other share options from:

- dealing at any time in financial products such as options, performance rights, warrants, futures or other financial products issued over the Company's securities by third parties such as banks and other institutions. An exception may apply where the Company's securities form a component of a listed portfolio or index product; and/or
- entering into transactions in products associated with the Company's securities which operate to limit the economic risk of their security holding in the Company over unvested entitlements (including hedging arrangements).

These restrictions are set out in the Company's Share Trading Policy, which can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

Further information on the remuneration of the Directors and other key management personnel can be found in the Remuneration Report section of the Directors' Report.

9. Communication with Shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Company in accordance with its legal obligations. Information is communicated to shareholders as follows:

- the Annual Report is distributed to shareholders who request a copy. The Board ensures that the Annual Report includes relevant information about the operations of the Group during the relevant financial year, changes in the state of affairs of the Group and other disclosures required by the *Corporations Act 2001* and the ASX Listing Rules;
- the half year financial report, prepared in accordance with the requirements of the *Corporations Act 2001*, is subject to an external auditor's review. The half year financial report is sent to any shareholder who requests a copy;
- proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders; and
- the Company posts information about itself and its governance, reports, ASX and media releases and copies of significant presentations on the Company's website at www.karoongas.com.au.

In addition, news announcements and other information are sent by email to all persons who have requested their details be added to the Company's electronic mailing list. If requested, the Company, where appropriate, will provide general information by email, facsimile or post.

Security holders are able to communicate by email with the Company and its share registrar Computershare.

The Company ensures that the Annual General Meeting is held in a manner which enables as many shareholders as possible to attend and encourages effective participation by shareholders at the Annual General Meeting.

The Company will arrange to have its external auditor attend the Company's Annual General Meeting and be available to answer shareholder questions concerning the conduct of the audit and preparation and content of the Independent Auditor's Report.

The Chairman will allow a reasonable opportunity at the Annual General Meeting for shareholders to ask questions of the Directors about the Company's performance and operations.

Additional Securities Exchange Information

Additional information required by ASX Listing Rules and not disclosed elsewhere in the Annual Report is set out below. The information was applicable for the Company as at 2 September 2014.

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	3,031	1,420,918
1,001 to 5,000	3,783	10,341,881
5,001 to 10,000	1,376	10,172,923
10,001 to 100,000	1,355	33,918,876
More than 100,000	119	200,143,092
Total	9,664	255,997,690

There were 716 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:

Shareholder	Fully Paid Ordinary Shares	
	Number Held	% of Issued Ordinary Shares
Wellington Management Group, LLP and its related bodies corporate	35,152,430	13.73
Talbot Group Holdings Pty Ltd	26,358,356	10.30
Paradice Investment Management Pty Ltd	17,226,929	6.73
IOOF Holdings Limited	13,023,854	5.09
Total	91,761,569	35.85

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company's ordinary shares are listed below:

Shareholder	Fully Paid Ordinary Shares	
	Number Held	% of Issued Ordinary Shares
1 HSBC Custody Nominees (Australia) Limited	50,302,128	19.65
2 J P Morgan Nominees Australia Limited	37,526,040	14.66
3 Talbot Group Holdings Pty Ltd <Talbot Equities A/C>	15,317,043	5.98
4 Citicorp Nominees Pty Limited	14,189,972	5.54
5 National Nominees Limited	13,390,811	5.23
6 Talbot Group Investments Pty Ltd	11,000,313	4.30
7 Ropat Nominees Pty Ltd	9,210,022	3.60
8 National Nominees Limited <DB A/C>	4,186,457	1.64
9 BNP Paribas Noms Pty Ltd <DRP>	3,072,123	1.20
10 UBS Wealth Management Australia Nominees Pty Ltd	2,729,308	1.07
11 HSBC Custody Nominees (Australia) Limited-GSCO ECA	2,347,626	0.92
12 HSBC Custody Nominees (Australia) Limited - A/C 2	2,053,412	0.80
13 Mr Robert Hosking	1,775,000	0.69
14 AMP Life Limited	1,708,316	0.67
15 HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	1,556,158	0.61
16 Mr Mark Smith	1,390,000	0.54
17 IERS (Australia) Pty Ltd <Smith Family Investment A/C>	1,271,500	0.50
18 Mrs Mara Spong	1,127,888	0.44
19 HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	963,960	0.38
20 RBC Investor Services Australia Nominees Pty Limited <GSAM A/C>	804,022	0.31
Total	175,922,099	68.73

Unlisted Equity Securities: Options and Performance Rights

The following options and performance rights over unissued ordinary shares of the Company were unquoted:

	Number of Holders	Number of Unlisted Options or Performance Rights on Issue
Options issued pursuant to Karoon Gas Australia 2009 Employee Share Option Plan	35	2,785,000
Options issued pursuant to Karoon Gas Australia 2012 Employee Share Option Plan	93	3,763,072
Other share options issued	4	2,300,000
Performance rights issued pursuant to Company's PRP	53	360,092
Total	185	9,208,164

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 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*
WA-482-P	Carnarvon, Australia	50^
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
Block 144	Marañón, Peru	100
Block Z-38	Tumbes, Peru	75#

* 1.5% over-riding royalty for first five years of production, going to 2% thereafter.

^ Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.

The Group's 75% Block 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.
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.
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.
DHI	Direct hydrocarbon indicator.
discovery well	The first successful well on a new prospect.

Term	Definition
DSEWPac	Department of Sustainability, Environment, Water, Population and Communities in Peru.
DST	Drill stem test.
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.
ESOP	Karoon Gas Australia 2009 Employee Share Option Plan and Karoon Gas Australia 2012 Employee Share Option Plan.
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.
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 2014.
GST	Goods and Services Tax in Australia.
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.
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.
LNG	Liquefied natural gas.
LPG	Liquid petroleum gas.
LTI	Long-term incentive.
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.
mmtpa	Million tonne per annum. A common measurement of LNG facility production capacity.

Glossary of Terms continued

Term	Definition
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.
NGER Act	<i>National Greenhouse and Energy Reporting Act 2007 (Cth)</i> in Australia.
NOPSEMA	National Offshore Petroleum Safety and Environmental Management Authority in Australia.
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 Rubiales	Pacific Rubiales Energy Corp.
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 2013.
PRE	Pacific Brasil Exploração e Produção de Óleo e Gás Ltda. A subsidiary of Pacific Rubiales Energy 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	<p>Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Mean estimate (Mean): Mean is the expected value, equal to the sum of the values in that distribution divided by the number of values.</p>
prospectivity	Referring to the likelihood of finding commercial hydrocarbons.
PRRT	Petroleum Resource Rent Tax in Australia.
psia	Pounds per square inch absolute.
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.

Term	Definition
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.
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.
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.
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

Mr Robert Hosking – Executive Chairman
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 Geoff Atkins (Chairman of Committee)
Mr Clark Davey
Mr Peter Turnbull

Risk and Governance Committee

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

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Share Registrar

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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:

Garden Rooms 2 and 3 at the Crown Towers
Level 1, 8 Whiteman Street
Southbank VIC 3006

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

Date Monday 27 October 2014

