Karoon

ANNUAL REPORT
2018

Contents

Unless otherwise stated, items in photographs shown in this annual report are not assets of the Company.

Karoon Gas Australia Ltd is a global oil and gas exploration company headquartered in Melbourne, Australia, with country offices in Brazil and Peru.

Chairman and Managing Director's Review 2018

Karoon has a vision of becoming a global Exploration and Production company with material long-term oil production underpinning a highly prospective exploration portfolio.

Dear Shareholders,

It is with deep sadness and growing anticipation that we present Karoon's 2018 Annual Report – sadness for the tragic loss of our Chairman, Dr David Klingner and anticipation given that Karoon is now closer than ever to realising its vision of becoming a global Exploration and Production ('E&P') company with material long-term oil production underpinning a highly prospective exploration portfolio.

David, who passed away on 13 August 2018 after a short illness, was a much valued and respected member of the Karoon team. Karoon's Board of Directors and management share their respect and admiration for him and are extremely grateful for his valued contribution as Chairman of Karoon.

David spent his illustrious career working for Rio Tinto and its affiliated companies, holding many senior executive positions in Rio Tinto including Head of Exploration, Group Executive Coal and Gold, and Managing Director, Kaltim Prima Coal. David's various other commercial and technical roles included Group Geologist Petroleum Exploration. Following his retirement from Rio Tinto, David had been an active Company chairman and non-executive director with a number of companies.

The entire Karoon team expresses its condolences to Dr Klingner's family, friends and colleagues.

Turning to the global oil and gas environment, the 2018 financial year was generally a more positive year for the global oil and gas sector with oil prices rising to levels well above those seen over the last three years due to excess supply being reduced by rising global demand. There are promising signs that oil prices will continue to strengthen, with the global oil industry having discovered only 4 billion barrels during 2017 while global 2017 consumption exceeded approximately 35 billion barrels. This discrepancy left an impressive deficit of approximately 30 billion barrels between new discoveries in 2017 and demand during 2017. Growing demand from emerging economies such as China and India, driven by rising prosperity and the urbanisation of people on a vast scale, together with OPEC compliance and discipline in reducing output, underpin the likelihood of a higher oil price scenario going forward.

The purchase of a production asset with long-term revenue, on acceptable terms, has been a major part of Karoon's core goals since 2014/15 and would enable Karoon to take considerable advantage of improving oil prices. To this end, Karoon has spent more than two years pursuing various production acquisition opportunities that have come to market.

Karoon's standing in Brazil also sees it well positioned within the improving global environment as Brazil continues to actively and aggressively seek to attract investment in the oil and gas sector. Brazil is currently the 10th largest global oil producer with an established Exploration and Production industry producing in excess of 3mm bopd and is very likely to become the largest FPSO market in the world.

During the financial year Karoon made significant advancement with progressing the appraisal and development of its light oil discoveries in the Santos Basin, Brazil. The 2C contingent resource estimates for these discoveries are currently 55mmbl (Echidna) and 27 mmbl (Kangaroo), potentially targeting peak production of 25k to 28k bopd. We note that of approximately 20 global oil and gas projects, which have been sanctioned for development during the first half of calendar year 2018, around 50% of these projects are expected to produce less than 50k boe per day per project.

Recognising Karoon's geographical diversification and broader focus on energy opportunities, the Board of Directors proposes to change the name of the Company to Karoon Energy Limited.

Brazil

Declaration of Commerciality

During July 2017, the Board of Directors approved an innovative development concept for Karoon's Echidna light oil discovery that saw the project progress to the Front End Engineering and Design ('FEED') phase.

Karoon was pleased to announce during April 2018 that the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') approved Karoon's Declaration of Commerciality agenda in regard to the Echidna and Kangaroo oil accumulations. As is convention in Brazil, these assets have been renamed and they are now known as Neon and Goiá respectively.

The ANP approval of the Declaration of Commerciality is an important step in moving forward toward production, as it marks the end of the Exploration Phase and the beginning of the Development Phase.

Following the probabilistic reassessment of contingent resources, announced 8 May 2018, and the subsequent reassessment of the associated economics the primary focus of the Development Plan will be on the Neon (Echidna) light oil discovery, with Goiá (Kangaroo) forming part of Karoon's broader southern Santos Basin strategy.

The Development Plan is currently being prepared and Karoon has been working with commercial tenderers to define a cost effective and commercial risk sharing plan that can take advantage of the continuing low price environment for vessels and equipment.

It is Karoon's intention to farm-out a portion of its interest before proceeding with the Neon (Echidna) development.

New Opportunities

Karoon believes that it is strategically important for the Company's longer term sustainability to maintain the focus on ensuring a future pipeline of quality exploration prospects in prolific basins.

Karoon therefore participated in Brazil's Bid Round 14 during September 2017 and was successful in being awarded Block S-M-1537 in the Santos Basin, which contains the Clorita Prospect approximately 120km from Neon (Echidna). Work programme obligations in the block are limited to seismic acquisition over a 7 year period.

The Clorita Prospect is located in a defined hydrocarbon producing trend including, amongst others, the Bauna and Piracaba oil fields, and is interpreted to possess the same Oligocene reservoirs which have excellent reservoir characteristics in those fields.

The Block S-M-1537 acreage adds to Karoon's presence in the Santos Basin, and potential opportunities for future synergistic development with Neon (Echidna) are already under review.

Peru

Block Z-38, Tumbes Basin

During January 2018, Karoon announced the successful farm-out, subject to regulatory approvals, of 35% of its 75% equity interest in Block Z-38 in the Tumbes Basin to Tullow, a leading independent oil and gas exploration and production company focussed on finding and monetising oil in Africa and South America.

Karoon is excited about partnering with a proven successful explorer such as Tullow who during 2017 had operations in 16 countries and oil production averaging 87,300 boe per day with total revenue of approximately US$1.72bn. The farm-out followed the extensive work completed by Karoon in recent years to better define the block's prospectivity. This leaves Karoon with a 40% operated interest in the block.

Karoon is continuing to prepare for drilling operations, currently targeting drilling during 2019/20, and has commenced farm-in partner meetings and field operations including met-ocean data acquisition and preliminary stakeholder engagement.

Australia

EPP46, Ceduna Sub-basin, Great Australian Bight

Karoon remains hopeful it can acquire the 2D/3D seismic data required for permit EPP46 and is optimistic that data is available for the permit in the coming year.

WA-482-P, Carnarvon Basin

The reprocessing of seismic data in the eastern part of the WA-482-P permit is ongoing. This part of the permit is geographically close to the recent Dorado discovery made by Karoon's Joint Venture Partner Quadrant and Carnarvon Petroleum.

WA-314-P, Browse Basin

Reprocessing of the seismic data in the WA-314-P permit has now been completed and Karoon is in discussions with the regulator regarding a forward work program for the permit.

Looking to the Future

With good stewardship of Karoon's industry assets through the recent downturn in the sector, Karoon is well positioned to thrive in an improving oil industry environment. The outlook is now brighter than it has been for some time for the company's robust portfolio of exploration and pre-development assets.

Prudent Management

The Board of Directors and senior management understand that Karoon's operations must be sustainable in the longer term. One aspect of sustainability is cost structure and we acted during the financial year to reduce corporate overheads with an organisational review that saw staff reductions in all offices, and office relocations in South America to more cost-effective premises. It will be an ongoing goal to continue to identify and realise further cost reductions as the Company moves forward.

The Board of Directors of Karoon has a good breadth of skills and experience, although we will continue to review the composition and size of the Board to ensure we have the right capabilities to support the delivery of our strategy for the benefit of our shareholders. As previously announced, Karoon has commenced an external professional search process to identify and appoint a new independent Chairman.

Karoon has a clear strategic goal to deliver shareholder value is hopeful that significant progress will be evident as the Board and management continues to pursue their goal to transform Karoon into a significant Exploration & Production (E&P) company..

While there is still much more work to be done, the Karoon team is enthusiastic about the future of the Company and is firmly focused on delivering on its strategic agenda for the benefit of all our shareholders.

We would like to take this opportunity to thank the Karoon team for their focus and commitment over the past year, and to also sincerely thank our shareholders for their ongoing support.

Mr Peter Turnbull
Interim Non-Executive Chairman

Mr Robert Hosking
Managing Director

25 September 2018

Karoon at a Glance

Our History

Karoon Gas Australia Ltd ('Karoon' or 'the Company') was founded during 2004, listing on the Australian Securities Exchange during June 2004 with a market capitalisation of $8 million and a share price of $0.20 per ordinary share. Karoon was founded by Managing Director Mr Robert Hosking and Director of Exploration Mr Mark Smith. The Company was built on bold ambition, driven principally by geology and focused on exploration opportunities with world class potential.

Shortly after listing, Karoon made its first big strategic move and acquired acreage in one of Australia's emerging LNG provinces, the Browse Basin. Over the next decade, the region saw an unprecedented level of LNG activity. During this time Karoon discovered the multi-TCF Poseidon gas discovery (2009), which was subsequently sold by Karoon during June 2014 for up to US$800 million (including outstanding contingent milestone consideration of up to US$200 million).

During 2008 Karoon sought to broaden its exploration portfolio and was attracted to the Santos Basin, offshore Brazil by the basin geology at the same time as the major presalt discoveries were being made. Karoon secured a footprint with 5 blocks during Bid Round 9, and subsequently made 3 oil discoveries, with one light oil discovery Neon providing a potential future limb of growth for the Company.

Over the past decade, Karoon has successfully farmed out 9 permits and blocks across Australia, Brazil and Peru, which have been instrumental in helping to fund its exploration programs.

Since divesting the 2 Browse Basin permits, including the Poseidon gas discovery during June 2014, the Company has turned its efforts and resources to furthering appraisal and development plans for its Santos Basin assets and potential acquisition opportunities. The Company has also been looking to take advantage of the cyclical downturn in the global oil market and secure a foundation production or development asset to underpin the next decade of growth and beyond.

Consistent with Karoon's current geographical diversification and broader focus on energy opportunities, the Board of Directors proposes to change the name of the Company to Karoon Energy Limited. The new name is subject to shareholder approval at the 2018 Annual General Meeting.

Our Vision

The vision is to transform the Company from an exploration company into an emerging independent energy company with material hydrocarbon production, providing a foundation for future exploration and production growth.

Our Strategy

One of the key pillars central to Karoon's strategy is exploration led growth. The Company looks to drive value through the geotechnical workup of exploration and appraisal acreage to identify prospective opportunities.

The focus is on acquiring high-equity interests in underexplored early stage offshore acreage within proven petroleum systems.

While exploration led growth is a key pillar, Karoon is also looking to acquire a foundation production asset that will underpin long-term sustainable growth and drive shareholder value.

Financial Year 2018 Highlights

- **Farm-out of a 35% equity interest** to Tullow Peru Limited in Block Z-38 Tumbes Basin, Peru.

- **The exploration portfolio was strengthened** with the acquisition of Block S-M-1537 Santos Basin, Brazil.

- **Finalised the appraisal phase and entered the development and production phase** at Neon (previously named Echidna) and Goiá (previously named Kangaroo) after Final Discovery Evaluation Report ('RFAD') approval from the ANP and declaration of commerciality on both light oil discoveries.

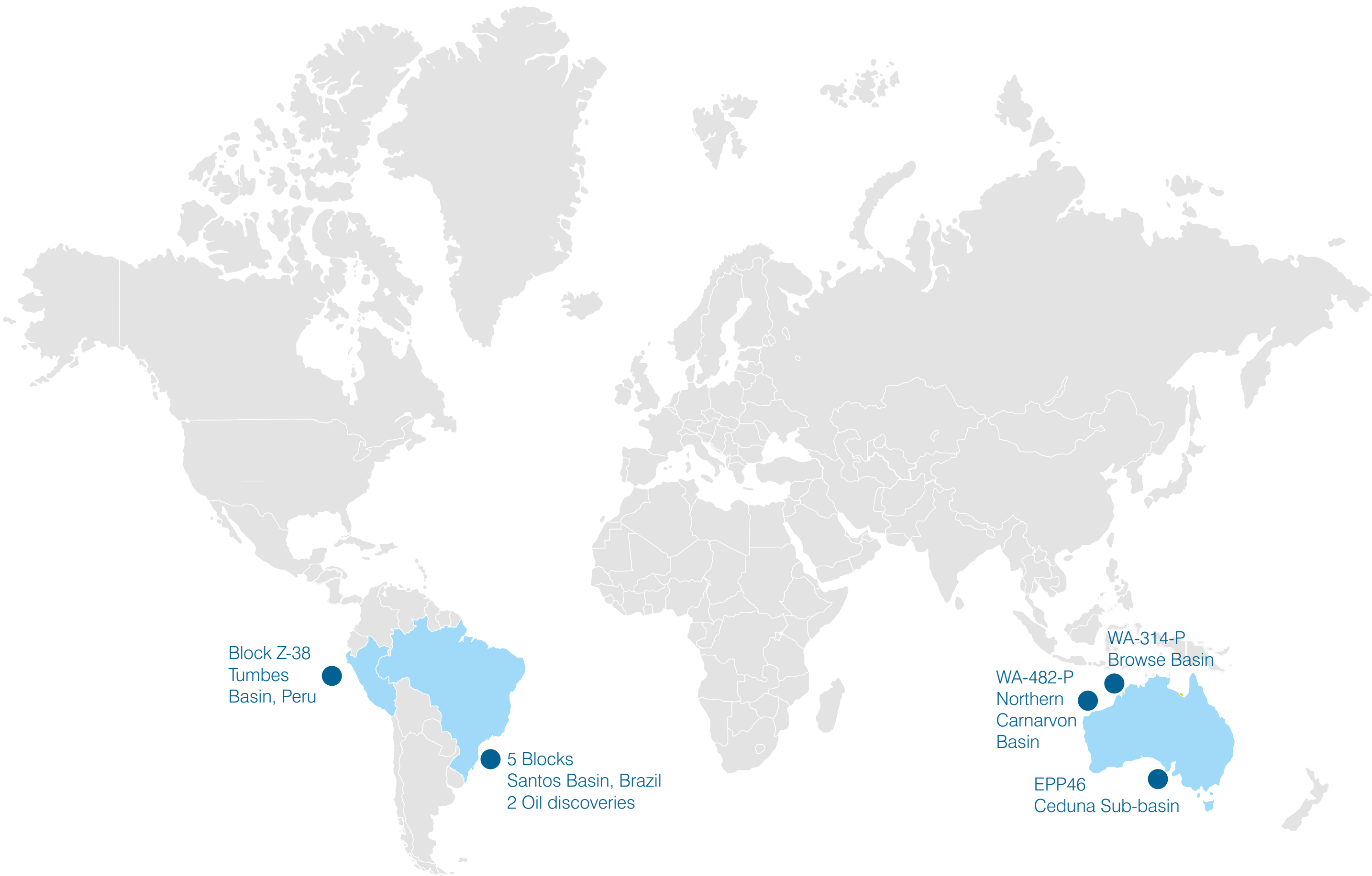
- **Continued the development plan FEED** tendering and evaluation for Neon.

- **Karoon announced an updated management assessment of the net 2C contingent resources** for Santos Basin light oil discoveries, Neon and Goiá, of 82 million barrels.

- **Karoon announced an updated management assessment of its prospective resource inventory** with unrisked net prospective resources of 1,947 million barrels of oil (best estimate) across its exploration Block Z-38 Tumbes Basin, Peru and exploration permit WA-482-P Northern Carnarvon Basin, Australia.

- **Continuation of technical evaluation, commercial and financing negotiations** for the acquisition of production opportunities.

Where We Operate



Permit/Block	Country	Basin	Equity Interest	Type	Phase
S-M-1037, S-M-1101, S-M-1102, S-M-1165 **	Brazil	Santos	100% *	Oil	Development & Production
S-M-1537	Brazil	Santos	100% *	Oil	Exploration
Z-38	Peru	Tumbes	40% * ^	Oil	Exploration
WA-482-P	Australia	Northern Carnarvon	50%	Oil	Exploration
EPP46	Australia	Ceduna Sub-basin	100% *	Oil & Gas	Exploration
WA-314-P	Australia	Browse	100% *	Oil	Exploration

* Denotes Karoon's operatorship of the permit/block.

^ During January 2018, the Group entered into a farm-out agreement with Tullow Peru Limited to reduce its Block Z-38 equity interest to 40%, subject to conditions including regulatory approvals that are still outstanding as at the date of this Annual Report.

** During the financial year, exploration Block S-M-1166 Santos Basin, Brazil was requested to be relinquished and Karoon is currently waiting for the decision from the ANP.

Resource Summary

Management Assessment of Contingent and Prospective Resources

Net Contingent Resource Volumes (mmbbls)

Block	Country	Basin	Equity Interest	Type	1C	2C	3C
S-M-1037, S-M-1102 (Neon)	Brazil	Santos	100%	Oil	30	55	92
S-M-1101, S-M-1165 (Goiá)	Brazil	Santos	100%	Oil	16	27	46
Total					46	82	138

Net Unrisked Prospective Resource Volumes (mmbbls)

Block/Permit	Country	Basin	Equity Interest	Type	Low	Best	High
Z-38	Peru	Tumbes	40%	Oil	223	549	1,350
WA-482-P	Australia	Northern Carnarvon	50%	Oil	445	1,398	3,727
Total					668	1,947	5,077

The Neon and Goiá contingent resource volume estimates were assessed by Karoon Gas Australia Ltd's Engineering Manager, Mr Lino Barro and are based on seismic survey data, geological and engineering well data and other regional geological and engineering information. They are prepared on a probabilistic basis in accordance with the Petroleum Resources Management System approved 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 resources are categorised as contingent because further evaluation is required to confirm commerciality.

The contingent and prospective resource volume estimates presented were disclosed in the 8 May 2018 ASX announcement 'Resources Update'. Karoon is not aware of any new information or data that materially affects these resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

Prospective Resources Cautionary Statement

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.

Forward-looking Statements

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

Investors are cautioned not to place undue reliance on forward-looking statements as actual outcomes may differ materially from forward-looking statements. Any forward-looking statements, opinions and estimates provided in this report necessarily involve uncertainties, assumptions, contingencies and other factors, and unknown risks may arise, many of which are outside the control of Karoon. Such statements may cause the actual results or performance of Karoon to be materially different from any future results or performance expressed or implied by such forward-looking statements. Forward-looking statements including, without limitation, guidance on future plans, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Such forward-looking statements speak only as of the date of this Annual Report.

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

Strengths and Risks

Strengths

- Extensive petroleum industry and management experience.
- Significant acreage position in proven and prospective petroleum systems.
- Globally diversified portfolio of prospects.
- Proven track record of managing equity interests to fund exploration and appraisal work programs.
- Proven track record of drilling success with a 62% exploration and appraisal drilling success rate over the life of the Company.
- Track record of successfully operating 2 exploration and appraisal drilling campaigns in Brazil, drilling a total of 6 wells plus 2 side-tracks, with a Total Recordable Incident Rate ('TRIR') of less than 1 per 200,000 man hours.
- Proven track record of monetising exploration and appraisal assets.
- Application of leading seismic techniques and leading edge exploration and analysis technology.
- Ability to attract and retain highly qualified and experienced personnel in preparation for transition into a production company.
- Demonstrated ability to create and develop strategic partnerships with industry participants.
- Robust balance sheet to fund organic and non-organic growth opportunities.

Specific Risks

- Petroleum exploration and evaluation rely on the interpretation of complex and uncertain data, which might not lead to a successful outcome.
- Operating risks, such as adverse weather conditions, mechanical failures, equipment and personnel availability and permitting delays, can have adverse financial implications.
- Insurance coverage may be insufficient to cover all risks associated with oil and gas exploration and evaluation.
- Volatile market conditions for oil and gas 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 discussions and processes are 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.

Santos Basin, Brazil

Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1537

During March 2008, Karoon was awarded 100% participation in 5 offshore exploration blocks in the Santos Basin, located approximately 200 km off the coast of Santa Catarina in Sao Paulo state waters 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.

Since 2013, Karoon has successfully operated 2 drilling campaigns making 3 oil discoveries: Neon (Echidna), Goiá (Kangaroo) and Bilby. A total of 6 exploration and appraisal wells were drilled across the 2 campaigns, including 2 side-tracks, with a TRIR of less than 1 per 200,000 man hours. Production tests in the Echidna-1 and Kangaroo-2 well locations have proven deliverability from both light oil discoveries.

Upon completion of the pre-FEED phase for the Neon and Goiá light oil discoveries, during July 2017 the Board approved a development concept for the Neon discovery, and FEED commenced. As part of FEED, a formal process to request tenders for a turnkey development solution was launched.

Following the commencement of FEED during the March quarter 2018 Karoon sought ANP approval to close the discovery appraisal phase removing any further appraisal phase commitments (totalling $364 million). Upon receiving the approval, the RFAD for the Blocks was submitted to the ANP.

Alongside the RFAD, Karoon also submitted a Declaration of Commerciality ('DoC') for the Neon (Echidna), Goiá (Kangaroo) light oil discoveries which has been accepted by the ANP.

As part of this process, and according to local convention, the Echidna and Kangaroo light oil discoveries were renamed with two corresponding local sea life names, as each discovery straddles two blocks. Echidna was renamed to Neon and Neon Sul, which after annexation process is named as 'Neon' and Kangaroo was renamed to Goiá and Goiá Sul, which is named as 'Goiá'. In addition, Block S-M-1166 (including the Bilby oil discovery) was requested to be relinquished and two distinct areas encompassing the Neon and Goiá light oil discoveries retained, including some near field prospective resource opportunities.

The development strategy for the Blocks, along with the detailed development plan for Neon is expected to be submitted during the 2019 financial year. The development strategy will outline a two stage plan for development, sequencing the two discoveries.

The first phase of the development plans for the Neon and Goiá discoveries are focused on the development of Neon due to the lower reservoir complexity and good productivity. Future allocation of any material capital expenditure to Goiá will be contingent upon the successful development of Neon and meeting a satisfactory economic return on investment.

Following the reassessment of the Goiá 2C contingent resource during the financial year to 27 mmbbls and management review for the timing of a possible Goiá development, the decision was taken to fully impair the carrying value of the Goiá area of interest via a non-cash impairment as at 30 June 2018. The non-cash impairment is an accounting adjustment relating to historical book value, resulting from the Group's review of non-current assets as at 30 June 2018.

It should be noted that the capitalised exploration and evaluation expenditure was impaired, it was not written-off. Therefore, the capitalised exploration and evaluation expenditure that has suffered impairment will be tested for possible reversal of the impairment loss going forward.

Goiá still forms part of the broader southern Santos Basin strategy. The Group's primary focus, however, is on developing the Neon light oil discovery. A future development of the Goiá light oil discovery would be largely dependent on a successful development of the Neon light oil discovery and associated economics.

Karoon has a highly strategic asset base in Brazil, combining significant resources and potential synergies, which provide robust options for growth over coming years as market conditions support.

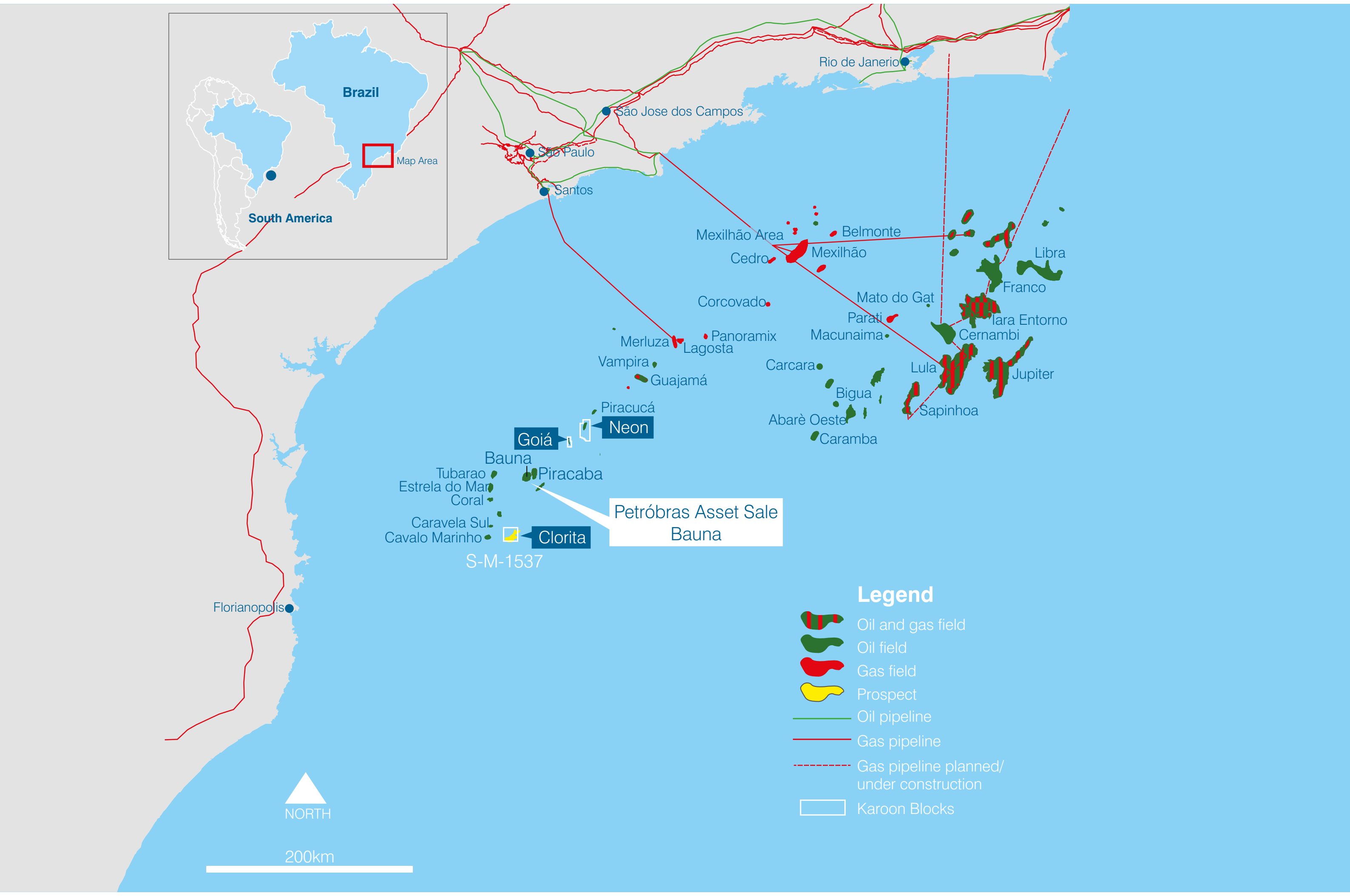
Karoon remains in discussions with a number of parties in relation to partnering and executing on Karoon's broader Southern Santos Basin growth strategy. An important step in the process is to bring in a partner to join the project as part of the Neon Final Investment Decision ('FID') process. These discussions are ongoing and results will be made available when ready.

Acquisition of New Exploration Acreage Broadens Strategic Footprint

Karoon was successful in securing an additional prospective offshore Santos Basin exploration Block S-M-1537 during Bid Round 14, awarded during September 2017. The block lies in Santa Catarina state waters, to the south of Rio de Janeiro, Brazil and covers 171 sq km with a water depth of approximately 400 metres.

Key Statistics

Blocks:	S-M-1037, S-M-1101, S-M-1102, S-M-1165	S-M-1537
Equity Interest:	100%	100%
Operator:	Karoon	Karoon
Gross Acreage:	175 sq km	171 sq km
Water Depth:	400 metres (average)	400 metres
Type:	Oil	Oil
Status:	Development and production phase	Exploration phase



The acquisition is part of a broader southern Santos Basin strategy, whereby Karoon utilised its existing knowledge base of the Santos Basin to identify interesting opportunities. Karoon has a significant competitive advantage in the evaluation of new opportunities in the southern part of the Santos Basin, gained from over a decade of technical and operational experience in the area.

Karoon considers that this acreage has significant potential to further expand the existing contingent and prospective resource portfolio in Brazil, building on a Santos Basin potential production hub concept from which Karoon would benefit from operational and logistical synergies.

The block lies in an existing oil and gas producing province approximately 100 kilometres south of Karoon's existing Santos Basin Blocks. The block's main prospect, Clorita, has been mapped to contain reservoirs comprising Oligocene turbidite sands with high porosity and permeability as seen in the producing Baúna and Piracaba oil fields and has the potential for hundreds of millions of barrels of oil. Seismic analysis shows encouraging Amplitude versus Offset ('AVO') anomalies supportive of the presence of trapped oil. More geoscience work is required to define the target size and risk ahead of future operational decisions.

Forward Work Program

Based on the robust production test results and lower reservoir complexity, the Neon light oil discovery was prioritised for further development planning. Following the positive results from the pre-FEED work including reservoir modelling, production scenario analysis, well construction feasibility studies and development optimisation analysis, the decision was made during the financial year to progress Neon to FEED.

The FEED work program once complete, will allow the Board of Directors to make a FID and finalise any development timing.

The proposed development concept consists of a leased floating production, storage and off-loading facility with 2 extended horizontal production wells and 1 gas injection well.

Karoon's intention is to contract an Engineering Procurement Construction Installation work package for the Neon development. Karoon is working with the parties involved in the tender process to optimise their proposals.

Any FID will follow completion of development planning and the ANP approvals process.

An additional near-field prospect, Joey has been identified in close proximity to Goiá. This prospect is in a favourable location and may provide a target for later drilling as a potential low-cost resource addition.

The exploration phase for Block S-M-1537 is seven years. The minimum work program consists of seismic acquisition and geological studies.

Equity Interest

Equity interest of Karoon in Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1537 is:

Karoon Petróleo & Gas Ltda. (Operator)	100%

Tumbes Basin, Peru

Tumbes Basin Block Z-38

During January 2008, Karoon signed a farm-in agreement to acquire a 20% participating equity interest in offshore Block Z-38, located in the Tumbes Basin, 10 km off the northwest coast of Peru. The block covers an area of 4,750 sq km. Karoon was approved as Operator during October 2009 and subsequently increased its equity interest to 75%, subject to completion of farm-in obligations with Pitkin Petroleum.

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 1.7 billion barrels of oil to date.

During January 2018, Karoon successfully completed the farm-out of a 35% equity interest to Tullow Peru Limited, a subsidiary of Tullow. The farm-out remains subject to the satisfaction of certain licencing conditions and regulatory approvals. Karoon is working with the regulators and Tullow to obtain the relevant regulatory approvals for its entry into the block.

Pursuant to the farm-out agreement, Tullow will fund 43.75% of the cost of the first exploration well, capped at a total well cost of US$27.5 million (at 100%), beyond which Tullow will pay its 35% share. Tullow will also pay US$2 million in back costs upon completion, along with a further US$7 million payable upon declaration of a commercial discovery and submission of a development plan to Perupetro (the Peruvian oil and gas reulator).

Following completion of the farm-out well, Tullow will have an option to assume operatorship of the block.

Historically, there has been little exploration in the offshore portion of the Talara or Tumbes Basins, particularly in water depths over 120 metres. Karoon has conducted several geological studies across the block including a drop core survey recovering sea floor samples to surface, the acquisition of a 1,500 sq km 3D marine seismic survey (2011), and quantitative inversion analysis of seismic data.

Hydrocarbons recovered from seabed drop core surveys within the block contain biomarkers which match the marine source rock (Oligocene Heath Formation) for the Tumbes basin edge fields and the giant onshore oil fields of the Talara Basin. This evidence suggests the prospects in Karoon's block are accessing these same source rocks.

Studies to date characterise the geological setting as an active Oligocene-Miocene pull-apart system which is similar in dimension, process and age to the prolific San Joaquin Basin, California which has produced over 12 billion barrels of oil and 3.5 TCF gas to date. The Oligocene Heath Formation is similar in setting and characteristics to the San Joaquin Miocene Monterey Formation source rock.

Karoon's prospects lie in the undrilled Block Z-38 basin centre, approximately 40 km from the Tumbes Basin edge fields. As in the San Joaquin Basin, it is believed reservoir quality will improve with an increase in sediment transport distance. Recent quantitative interpretation of seismic data is encouraging, and numerous large prospects have been identified. Amplitude anomalies observed support the potential presence of trapped hydrocarbons.

During September 2018, Block Z-38 came out of force majeure. The joint operation has 22 months in which to fulfil its work commitments.

Geological and Geophysical Work Program

The advanced geophysical and AVO studies completed during the financial year using existing 3D seismic data identified several additional younger and shallower prospects in the La Cruz Formation and Mal Pelo Formation levels. The result of this analysis is encouraging and indicates a clear distinction between water, oil and gas signatures in the shallower reservoirs.

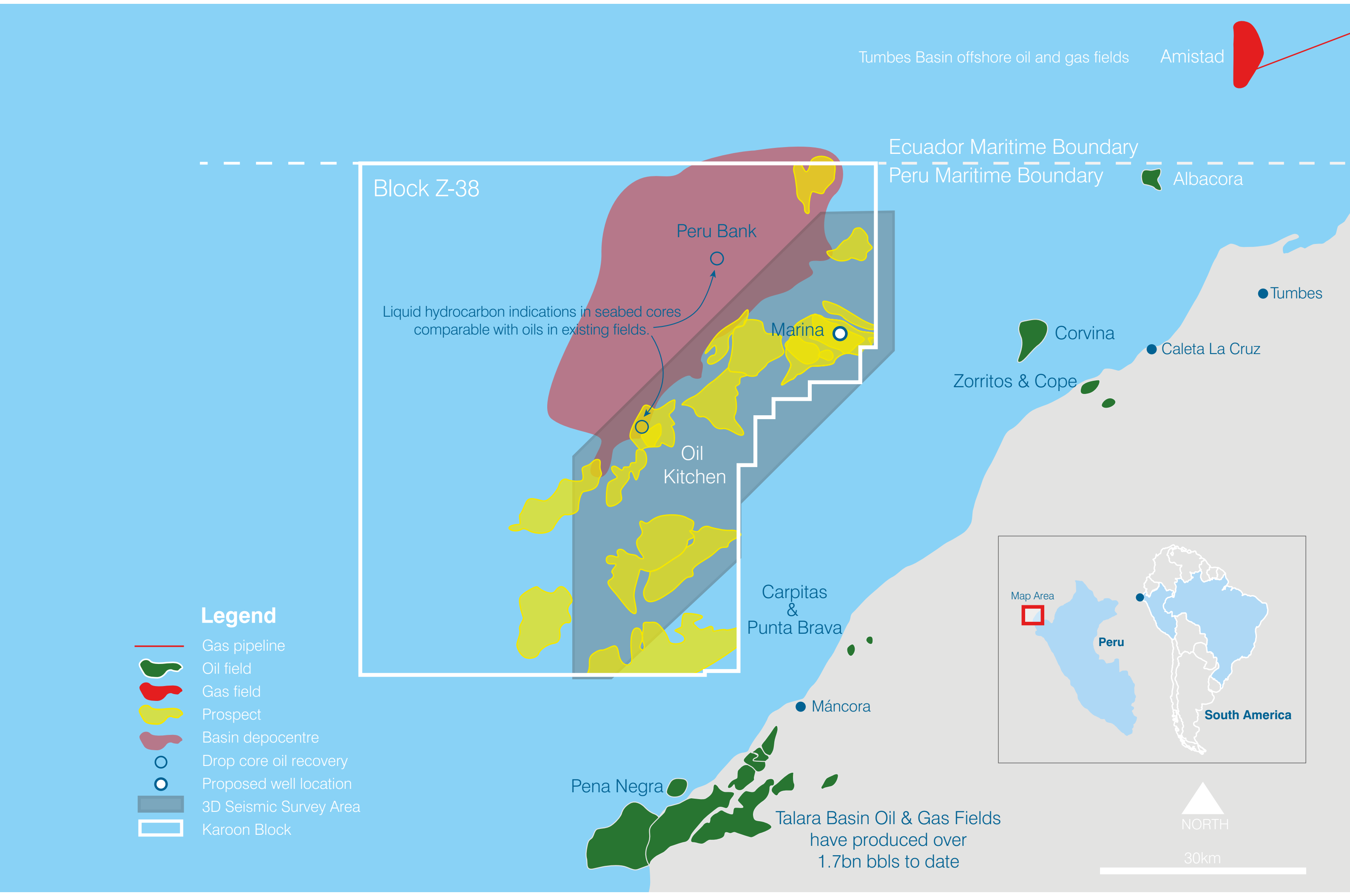
These new shallower prospects have good quality seismic attributes, some aligning to depth contours which may indicate oil-water contacts.

Following completion of the above studies along with detailed geological interpretation of regional wells and fields, seismic interpretation and geophysical analysis the prospective resources for the block were updated.

The total net prospective resource volume best estimate is 549 mmbbls (net to Karoon, at completion of farm-out).

Key Statistics

Block:	Z-38
Equity Interest:	40%*
Operator:	Karoon
Gross Acreage:	4,750 sq km
Water Depth:	300 to 3,000 metres
Type:	Oil
Status:	Exploration phase



Forward Work Program

The current plan is to drill at least 1 exploration well in the initial drilling campaign. Approvals and long lead items are in place for the drilling program and the preliminary well location (Marina Prospect) has been selected.

The Marina-1 exploration well location was reviewed and the well path amended to incorporate the additional younger reservoir targets identified, La Cruz Formation and Mal Pelo Formation into the well plan, along with the Tumbes Formation.

The Marina-1 exploration well is an exciting high impact exploration target, with a gross prospective best estimate resource of 256 mmbbls (net 102 mmbbls to Karoon).

Equity Interests

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

KEI (Peru Z38) Pty Ltd, Sucursal del Peru (Operator)	40%*
Tullow Peru Limited	35%
Pitkin Petroleum Peru Z-38 SRL	25%

* Tullow Peru Limited's equity interest is subject to satisfying certain farm-out conditions including regulatory approvals that are still outstanding as at the date of this Annual Report. Karoon's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are also still to be completed.

Northern Carnarvon Basin, Australia

Northern Carnarvon Basin Exploration Permit WA-482-P

During September 2012, Karoon acquired a 100% equity interest in exploration permit WA-482-P in the Northern Carnarvon Basin. The permit is located approximately 300 km offshore, from the Western Australian Coast in water depths ranging from 400 to 2,000 metres. The exploration permit covers a large area of 13,539 sq km.

Karoon farmed out a 50% equity interest and operatorship in WA-482-P to Apache Northwest Pty Ltd, now part of Quadrant Energy Australia Limited, during May 2014. Following the farm-out, the Levitt-1 exploration well was drilled but discovered water bearing reservoirs.

While the exploration permit is in a relatively underexplored part of the Basin, the Carnarvon Basin is one of Australia's largest and most prolific oil and gas regions. The permit covers a large area and a successful exploration result could open new exploration plays in the Basin.

Following the acquisition of the Capreolus 3D marine seismic survey data the joint operation now has a high quality 3D data set covering approximately 82% of the permit area. The seismic interpretation work was completed during the financial year, which allowed Karoon to better define, risk and rank 10 significant prospects.

During the financial year, Karoon also announced updated prospective resources for the permit. The net unrisked prospective resource volume best estimate was assessed to be 1,398 mmbbls.

Karoon is encouraged by the recent nearby Dorado oil discovery. The Triassic source rocks that underlie the Dorado, Phoenix and Roc oil and gas discoveries are also interpreted beneath WA-482-P. Karoon is working to understand the implications of Dorado-1 on the prospectivity of WA-482-P.

Forward Work Program

The Year 6 exploration well commitment was replaced with 400 sq km full waveform inversion pre-stack depth migration seismic reprocessing, Quantitative Interpretation/Inversion studies on the reprocessed seismic, fault seal analysis and geological and geophysical ('G&G') studies including seismic interpretation.

Subsequent to the end of the financial year, the Operator received regulatory approval for a 6 month suspension and extension of the Year 6 work program. The current Year 6 work program now expires during the March quarter 2019.

Karoon will assess its forward plans for the exploration permit once the Year 6 work program results have been received from the Operator and evaluated.

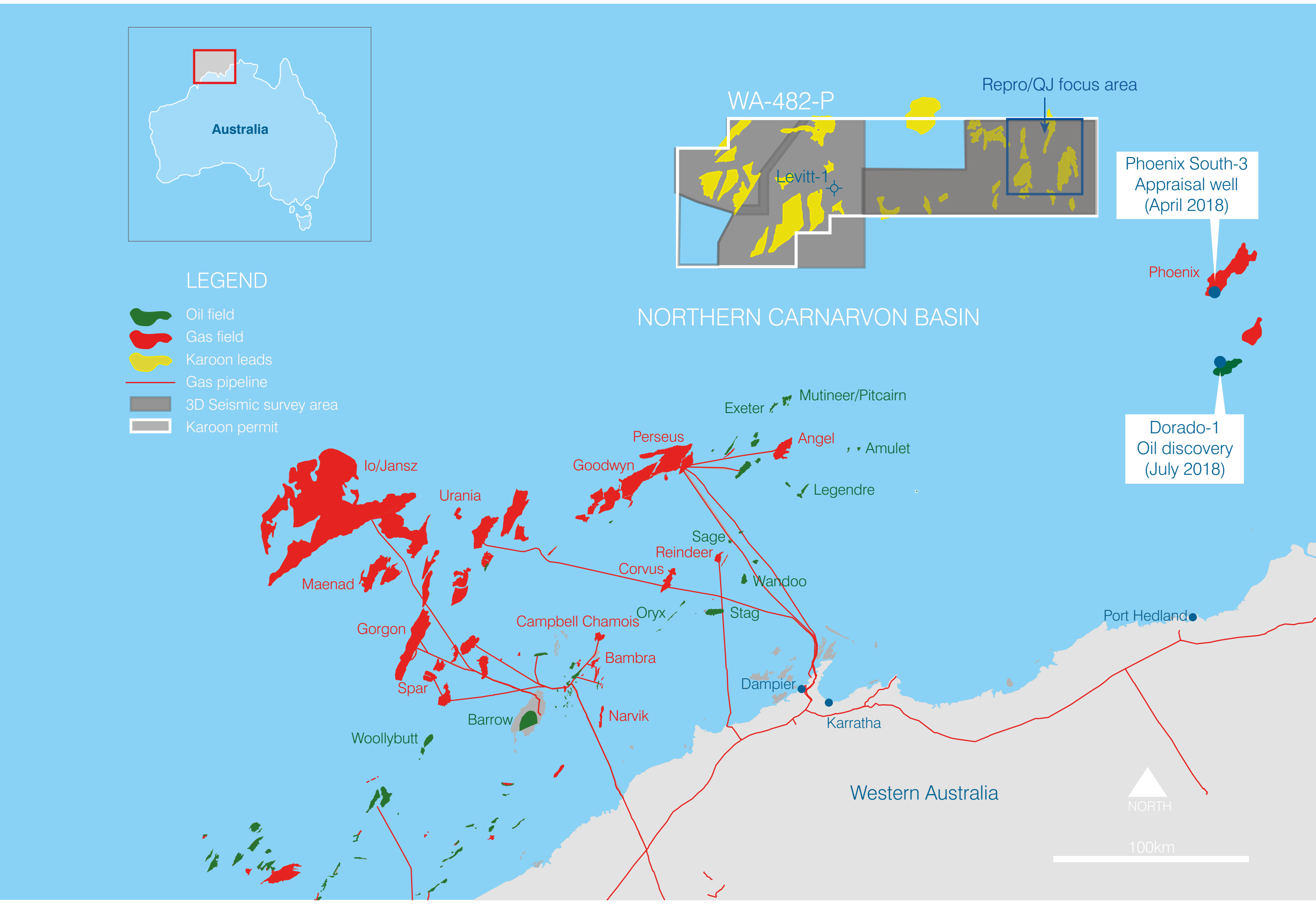
Equity Interests

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

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

Key Statistics

Permit:	WA-482-P
Equity Interest:	50%
Operator:	Quadrant Northwest Pty Ltd (50% equity interest)
Gross Acreage:	13,539 sq km
Water Depth:	400 to 2,000 metres
Type:	Oil
Status:	Exploration phase



Australia
WA-482-P
Repro/QJ focus area
Levitt-1
Phoenix South-3
Appraisal well
(April 2018)
Phoenix
LEGEND
Oil field
Gas field
Karoon leads
Gas pipeline
3D Seismic survey area
Karoon permit
NORTHERN CARNARVON BASIN
Dorado-1
Oil discovery
(July 2018)
Exeter
Mutineer/Pitcairn
Perseus
Angel
Amulet
Io/Jansz
Goodwyn
Legendre
Urania
Sage
Reindeer
Corvus
Wandoo
Maenad
Oryx
Stag
Port Hedland
Gorgon
Campbell Chamois
Bambra
Spar
Dampier
Barrow
Narvik
Karratha
Woollybutt
Western Australia
NORTH
100km

Ceduna Sub-basin, Great Australian Bight, Australia

Ceduna Sub-basin Exploration Permit EPP46

Karoon was awarded exploration permit EPP46 during October 2016. The permit covers 17,649 sq km in one of Australia's most prospective frontier oil exploration provinces, the Ceduna Sub-basin, offshore South Australia. The geology, potential target size and surrounding exploration activity make it an exciting high impact opportunity broadening Karoon's exploration portfolio.

The Ceduna Sub-basin is part of the Great Australian Bight ('GAB') and hosts one of the world's last underexplored Cretaceous basins. The Sub-basin is the major depocentre of the GAB and hosts a massive Cretaceous delta system, analogous to some of the great petroleum provinces around the world.

Historical geoscience studies, seismic surveys and exploration drilling all support the presence of a working petroleum system over the Ceduna Sub-basin, evidenced by organic rich Turonian source rocks recovered from samples off the seafloor, previous well results demonstrating sandstone reservoirs, historical 2D seismic demonstrating structure and amplitude support, and known natural oil and gas seafloor seeps.

Historically, 4 exploration wells have been drilled across the Ceduna Sub-basin (12 across the GAB) based on 2D seismic data, predominantly targeting the shallower, flanking depocentres in shallow waters near the Sub-basin margin. The sedimentary succession thickens into the central to outer areas of the Sub-basin, which remain largely untested, and it is these areas which are the focus for the current exploration programs.

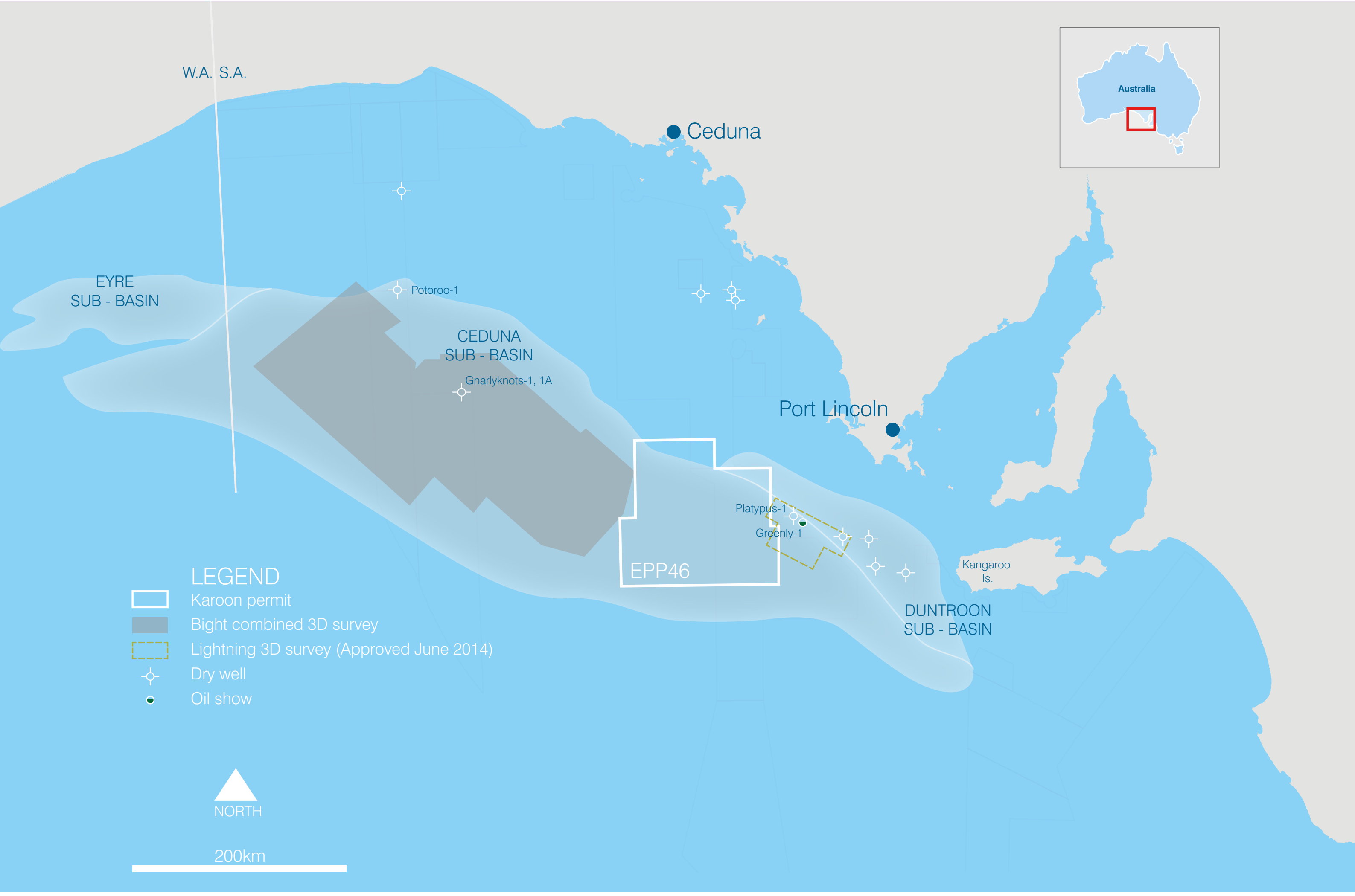
Since 2011, GAB exploration permits have been held by Murphy Oil, Santos, Chevron, BP and Equinor (formerly Statoil) with over 42,000 sq km of 3D seismic being acquired during that time. During June 2017, BP exited the GAB with Equinor becoming Operator and 100% owner of 2 exploration permits at that time. Equinor has re-affirmed its commitment to drilling the Stromlo-1 exploration well prior to the end of the initial permit term, which falls during April 2020.

Should the Stromlo-1 exploration well successfully establish a viable petroleum system in the GAB this would materially de-risk the prospectivity of the entire Ceduna Sub-basin and prove transformational for EPP46.

Drilling of Stromlo-1 remains subject to regulatory approvals. To progress with its plans Equinor must produce an Environment Plan ('EP') which is acceptable to the National Offshore Petroleum Safety and Environmental Management Authority ('NOPSEMA'). EPs must identify all impacts and risks associated with the activity and demonstrate these risks have been reduced to as low as reasonably practicable. EPs must also include an Oil Pollution Emergence Plan and demonstrate appropriate consultation with stakeholders.

Key Statistics

Permit:	EPP46
Equity Interest:	100%
Operator:	Karoon
Gross Acreage:	17,649 sq km
Water Depth:	1,300 metres (average)
Type:	Oil and gas
Status:	Exploration phase



During the financial year, oil and gas exploration of the GAB was the subject of a Commonwealth Senate enquiry. Whilst the enquiry concluded with no change to the existing regulatory framework, the process highlighted the challenges of undertaking exploration in the GAB and the concerns of other stakeholders whose interests must also be considered by NOPSEMA when assessing EPs.

Forward Work Program

Karoon's initial 3 year firm commitment term consists of the acquisition or licencing of 2D and 3D marine seismic surveys and G&G studies. This includes obtaining 5,000 km of 2D and 2,500 sq km of 3D marine seismic data, processed to pre-stack depth migration, with 550 km of 2D seismic reprocessing and gravity and magnetics surveys to be acquired simultaneously. It is likely Karoon will participate in a multi-client marine seismic acquisition, where operations will be undertaken by an expert third party contractor allowing Karoon to licence the data.

Karoon has engaged with potential contractors, regional communities and other stakeholders in preparation for the marine seismic acquisition. However, any new marine seismic acquisition within EPP46 will require an EP which is acceptable to NOPSEMA and the timing is therefore dependent upon this approval.

Equity Interest

Equity interest of Karoon in EPP46 is:

Karoon Gas Browse Basin Pty Ltd (Operator)	100%

Browse Basin, Australia

Browse Basin Exploration Permit WA-314-P

From 2004 to 2014, the Browse Basin formed the cornerstone of Karoon's exploration efforts. Karoon farmed out a 60% equity interest (including operatorship) in its original exploration permits to ConocoPhillips during 2006, with the joint operation making the multi-TCF Poseidon gas discovery during 2009. During June 2014, Karoon sold its 40% equity interest in Poseidon (exploration permits WA-315-P and WA-398-P) for up to US$800 million. As at the end of the financial year, a contingent milestone consideration of up to US$200 million remained outstanding.

Karoon has retained a 100% equity interest in exploration permit WA-314-P (acquired during 2004), located approximately 350 km offshore from the northern part of the Western Australian coast.

Forward Work Program

Over the past 24 months Karoon has focused the work program on the Elvie Prospect, a significant target interpreted to be oil prone. The work involved the acquisition, processing and interpretation of the Kraken 3D marine seismic survey data along with thermal maturation modelling.

During the financial year, interpretation of the reprocessed seismic data was completed, which provided better definition and re-risking of the Elvie Prospect. The results of this work determined the risking on the Elvie Prospect was too high to pursue any further exploration work on the target.

Further analysis of reprocessed 2D seismic data over the permit, however, has highlighted Montara Formation level prospectivity. Preparations have commenced to engage potential interested parties in the permit.

A decision on whether to proceed into the next period will be made during the next few months. The current 3 year exploration period expires during October 2018.

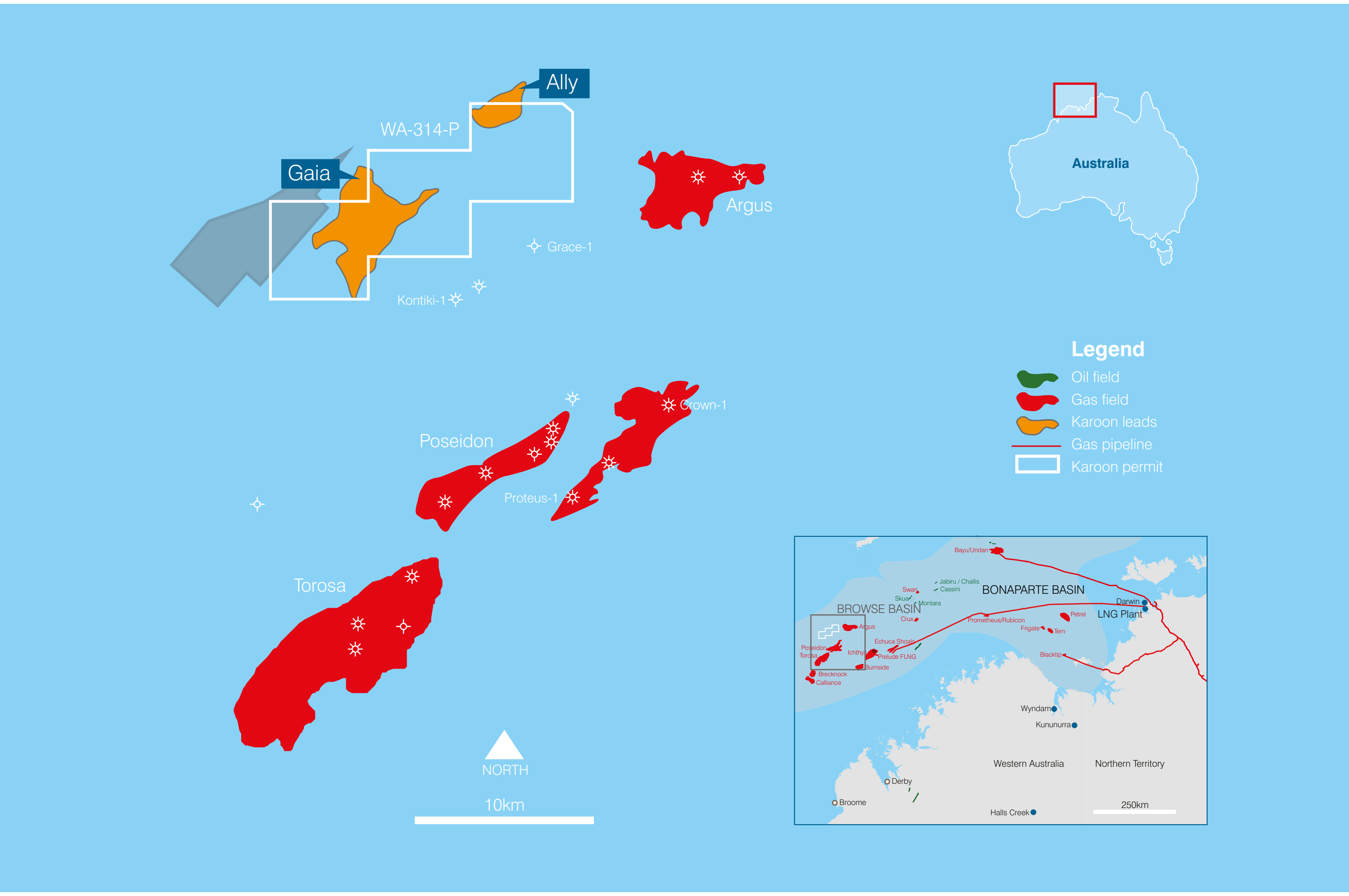
Equity Interest

Equity interest of Karoon in WA-314-P is:

Karoon Gas Browse Basin Pty Ltd (Operator)	100%

Key Statistics

Permit:	WA-314-P
Equity Interest:	100%
Operator:	Karoon
Gross Acreage:	998 sq km
Water Depth:	500 metres (average)
Type:	Oil
Status:	Exploration phase


Ally
WA-314-P
Gaia
Argus
Grace-1
Kontiki-1
Australia
Legend
Oil field
Gas field
Karoon leads
Gas pipeline
Karoon permit
Crown-1
Poseidon
Proteus-1
Torosa
NORTH
10km
Bayu/Undan
Jabiru / Challis
Cassini
Swan
Skua
Montara
BONAPARTE BASIN
BROWSE BASIN
Darwin
LNG Plant
Crux
Argus
Prometheus/Rubicon
Petrel
Frigate
Tern
Echuca Shoals
Poseidon
Torosa
Ichthys
Prelude FLNG
Burnside
Blacktip
Brecknock
Calliance
Wyndam
Kununurra
Western Australia
Northern Territory
Derby
Broome
Halls Creek
250km

Karoon has demonstrated its ongoing commitment to sustainability through the application of environmental, social and governance principles in decision making at all levels of the organisation.

Highlights of the financial year included:

- formal review and approval of Karoon's new Operating Management System ('OMS') by the Risk and Governance Committee;
- the ongoing commitment to social and environmental projects in South America and Australia;
- internal environmental education programs to inform employees and provide tools to help them reduce their carbon footprint; and
- applying Karoon's strategic planning and risk management principles and practices to the identification and investigation of potential assets for acquisition, as well as the development planning for Neon.

A summary of Karoon's sustainability approach and achievements in the key areas of Health, Safety, Security and Environment ('HSSE'), Respect for Communities, Climate Change, People and Culture is provided below.

Philosophy and Management

Karoon's approach to sustainability and ESG principles is developed and implemented through its broader risk management framework, overseen by the Risk and Governance Committee of the Board of Directors.

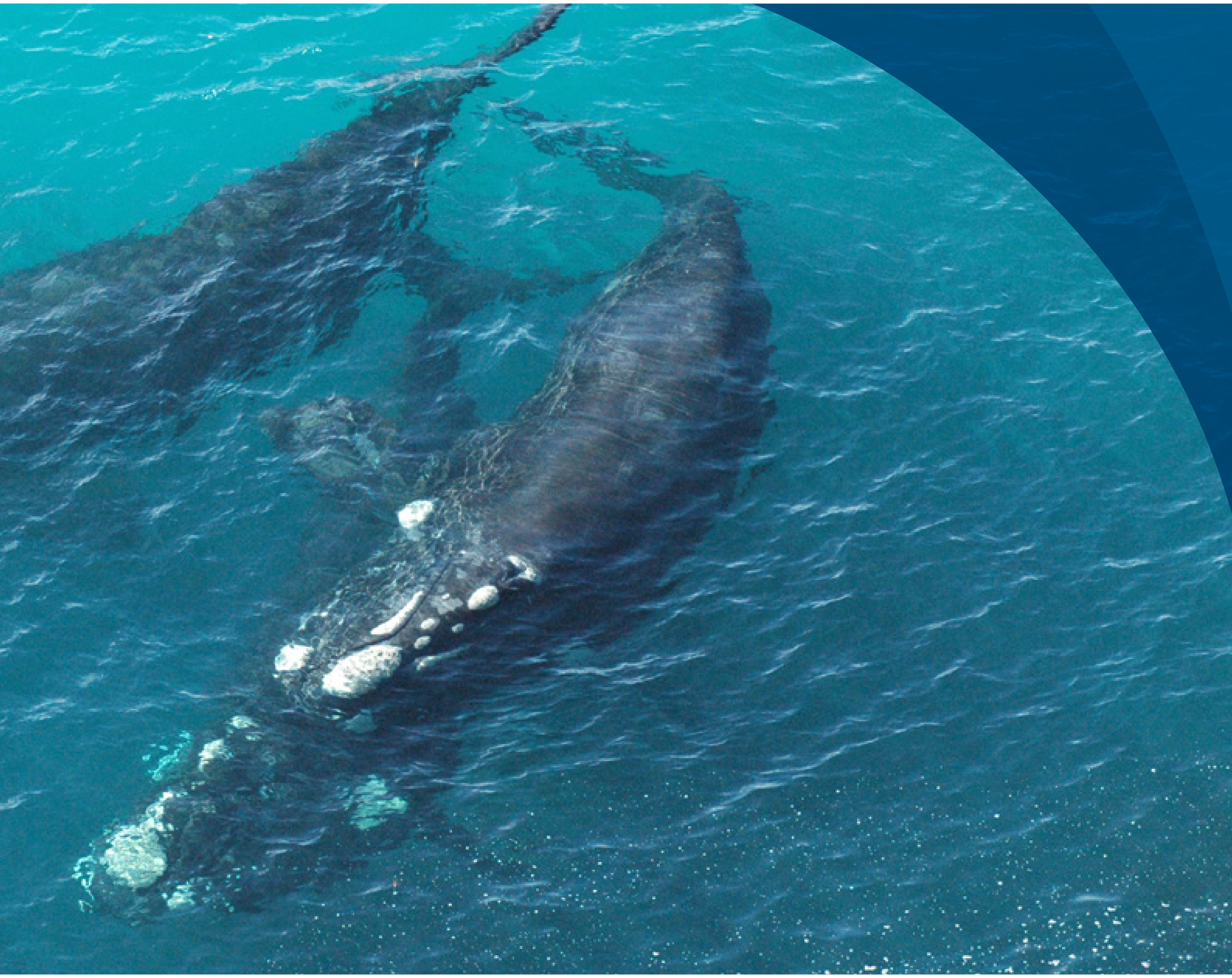
Karoon's Risk Management Team maintains a Corporate Risk Register, which assists strategic decision making and helps focus Karoon's sustainability efforts. Karoon updates its Corporate Risk Register regularly to ensure its risk mitigation strategies are appropriate. The Risk and Governance Committee reviews the register at least annually to ensure risks have been assessed, and reflect the Board of Directors' risk appetite and adequate controls have been identified.

"Karoon's first priority is always the health and safety of its people and those in the local communities where it operates."

Health, Safety, Security and Environment

Karoon's first priority is always the health and safety of its people and those in the local communities where it operates. The HSSE team has actively engaged all staff throughout the financial year to ensure this message is understood. Education and training programs have included both internal and external workshops and specific programs such as First Aid training.

As there were no drilling programs during the 2018 financial year, the HSSE metrics for the financial year were all zero.



Respect for Communities

Karoon recognises the importance of operating responsibly to protect the health and safety of its people and those in the communities where it operates. For several years, Karoon's social and environmental team has been actively working to ensure local communities have been kept well informed of Karoon's activities and are provided with opportunities to advance education and health care in communities where it is most needed.

Karoon's primary focus during the financial year was Peru, as preparations continue for the planned Peru drilling campaign. Karoon's community engagement extends to a number of different social and environmental programs, which it is proud to support. These programs have been successfully implemented over a number of years and are ongoing. They have provided tangible long-term benefits in healthcare, education, environmental stewardship and economic independence.

During the financial year, Karoon continued to support communities through:

- the Mutumbi Project providing business skills and assistance to women establishing an artisan jewellery business in the Tumbes region in Peru;
- Tumpis Project providing tertiary education scholarships and support to students in Peru;
- sponsorship of community cultural events such as 'Fisherman's Day' celebrations in Peru;
- donations of school materials, food supplies, cleaning products and hygiene products to children's shelters and care centres in Brazil;
- university sponsorships in both Brazil and Australia; and
- sponsorship of the Great Australian Bight Right Whale Study in Australia.

The financial year also saw Karoon's first participation in the 'Junior Achievement' ('JA') volunteer program. The JA program was first established in the US during 1919 and now operates in more than 120 countries worldwide. The program aims to foster an entrepreneurial spirit in young people by connecting industry professionals with local schools. Eight Karoon volunteers with qualifications and expertise in a range of areas, from drilling, finance and HSSE, visited 3 different schools speaking with more than 100 students. The volunteers participated in the 'Connected with Tomorrow' JA program using guided discussions, written exercises and small group exercises to help students reflect on their future potential and prepare for entering the workforce.

Karoon is proud to be able to sponsor these and other programs. Further details of Karoon's social and environmental projects in Brazil and Peru are available at the Karoon Brazil website **www.karoon.com.br**. Details of the GABRWS can be found at **www.gabrightwhales.com**.

Climate Change

Karoon's climate change reporting is aligned to the four core elements of disclosure recommended in the Task Force on Climate-related Financial Disclosures Report, namely governance, strategy, risk management, and metrics and targets.

Governance

The highest level of responsibility for Climate Change within Karoon is delegated by the Board of Directors to the Risk and Governance Committee. The Risk and Governance Committee is responsible for a range of risk and governance matters, including identifying material exposures to economic, environmental and social sustainability risks. This Committee is supported by the Risk Management Team, which involves senior management from different areas of the organisation, including the Sustainability Manager.

Strategy

Karoon views energy as an imperative for economic and social development but also acknowledges that an energy transition to low carbon fuels and renewable energy sources is underway to reduce the impacts of climate change. As an oil and gas company, successfully identifying and managing these challenges is paramount and necessary for the long-term success and sustainability of Karoon's business.

Karoon is committed to investing in world-class assets, which it assesses through a rigorous due diligence process. This process incorporates an awareness of the future low carbon economy and how to manage resources to join this economy in the short to medium-term. While Karoon understands the increasing need for a transitional fuel that will be less emission intensive than fuels such as coal and oil, a final asset purchase will also be influenced by market availability.

Risk Management

High level climate-related risks are identified and assessed using Karoon's Corporate Risk Matrix, which includes several measures of consequence relating to environmental, safety, financial and reputational impacts.

More detailed operational risks including those relating to operational climate change impacts, are assessed using the Karoon HSSE Risk Matrix, and each operated activity risk must be addressed and reduced to an acceptable level of risk before operations commence.

Metrics and Targets

Karoon's Scope 1 emissions for the 2018 financial year were 45 tonnes of carbon dioxide equivalent and Scope 2 were 182 tonnes of carbon dioxide equivalent. Scope 1 emissions were from transport fuels used by fleet cars, while Scope 2 emissions were from electricity consumed at office locations. Karoon did not have any emissions from exploration activities during the 2018 financial year.

Karoon reduces its corporate emissions through low carbon energy purchases to its Australian offices, using GreenPower for a portion of electricity.

Karoon will continue to monitor its emissions. Karoon's administration emissions have decreased by 10% since 2014/15, however, given the scale of these emissions compared to exploration/operation emissions, Karoon does not believe setting a target over administration activities alone is sufficiently meaningful. Karoon will establish an appropriate basis for an emissions target once it commences significant exploration and/or other operational activities, which may impact the environment.

People and Culture

Staff Engagement and Education

Karoon's Social and HSSE teams, based in South America, actively sought to educate and encourage Karoon employees to consider ways to change their behaviour, both in the workplace and at home, to be more environmentally sustainable.

Members of the Karoon Sustainability Committee gave presentations to employees in both Australia and South America for World Environment Day, which Karoon celebrates each year as part of Karoon Environment Week. This year, all employees were encouraged to adopt the 2018 'Beat the Plastic' theme.

Across the Group, Karoon employees were also provided with training in other areas such as the Anti-bribery and Corruption Policy and Karoon's Code of Conduct. In depth workshops were conducted as part of an on-going program in South America to provide additional training in line with Karoon's updated Human Resources policies, which cover topics ranging from Discrimination and Harassment to Computer Usage and Performance Management.

Diversity

Karoon has a robust Diversity Policy, applicable across all offices in all jurisdictions, and is committed to promoting a culture of diversity and acceptance. Karoon has been reporting regularly on gender diversity through its Corporate Governance Statement, which has consistently shown that female employees make up more than 40% of all employees across all Karoon offices and that more than 20% of senior executives are female across the Group.

"The financial year saw Karoon's first participation in the 'Junior Achievement' volunteer program."

Directors' Report

The Board of Directors submits its Directors' Report on Karoon Gas Australia Ltd (the 'Company') and its subsidiaries (the 'Group') for the financial year ended 30 June 2018 (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 3 and the maximum number of Directors is 10. Directors are elected and re-elected at annual general meetings of the Company.

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

Mr Peter Turnbull

B. Commerce, LLB, FGIA, FAICD

Independent Interim Non-Executive Chairman

Appointed Interim Chairman on 15 August 2018, previously Non-Executive Director since 6 June 2014.

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

Peter brings to the board significant legal, risk and commercial experience gained from working with boards and management to conceive, fund, structure and complete corporate transactions and to prioritise and maximise the value of organic growth strategies for shareholders.

Peter also has significant regulatory and public policy experience from prior executive roles including as a Director of the Securities & Futures Commission of Hong Kong. Currently, Peter is an Executive Committee member of several global organisations which promote good governance and is a regular contributor and speaker in Australia and overseas on corporate governance issues and is a former President and Life Member of the Governance Institute of Australia.

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

Current directorships of other listed companies include: Metallica Minerals Limited (appointed Chair on 12 December 2016) and Calix Limited, Chair since ASX listing on 20 July 2018.

Chairman of the Remuneration Committee.

Chairman of the Risk and Governance Committee.

Member of the Audit Committee and Nomination Committee.

Dr David Klingner

BSc. (Hons), PhD, FAusIMM

Independent Non-Executive Chairman

Appointed 19 December 2014, ceased to be a Director on 13 August 2018.

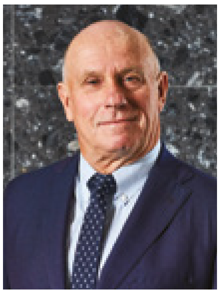
David had over a decade of Australian and international boardroom experience and worked in the natural resources industry for 50 years. David spent his career working for Rio Tinto and its affiliated companies, holding many senior executive positions including Head of Exploration, Group Executive Coal and Gold, Managing Director Kaltim Prima Coal. David's various other commercial and technical roles included Group Geologist Petroleum Exploration. Since 2004, David was an active company chairman and corporate director.

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

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

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

He was a member of the Remuneration Committee, Risk and Governance Committee.



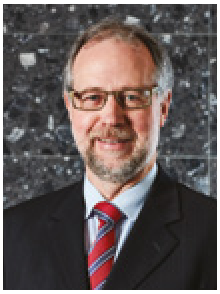
Mr Robert Hosking

Managing Director

Appointed 11 November 2003.

Robert is the founding Director of the Company and has more than 35 years of commercial experience in the management of several companies. Robert has been involved in the oil and gas industry for more than 20 years and was a founding director/shareholder of Nexus Energy Limited.

Robert also has a background of more than 18 years commercial experience in the steel industry. He jointly owned and managed businesses involved in the trans global sourcing, shipping and distribution of steel-related products, with particular expertise gained in Europe and the Asia/Pacific Rim.



Mr Mark Smith

Dip. App. Geol, Bsc. (Geology)

Executive Director and Exploration Director

Appointed 20 November 2003.

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

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

Ms Luciana Bastos de Freitas Rachid

B Chem Eng. Post Grad Degree Corporate Finance

Independent Non-Executive Director

Appointed 26 August 2016.

Luciana has over 35 years' experience in the oil and gas industry in both technical and senior leadership roles in Brazil, including 20 years in the Exploration and Production Division of Petróbras. During this time she worked in senior management roles, starting as a process engineer and completing her time in the corporate management team.

Luciana also has a number of years' experience serving on Boards in Brazil. She has represented Petróbras as Chairperson of Transportadora Brasileira Gasoduto Bolívia-Brasil SA, and Gás Brasiliano Distribuidora SA as well as a Director of Transportadora Associada de Gás, Companhia de Gás de Minas Gerais and Companhia Paranaense de Gás.

Luciana's technical experience covers a variety of project evaluation, development and management roles including Marlim Leste Asset Manager, the design of the first offshore platforms in the Campos Basin, the production, handling and processing of natural gas onshore and offshore, the coordination of the Petróbras E&P Deepwater Strategic Project and a variety of technical and economic feasibility studies on major projects including participation in the first Petróbras project finance deals.

Luciana has also held positions in the Petróbras financial team including Executive Manager of Investor Relations, Executive Manager of Financial Planning and Risk Management. In the Gas & Energy Division she served as General Manager of Marketing and Trading, Executive Manager of Corporate Affairs, Executive Manager for Logistics and Investments in Natural Gas and Chief Executive Officer of Transportadora Brasileira Gasoduto Bolivia-Brasil SA and most recently Chief Executive Officer of Transportadora Associada de Gás SA.

Member of the Nomination Committee, Risk and Governance Committee.

Mr Geoff Atkins

FIE Aust. CP Eng.

Independent Non-Executive Director

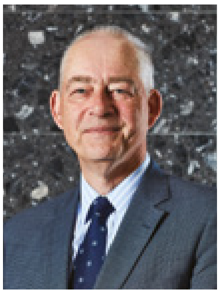
Appointed 22 February 2005.

Geoff has over 45 years' experience in investigation, planning, design, documentation and project management of numerous significant port, harbour and maritime projects. These include container terminals, LNG jetties, oil and gas wharves, heavy lift facilities, cement, coal, bauxite, iron ore and other bulk terminals, shipping logistics and naval bases.

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

Chairman of the Nomination Committee.

Member of the Audit Committee, and a Member of the Remuneration Committee from 15 August 2018.



Mr Clark Davey

B. Commerce, FTIA, MAICD

Independent Non-Executive Director

Appointed 1 October 2010.

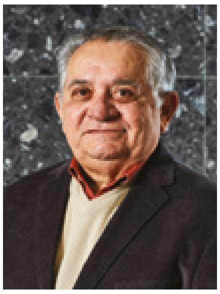
Clark is a professional independent Company Director with over 40 years of experience in the natural resources industry as a taxation and strategy advisor. Clark was a partner at Price Waterhouse and PricewaterhouseCoopers for a number of years with an oil and gas and natural resources specialty holding industry leadership roles in both firms. Clark is a member of the Taxation Institute of Australia and the Australian Institute of Company Directors.

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

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

Clark is Chairman of the Audit Committee.

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



Mr Jose Coutinho Barbosa

Bsc. (Geology), Msc. (Geophysics)

Non-Executive Director

Appointed 31 August 2011.

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

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

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

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

Company Secretary

Mr Scott Hosking

B. Commerce

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 20 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 the Company.

Meetings

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

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings		Risk and Governance Committee Meetings	
Director	A	B	A	B	A	B	A	B	A	B
Dr David Klingner	11	10	-	-	5	4	-	-	7	6
Mr Robert Hosking	11	11	-	-	-	-	-	-	-	-
Mr Mark Smith	11	10	-	-	-	-	-	-	-	-
Ms Luciana Rachid	11	11	-	-	-	-	2	2	7	7
Mr Geoff Atkins	11	11	4	4	-	-	2	2	-	-
Mr Clark Davey	11	11	4	4	5	5	2	2	7	7
Mr Peter Turnbull	11	11	4	4	5	5	2	2	7	7
Mr Jose Coutinho Barbosa	11	10	-	-	-	-	-	-	-	-

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

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

Directors' Interests in the Company's Shares, Share Options and Performance Rights

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

Director	Ordinary Shares, Fully Paid	Unlisted Share Options	Unlisted Performance Rights
Mr Robert Hosking	11,983,363	997,548	524,166
Mr Mark Smith	2,870,938	997,548	524,166
Ms Luciana Rachid	-	-	-
Mr Geoff Atkins	696,784	-	-
Mr Clark Davey	24,294	-	-
Mr Peter Turnbull	41,000	-	-
Mr Jose Coutinho Barbosa	-	-	-

Principal Activities

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

Significant Changes in State of Affairs

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

Results

The consolidated result of the Group for the financial year was a loss after tax income of $181,777,789 (2017: $81,527,513).

The loss for the financial year included:

- the full impairment of the carrying amounts of Brazil Santos Basin Blocks S-M-1101 and S-M-1165 capitalised exploration and evaluation expenditure of $140,002,177, including the Goiá (Kangaroo) light oil discovery, following the probabilistic reassessment of its contingent resources at the 2C level to 27 mmbbls during May 2018, re-assessment of its associated economics, and the primary focus on developing the Neon (Echidna) light oil discovery (2017: $21,638,168, full impairment of Brazil Santos Basin Block S-M-1166);
- the full impairment of the carrying amount of WA-314-P capitalised exploration and evaluation expenditure of $11,500,937, as active and significant exploration and evaluation activities in relation to the permit are no longer continuing at the present time;
- the partial write-off of the carrying amount of non-current capitalised exploration and evaluation expenditure associated with Block Z-38 of $5,892,079 (2017: $9,791,031, full write-off of Block 144 and Brazil Santos Basin drilling rig mobilisation costs), as the liquid mud plant was demobilised during the financial year, as more cost effective alternatives were considered whilst the block was in force majeure;

- write-down of the carrying value of inventory to net realisable value of $6,679,549 (2017: $1,326,811), predominantly resulting from potential well design specifications and number of wells being considered as part of the ongoing Neon and Goiá work and the potential future development of the Neon light oil discovery, which is distinct from inventory requirements for exploration drilling; and
- net employee benefits expense of $11,339,308 (2017: $12,651,679), which included share-based payments expense of $4,409,889 (2017: $3,797,668).

The financial year also included exploration and evaluation expenditure expensed of $5,569,500 (2017: $3,067,253) from reviewing new exploration opportunities predominantly in Australia and Brazil and $7,285,306 (2017: $4,526,430) on business development and other project activities that included internal time allocation of employees and consultants and associated office charges, geotechnical data and external advice relating to due diligence reviews on potential asset acquisitions.

Partially offsetting the loss for the financial year was net foreign currency gains of $12,993,578 (2017: $13,909,734 net foreign currency losses), interest income of $710,652 (2017: $858,356) and tax income of $2,278,808 (2017: tax income of $10,200,335) relating largely to the de-recognition of a deferred tax liability in relation to capitalised Australian exploration and evaluation expenditure that was impaired during the financial year.

The net foreign currency gains were almost entirely attributable to the appreciation in the United States dollar against the Australian dollar (from AUD1: USD0.7692 as at 30 June 2017 to AUD1:USD0.7391 as at 30 June 2018) on cash assets and security deposits held in United States dollars by the Group during the financial year.

Cash Flows

Operating activities resulted in a cash outflow for the financial year of $25,293,170 (2017: $38,257,337), predominantly for payments to suppliers and employees. Cash outflow from investing activities for the financial year was $28,215,446 (2017: $50,947,053) relating principally to the payment for exploration and evaluation expenditure in Australia, Brazil and Peru. Cash outflow from financing activities for the financial year was $64,290 related to payments for the finance lease in Brazil (2017: $738,837, share buy-back and payments for finance lease in Brazil).

The positive effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies, primarily in United States dollars, for the financial year was $12,076,432 (2017: $14,577,712).

Financial Position

At the end of June 2018, the Group had a cash and cash equivalents balance of $333,572,953 (30 June 2017: $375,069,427).

The Group's working capital, being current assets less current liabilities, decreased from $366,574,781 as at 30 June 2017 to $329,000,556 as at 30 June 2018 predominantly as a result of expenditure on exploration and evaluation assets; and a new security deposit for Brazil (guarantee bond for Block S-M-1537); partially offset by the appreciation in the United States dollar against the Australian dollar on cash assets and security deposits held in United States dollars during the financial year.

During the financial year, total assets decreased from $806,569,836 to $594,920,565, total liabilities decreased from $47,677,671 to $39,694,851 and total equity decreased by $203,666,451 to $555,225,714. 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, including the acquisition of a 100% equity interest in Block S-M-1537;
- full impairment of capitalised exploration and evaluation expenditure associated with WA-314-P;
- full impairment of capitalised exploration and evaluation expenditure associated with Blocks S-M-1101 and S-M-1165;
- write-down of inventory to net realisable value;
- the negative movement in the foreign currency translation reserve as a result of the depreciation of the Brazilian REAL against the Australian dollar; and
- appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.7692 as at 30 June 2017 to AUD1:USD0.7391 as at 30 June 2018) on cash assets and security deposits held in United States dollars.

There was no change in contributed equity of the Company during the financial year.

Exploration and evaluation expenditure of $19,175,698 was incurred during the financial year, with major expenditure in the following operating segments:

- Brazil, the Group acquired a 100% equity interest in Block S-M-1537 and also began work for FEED for the Neon light oil discovery, at a total cost of $14,669,756; and
- Peru, the Group continued with drill planning and logistics, geological and geophysical studies, at a total cost of $3,697,673.

Review of Operations

Information on the operations of the Group is set out in the Operations Review on pages 10 to 19 of this Annual Report.

Business Strategies and Prospects, Likely Developments and Expected Results of Operations

The Operations Review sets out information on the business strategies and prospects for future financial years, refers to likely developments in operations and the expected results of those operations in future financial years. Information in the Operations Review is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Group. Details that could give rise to likely material detriment to Karoon, for example, information that is confidential, commercially sensitive or could give a third party a commercial advantage has not been included. Other than the matters included in this Directors' Report or elsewhere in this Annual Report, information about other likely developments in the Group's operations and the expected results of those operations have not been included.

Dividends

No dividend has been paid or declared by the Company to shareholders since the end of the previous financial year. The Company intends to pay future dividends during financial periods when appropriate to do so.

Share Options and Performance Rights

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

Type of Share Option	Grant Date	Date of Expiry	Exercise Price Per Share Option	Number of Share Options
ESOP options	30 November 2016	30 June 2020	$1.82	**1,100,476**
ESOP options	2 December 2016	30 June 2020	$1.82	**846,752**
ESOP options	2 December 2016	30 June 2020	$1.82	**503,685**
ESOP options	6 October 2017	30 June 2021	$1.73	**1,547,619**
ESOP options	9 November 2017	30 June 2021	$1.73	**421,647**
ESOP options	14 November 2017	30 June 2021	$1.73	**59,709**
ESOP options	16 November 2017	30 June 2021	$1.77	**1,148,344**
Total ESOP options				**5,628,232**

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 2016	30 June 2019	$-	**646,845**
Performance rights	2 December 2016	30 June 2019	$-	**444,327**
Performance rights	30 November 2016	30 June 2020	$-	**636,546**
Performance rights	2 December 2016	30 June 2020	$-	**385,516**
Performance rights	2 December 2016	30 June 2020	$-	**362,289**
Performance rights	16 November 2017	30 June 2019	$-	**257,010**
Performance rights	6 October 2017	30 June 2020	$-	**506,311**
Performance rights	9 November 2017	30 June 2020	$-	**169,587**
Performance rights	14 November 2017	30 June 2020	$-	**17,583**
Performance rights	6 October 2017	30 June 2021	$-	**724,883**
Performance rights	9 November 2017	30 June 2021	$-	**233,755**
Performance rights	14 November 2017	30 June 2021	$-	**21,100**
Performance rights	16 November 2017	30 June 2021	$-	**405,806**
Total performance rights				**4,811,558**

For details of share options and performance rights issued to Directors and other key management personnel 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 2018.

Information relating to the Company's PRP and share options, including details of performance rights and share options granted, exercised, vested and converted, cancelled, cash-settled, forfeited and expired during the financial year and performance rights and share options outstanding at the end of the financial year, is set out in Note 27 of the consolidated financial statements.

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

Indemnification of Directors, Officers and External Auditor

An indemnity agreement has been entered into between an insurance company and the Directors of the Company named earlier in this Directors' Report and with the full-time executive officers, directors and secretaries of all Australian subsidiaries. Under this agreement, the insurance company has agreed to indemnify these Directors, full-time executive officers, directors and secretaries against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

As approved by shareholders at the 2009 Annual General Meeting, the Company will continue to pay those Director insurance premiums for a period of 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.

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

Proceedings on Behalf of the Company

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

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

Corporate Governance

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

Environmental Regulation

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

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

Greenhouse Gas Emissions and Reporting Requirements

Relevant entities are required to report greenhouse gas emissions, energy consumption and energy under the *National Greenhouse and Energy Reporting Scheme*. The Group was not required to register and report greenhouse gas emissions, energy consumption or energy production under the scheme for this financial year, as it did not meet the relevant thresholds for the relevant period. However, the Group's global carbon footprint during the financial year was 227 tonnes of carbon dioxide equivalent based on equity share and including scope 1 and scope 2 emissions (2017: 227 tonnes).

As there was no exploration activity during this financial year, the total emissions are purely from the administration of global offices and Karoon vehicles.

The Company continues to seek cost-effective, reliable and environmentally efficient methods for addressing future greenhouse gas emissions and energy consumption. Further details of Karoon's approach to Climate Change challenges can be found in the Sustainability Report.

Non-audit Services

The Company may decide to engage its external auditor, PricewaterhouseCoopers, on assignments additional to its statutory audit duties where the external auditor's expertise and experience with the Company and/or Group are important.

Details of the amounts paid or payable to the external auditor for audit and non-audit services provided during the financial year are set out in Note 7 of the consolidated financial statements.

The Board of Directors has considered the position and, in accordance with written advice received from the Audit 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 61 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 30 of the consolidated financial statements, no other matter or circumstance has arisen since 30 June 2018 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)

25 September 2018

Dear Shareholders,

On behalf of the Board of Directors and the Remuneration Committee, I am pleased to present to you Karoon's Remuneration Report for the financial year ended 30 June 2018.

1. Overview

Firstly, I note the sad passing of Karoon's Chairman, Dr David Klingner on 13 August 2018. David will be missed by all, he was an integral and much valued and respected member of the Karoon team. David was also a member of various Karoon Board committees, including the Remuneration Committee. To ensure appropriate composition and experience going forward, Mr Geoff Atkins has now joined the Remuneration Committee as a member.

At the Annual General Meeting held on 9 November 2017, Karoon received a first "strike" in relation to the vote on the 2017 Remuneration Report notwithstanding there had been no material issues raised with us prior to the Annual General Meeting and with all independent proxy advisory services recommending a "yes" vote in relation to the 2017 Remuneration Report. Nonetheless, the Board takes seriously and fully accepts the shareholder vote. We also accept the fundamental need to align internal executive remuneration structures and tangible year-to-year strategic progress with the share price movement over time so that remuneration outcomes are reflective of the shareholder experience as investors in Karoon.

Our aim is to ensure that executive performance outcomes are aligned with building asset value, preserving and prioritising available capital and securing long-term cash flow as soon as possible in order to support share price growth for our shareholders over time.

During the 2017/2018 year we have reviewed all of our remuneration structures and policies and have made improvements wherever possible. Further details of these changes and the remuneration settings for the 2018/2019 year are included below.

2. Remuneration Guiding Principles and Shareholder Alignment

Karoon's overall guiding principles and framework for its remuneration strategies have not changed and are summarised as follows:

- **Safety, culture and ethics** – ensuring that clear vesting gateways exist based on appropriate safety outcomes and the ethical management of the business being achieved;
- **Shareholder value is paramount:**
  - remuneration outcomes (particularly incentive-based outcomes) are designed to take account of share price movements across the reporting period and therefore the value delivered to shareholders; and
  - a close alignment is created between operational performance, reward and sustained growth in shareholder value. This is done through achieving robust company building milestones year-on-year (via the Short-term Incentive ('STI') Plan) and through aiming to outperform a select group of 19 industry peer companies in the longer term (via the Long-term Incentive ('LTI') Plan);
- **People:**
  - our remuneration structures are designed to attract, motivate and retain the best people whilst remunerating them reasonably and competitively; and
  - we encourage our people to hold equity in the Company which builds a culture of viewing management decisions as an owner thereby helping to further align executives and shareholder's interests;
- **Transparency** – remuneration measures, outcomes and reporting are as simple and transparent as possible for shareholders and other stakeholders; and
- **Longer term focus** – we aim to ensure that key decision making is always appropriately longer term in its nature and focus.

Remuneration Report (Audited) continued

3. Remuneration Review and Outcomes

As noted above, Karoon has reviewed its remuneration policies and practices during the 2017/2018 year. We do not believe that fundamental change to our overall structure is required at this stage as Karoon's structure only provides essential rewards when building blocks are achieved and/or when market performance is good on a relative and now absolute basis. We have always endeavoured to take a relatively conservative and market sensitive approach to remuneration levels (as is evidenced by ongoing industry peer group benchmarking). However, improvements can always be made to policy and procedure and the following policies will be implemented for the 2018/2019 year ahead:

- **Executive salaries** – there will be no increase to key management personnel ('KMP') fixed remuneration for the 2018/2019 year. Cash remuneration for KMP's has remained fixed for some 4 years and is below many of our comparable peers, meaning that the importance of, and reliance on STI and LTI outcomes is heightened thus further aligning shareholders and executive management outcomes;
- **Board fees**:
  - there will be no increase in the base Board fee paid to Non-Executive Directors for the 2018/2019 year (Board fees have remained unchanged since 2013); and
  - options are being investigated to enable Non-Executive Directors to sacrifice cash-based Board fees for equity at prevailing prices so as to encourage further share ownership by the Board. The Board will also consider a minimum shareholding policy requirement for the future;
- **2017/2018 STI and LTI Outcomes:**
  - 8.33% of the 2017/2018 STI allocated to Company-wide Operational Objectives has been awarded by the Board. Whilst considerable strategic progress has been made during the financial year, the majority of the STI hurdles were based on achieving final binding legal terms in relation to an acquisition (a position which has not yet been reached) and achieving FID for the Santos Basin Neon development – hence, only a small proportion of the STI has been achieved. For employees who are not Executive Directors, a component of their STI Role-specific Objectives may be payable depending on individual performance as outlined in the Remuneration Report; and
  - no LTI will be awarded for the 2017/2018 year as Karoon did not achieve a satisfactory level of share price performance against its industry peer group over the previous 3 year period;
- **2018/2019 STI and LTI**:
  - The STI hurdles for 2018/2019 have been targeted so as to support a production acquisition and completion of appraisal and development in the Santos Basin; and
  - an Absolute Total Shareholder Return ('TSR') gateway of 10% has been included for the first time in the LTI design; and
- **Medium-term STI and LTI** – we are investigating a new combined medium-term Employee Incentive Scheme as is operated by a number of other listed companies in our industry. Such a scheme would blend the STI and LTI together, making it simpler in nature and allow a holistic approach to specific strategic goals and overall market performance over a 3 year period. This would help forge an even closer link between shareholder (share price) experience and the incentives vested to the executive management team.

4. 2018/2019 Strategic Progress

Our strategic goals looking forward have not changed and are:

- acquisition – finalise the acquisition of a production asset with long-term revenue;
- Santos Basin – finalise the elements necessary to consider a FID for the development of the Santos Basin discoveries in Brazil;
- Tumbes Basin – progress exploration in the highly prospective Tumbes Basin in Peru; and
- costs – continue to reduce corporate and other costs without detracting from the preceding strategies.

The 2018/2019 STI and LTI performance hurdles reflect these goals.

5. Summary

Over the financial year, on the ground we have made good operational progress with our appraisal and development phase campaign in Brazil, as well as with our due diligence around a production acquisition. We have also reduced the costs of operating the business by reducing our overall operating footprint (through office moves and staff reductions in Australia and overseas, better use of technology and streamlining of workstream management).

In summary, our corporate strategy and all remuneration related targets are designed and managed to improve shareholder value into the future. In these circumstances, the Board and Remuneration Committee have exercised considerable restraint by directing that there be no changes to salaries and base Director fees again for the 2018/2019 year ahead, by approving the minimum possible STI outcome and confirming no LTI outcome will be vested for the period.

As always, we will continue to engage with our shareholders, proxy advisors and our own remuneration advisors in an effort to seek feedback to help us continue to improve our remuneration framework design, outcomes, transparency and disclosures.

Mr Peter Turnbull
Chairman, Remuneration Committee
25 September 2018

Remuneration Report (Audited) continued

Contents

Section 1. Introduction

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

For the financial year ended 30 June 2018, KMP disclosed in the Remuneration Report are as follows:

Name	Position	Term as KMP
Executive Directors		
Mr Robert Hosking	Managing Director	Full financial year
Mr Mark Smith	Executive Director and Exploration Director	Full financial year
Non-Executive Chairman		
Dr David Klingner	Independent Non-Executive Chairman	Full financial year
Non-Executive Directors		
Ms Luciana Rachid	Independent Non-Executive Director	Full financial year
Mr Geoff Atkins	Independent Non-Executive Director	Full financial year
Mr Clark Davey	Independent Non-Executive Director	Full financial year
Mr Peter Turnbull	Independent Non-Executive Director	Full financial year
Mr Jose Coutinho Barbosa	Non-Executive Director	Full financial year
Other KMP		
Mr Edward Munks	Chief Operating Officer	Full financial year
Mr Scott Hosking	Company Secretary (Company) and Chief Financial Officer (Group)	Full financial year
Mr Tim Hosking	South American General Manager and Chief Executive Officer Brazil	Full financial year

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

The Remuneration Report for the financial year ended 30 June 2018 outlines the remuneration arrangements of KMP of the Group in accordance with the requirements of the *Corporations Act 2001* and its regulations. The information provided in this Remuneration Report has been audited by Karoon's external auditor, as required by Section 308(3C) of the *Corporations Act 2001*. The Remuneration Report forms part of this Directors' Report.

Section 2. Remuneration Committee Oversight

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

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

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

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

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

Use of Independent Remuneration Consultants

During the financial year ended 30 June 2018, the Chairman of the Remuneration Committee re-engaged Egan Associates as its independent Remuneration Consultant. The Remuneration Consultant reported directly to the Remuneration Committee. In selecting the Remuneration Consultant, the Remuneration Committee considered potential conflicts of interest and required the Remuneration Consultant's independence from management as part of Egan Associates' terms of engagement. Egan Associates was asked to provide a recommendation in relation to testing the performance milestones under the 2016 LTI conditions, which were tested during July 2018. The recommendation was provided to, and discussed directly with, the Chairman of the Remuneration Committee.

2017 Remuneration Report Vote

At Karoon's 2017 Annual General Meeting, Karoon's 2017 Remuneration Report received a 70.34% vote FOR. Feedback on the 2017 Remuneration Report was not received during the 2017 Annual General Meeting. However, Karoon sought and received feedback from institutional and retail shareholders and proxy advisory organisations during the financial year ended 30 June 2018. Views expressed during these meetings have contributed to decision making by the Remuneration Committee on Karoon's 2018 reward practices, the setting of incentive hurdles being developed for application during the financial year ending 30 June 2019 and beyond. In reviewing reward arrangements, assessing industry practice and the availability of global talent, the Board of Directors acknowledges that today, given the nature of Karoon's challenges and opportunities, it is fortunate to have a team of highly experienced and internationally regarded executives who have a track record of success and who can execute the next value creating opportunities for Karoon.

The Board of Directors and Remuneration Committee have continued to address shareholder and proxy advisor views and suggestions and, as a result, make the following points in relation to Karoon's executive remuneration framework:

- in recognition of current oil and gas industry market conditions, country base salary for Non-Executive Directors and executives did not increase for the financial year ended 30 June 2018;
- performance conditions for executives will be based on an up-to-date list of Company-wide Operational Objectives and in some instances, Role-specific Objectives, in order to focus executives on the achievement of value-adding operational progress as well as a value-adding asset acquisition in the short-term and relative Company performance in the long-term;
- safety will again be used as a gateway measure, and negative discretion based on poor Anti-bribery and Corruption Policy implementation and outcomes will also continue to be used to modify short-term incentives;
- an Absolute TSR gateway has been introduced for long-term incentives to ensure LTI are paid only when shareholders see positive returns; and
- having due regard to market conditions, no LTI will vest as part of the 2016 LTI testing.

Share Trading Policy

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

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

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

Remuneration Report (Audited) continued

Section 3. Executive Remuneration

The Board of Directors and the Remuneration Committee have developed a remuneration policy that ensures executive remuneration supports the current business strategy and needs of the business. In particular, the decision to use performance tested share-based grants for its incentive plans reflects the Board of Directors' belief that this best aligns executive and shareholder interests in the short and long-term. Karoon's success is measured by its ability to acquire, assess and confirm new hydrocarbon discoveries, along with its ability to allocate capital to the highest value creating activities.

In designing Karoon's variable or 'At Risk' remuneration plans, and to incentivise executives, the Remuneration Committee and the Board of Directors have linked variable remuneration directly to Karoon's operational performance in the short-term and to relative market performance in the long-term. This is considered appropriate to create performance-based rewards that are tailored to each phase of Karoon's operations, the lifecycle of its assets and how it delivers on its business strategy.

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

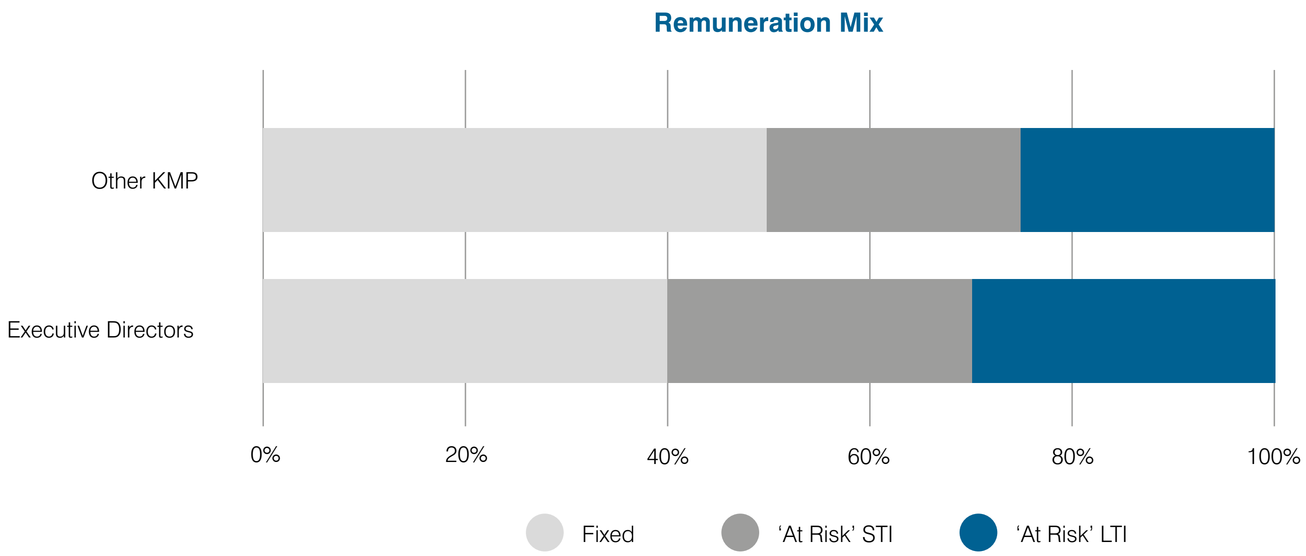
- remuneration is reasonable and competitive in order to attract, retain and motivate talented and high calibre executives capable of managing Karoon's diverse international operations;
- remuneration is set at a level acceptable to shareholders, has regard to Karoon's performance and rewards individual capability and experience;
- remuneration structures create sufficient alignment between performance, reward and sustained growth in shareholder value;
- remuneration outcomes provide recognition of contribution to overall long-term growth in the value of Karoon's asset portfolio and are transparent to both participants and shareholders;
- the remuneration framework assists in facilitating prudent capital management through the use of share-based remuneration; and
- remuneration incentivises the best possible health and safety outcomes, along with best practice in preventing bribery and/or corruption.

Specifically the short and long-term Incentive regime works to:

- set ambitious Company goals on a rolling short-term basis;
- incentivise positive returns and outperformance against an industry peer group of companies;
- reward long-term value creation and ensure executive retention by applying a 1 year deferral of STI vesting after performance conditions are achieved and measuring LTI outcomes over a 3 year testing period;
- link executive incentives to the shareholder experience; and
- allow for the exercise of appropriate restraint in relation to salary levels and only vest incentives after having regard to market conditions and where considered appropriate, exercise negative discretion to reduce respective incentive awards.

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2018

The following table summarises the remuneration outcome mix for executives for the financial year ended 30 June 2018, based on maximum achievement of incentive plan outcomes:



Fixed Remuneration

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

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. In recognition of the current oil and gas industry market conditions, country base salary for Executive Directors and other KMP did not increase for the financial year ended 30 June 2018.

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

- the individual's personal performance;
- the size and complexity of the executive's role;
- the individual's level of skill and experience;
- the employment location and labour market conditions at that location;
- the individual's overall contribution to the success of the business; and
- overall industry and global market conditions.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2018 continued

Superannuation

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

Social Security and Indemnity Fund Contributions

Karoon's Brazilian based executive is subject to specific Brazilian employment regulations, whereby the Group is required to contribute 27.3% of Brazilian cash compensation as social security to fund Government pensions paid in retirement. The executive upon retirement will only be entitled to a portion of this contribution. A further 8% of his 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.

'At Risk' Remuneration

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

All executives received grants of share options and performance rights during the financial year ended 30 June 2018, under the Karoon Gas Australia 2016 Employee Share Option Plan ('2016 ESOP') and 2016 Performance Rights Plan ('2016 PRP'), both approved at the 2016 Annual General Meeting.

STI Plan

Executives have the opportunity to earn an annual incentive award through the STI Plan. The percentage of salary allocated to STI remains 'At Risk' until the performance conditions are tested, if the performance conditions are not met this portion of remuneration is not vested and lapses. The key features of the 2016 PRP award for the financial year ended 30 June 2018 ('FY18 award') are outlined in the table below:

Participation	All executives. Participation in the STI Plan is at the discretion of the Board of Directors on the recommendation of the Remuneration Committee. No employee has a contractual right to receive performance rights.
STI Opportunity	The STI opportunity level of each executive is a pre-determined proportion of an executives' total remuneration. The quantum of performance rights received is determined by dividing the STI opportunity for each employee by Karoon's weighted average share price in the 20 trading day period leading up to the first day of the performance period. The STI opportunity available to an executive is between 15%-30% of total remuneration. The Remuneration Committee calculates the incentive value and establishes a maximum number of performance rights 'At Risk' at the beginning of the period.
Form of Award	Executives receive performance rights. Each performance right provides the participant with the right to receive one fully paid ordinary share in Karoon, or its equivalent value, for no consideration. Under the rules of the PRP, ordinary shares issued as a result of the exercise of vested and converted performance rights may be issued as new ordinary shares, ordinary shares acquired on-market or an equivalent value in cash at Karoon's discretion.
Performance Period	1 year.
Deferral Period	Vested performance rights are subject to a deferral period of 12 months, being the continuation of employment with Karoon, immediately following the satisfaction of performance conditions.

Performance Conditions

As part of the 2018 remuneration review, for the financial year ended 30 June 2018 the Remuneration Committee set out the FY18 award for short-term incentives based on a mix of the following performance hurdles:

	Company-wide Operational Objectives	Role-specific Objectives
Executive Directors	100%	Nil%
Other KMP	80%	20%

Company-wide Operational Objectives

Company-wide Operational Objectives were set by the Remuneration Committee at the beginning of the performance period.

The Company-wide Operational Objectives included strategic and operational targets, along with cost management goals.

Role-specific Objectives

Role-specific Objectives were set at the beginning of the performance period and related directly to the individual's specific portfolio of responsibility.

Role-specific Objectives to vest in accordance with pre-approved performance levels to be applied as part of the individual performance review process.

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

Further details on the performance conditions, targets and outcomes for the FY18 award are outlined below in the STI outcomes within Section 3B on page 44.

Grant Date

Maximum amount of performance rights available were determined following finalisation of the 30 June 2017 audited accounts and remained 'At Risk' until tested during July 2018 and retention conditions are met 1 July 2019. Grant date occurs following the offer and acceptance of performance rights. However, any performance rights offered and accepted by the Executive Directors will be subject to shareholder approval at the next Annual General Meeting.

Termination of Employment

Unvested performance rights will lapse upon cessation of employment with Karoon, subject to the discretion of the Remuneration Committee depending on the nature and circumstances of the termination.

Change of Control

Upon a change of control, the Board of Directors may determine that a portion of the individual's unvested performance rights will vest based on pro-rata achievement of the performance conditions.

Link Between Performance and Reward

The STI framework is based on a set of ambitious Company building goals, granted on a rolling short-term basis. Linking outcomes to operational performance develops an essential alignment between Karoon's year-to-year inherent value growth and rewards those who establish that value only when the goals are met. The Remuneration Committee annually reviews and recommends operational performance metrics, including safety and Anti-bribery and Corruption Policy compliance, which demonstrate a clear pathway toward value creation.

In setting objectives for the performance period, the Remuneration Committee assesses the goals for the performance period in light of the long-term strategic building blocks and upcoming key value drivers within Karoon's operations, allowing for transparent measurement of performance against these objectives.

The Remuneration Committee recognises the risks associated with offshore drilling and considers safety paramount to its operations. Safety will continue to be used as a gateway for vesting conditions.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2018 continued

LTI Plan

LTI issues of share options and performance rights to executives aim to reward long-term performance and superior shareholder returns. Share options and performance rights will only vest if the pre-determined performance conditions are achieved, and the individual remains employed by Karoon for the duration of the performance period.

Share options granted have a 30% premium to the share price at the beginning of the performance period, providing an additional absolute performance measure before ESOP options have a value.

The key features of the 2016 ESOP and 2016 PRP grant for the financial year ended 30 June 2018 ('FY18 grant') are outlined in the table below:

Participation	All executives. Participation in the ESOP and PRP plans is at the discretion of the Board of Directors on the recommendation of the Remuneration Committee. No executive has a contractual right to receive a FY18 grant under the respective plan.
LTI Opportunity	The LTI opportunity level of each executive is a pre-determined proportion of an employees' total remuneration, as outlined above in Section 3A on page 39.
Form of Grant	The quantum of ESOP options and PRP performance rights received is determined by dividing the LTI opportunity for each executive by the fair value of ESOP options under the ESOP, using the Black-Scholes option pricing model and dividing by the 20 day weighted average share price at the beginning of the test period for the PRP performance rights. Each ESOP 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, or its equivalent value in cash at Karoon's discretion, for no consideration. Each PRP performance right provides the participant with the right to receive one fully paid ordinary share in Karoon, or its equivalent value in cash at Karoon's discretion, for no consideration. The LTI opportunity available to an executive is between 15% and 30% of total remuneration.
Performance Period	3 years.
Performance Conditions	For the financial year ended 30 June 2018, Karoon's relative TSR performance was measured against an extensive industry peer group as outlined below in Section 3C on page 47. Vesting occurs in accordance with the pre-approved schedule of relative performance:

Performance Against Industry Peer Group	Proportion of ESOP Options and/or PRP Performance Rights Vesting
Less than 50th percentile	Nil%
At 50th percentile	50%
Between 50th and 75th percentile	50% plus 2% for each additional percentile ranking above the 50th percentile
At or above 75th percentile	100%
At 100% percentile	120%

In the event of delisting, merger or acquisition of any of the above industry peer group companies, the Remuneration Committee will apply its discretion to assess the relative performance of that entity by normalising its performance over the testing period in the case of delisting or substituting the performance of the new entity from the day of acquisition in the case of merger or acquisition.

Grant Date	ESOP options and PRP performance rights were granted during the financial year ended 30 June 2018, following finalisation of the 30 June 2017 audited accounts.
Exercise Period	ESOP options and PRP performance rights will remain exercisable for a period of 1 year following vesting, provided the individual remains an employee of Karoon during this period.
Termination of Employment	Unvested (and unexercised) ESOP options and unvested (and unconverted) PRP performance rights will lapse upon cessation of employment with Karoon, subject to the discretion of the Remuneration Committee depending on the nature and circumstances of the termination.
Change of Control	Upon a change of control, the Board of Directors may determine that a portion of the individual's unvested ESOP options and PRP performance rights will vest, based on pro-rata achievement of the performance conditions.
Link Between Performance and Reward	The Board of Directors and Remuneration Committee consider it important to link remuneration to share price performance relative to Karoon's industry peer group companies over the long-term, in order to align executive reward with increases in shareholder value. In the case where performance does not reach the 50th percentile, no incentive will be paid. A portion of the LTI is delivered in 'premium' priced ESOP options, ESOP options granted have a 30% premium to the trading share price at the beginning of the performance period.

B. Executive Remuneration Outcomes

Relationship between the Executive Remuneration Framework and Company Performance

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

Karoon sets ESOP option exercise prices at a level that provides for an inherent 30% premium to the market prices at the time of offer. This premium ensures a simple share price accretion hurdle of 10% per year over the 3 year testing period is achieved before LTI ESOP options achieve a value and are exercisable and therefore provide a connection between incentive and shareholder value.

Whilst Karoon has continued to build strong sustainable building blocks through its continued development of its Santos Basin assets, the farming out of its Peruvian acreage and the potential acquisition of a production asset, some of these accomplishments were not sufficiently complete for shareholders to benefit and Karoon has not created value for shareholders through share price appreciation during the financial year ended 30 June 2018. This has resulted in only partial vesting of incentives for executives being 8.33% of the Company-wide Operational Objectives under the STI and 0% of the LTI pool. Incentives that vested related to the farm-out to Tullow of a 35% equity interest in the Tumbes Basin Block Z-38, Peru.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

B. Executive Remuneration Outcomes continued

Performance Hurdles and STI Outcomes for the Financial Year Ended 30 June 2018

The table below outlines the STI performance hurdles and actual achievements for the financial year ended 30 June 2018:

Criteria	Hurdle	Award Percentage 'At Risk'	Short-term Incentive Outcomes
Safety	TRIR of < 2 required for any award to proceed.	Gateway	TRIR 0.00
Acquisition Strategy	To acquire an interest in a production and/or near-term development asset by: • completion of legally binding terms for a value-accretive asset acquisition as judged by an increase in the Karoon share price of not less than 20%, sustained for a period of not less than 30 days following the ASX announcement of the transaction; and • the asset acquisition should provide accretive (positive) cash flow within a reasonable commercial period after acquisition, to be determined by the Board of Directors at its discretion.	40%	An asset acquisition was not completed during the financial year ended 30 June 2018. 0%
Operational	Brazil (Santos Basin): • complete the FEED stage for the Echidna light oil discovery in Brazil; or • attract a strategic partner who will jointly proceed to FID on the Echidna light oil discovery.	25%	As at 30 June 2018, Echidna FEED work and a strategic partnership are both incomplete. 0%
Asset Management	Completion of key farm-outs in Australia, Brazil and Peru.	25%	Block Z-38, Peru farm-out to Tullow. 8.33%
Cost Control and Capital Preservation	Reduction of variable administration and operating costs by 20% for the financial year ended 30 June 2018. (Note: Board of Directors' discretion maybe applied resulting from the achievement of one or more of the above objectives that significantly alter the overall cost profile of the Group.)	10%	Total cost reduction targets were not met due to additional workload associated with new venture activities, which were incomplete at the test date. 0%
Anti-bribery and Corruption	Negative discretion will be applied based on management's implementation and enforcement of the Anti-bribery and Corruption Policy.	Clawback	No incidence of bribery or corruption.

As outlined above, based on actual results, a total of 8.33% of the available STI opportunity vested to Executive Directors against the performance targets. For other KMP, a total of 26.66% of the available STI opportunity vested to executives based on actual results against the Company-wide Operational and Role-specific Objective performance targets.

The resulting STI performance rights have a 1 year retention period ending 30 June 2019 before they become exercisable and convertible into fully paid ordinary shares or paid for the equivalent value in cash. These STI performance rights expire on 30 June 2020.

LTI Outcomes

LTI's tested during the financial year are settled in ESOP options with an exercise price of $3.04, and were granted during the 2016 financial year under the Karoon Gas Australia 2012 Employee Share Option Plan. As that grant had a 3 year performance period, performance against the relevant conditions was tested at the completion of the financial year ended 30 June 2018.

The performance condition was Karoon's relative TSR when compared with its industry peer group over the period from 1 July 2015 to 30 June 2018. Karoon did not achieve the minimum 50th percentile required to vest the LTI's and therefore 0% of the LTI will vest.

Voluntary Information: 2018 'Remuneration Received'

The amounts disclosed below reflect the actual benefits received by each executive during the financial year ended 30 June 2018. The amounts disclosed below include the actual value of any equity-settled and/or cash-settled award received from STI and/or LTI.

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

Fixed Remuneration

Fixed remuneration includes cash salary and fees, non-monetary benefits, superannuation contributions and paid long service leave.

Fixed remuneration excludes any accruals of annual or long service leave.

Short-term Incentives

Includes the equity-settled and/or cash-settled award received from STI incentives by executives. The value of STI equity-settled and cash-settled awards received reflects the amounts disclosed to the relevant tax authorities during the financial year ended 30 June 2018.

Long-term Incentives

Includes the equity-settled and/or cash-settled award received from LTI incentives by executives. The value of LTI equity-settled awards and cash-settled awards received reflects the amounts disclosed to the relevant tax authorities during the financial year ended 30 June 2018.

Name	Fixed Remuneration $	Short-term Incentives $	Long-term Incentives $	Total Remuneration Received $
Executive Directors				
Mr Robert Hosking	696,216	119,457	-	**815,673**
Mr Mark Smith	622,797	142,714	-	**765,511**
Other key management personnel (Group)				
Mr Scott Hosking	456,911	-	-	**456,911**
Mr Tim Hosking	484,832	-	-	**484,832**
Mr Edward Munks	545,645	91,460	-	**637,105**

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

- the statutory remuneration expensed through share-based payments (ESOP options and/or PRP performance rights) is based on historic cost and does not reflect the value of equity-settled and/or cash-settled amounts when they are actually received;
- the statutory remuneration shows benefits before they are actually received by executives;
- where ESOP options or PRP performance rights do not vest because a market-based performance condition is not satisfied (for example, an increase in Karoon's share price), Karoon must still recognise the full amount of the share-based payments expense even though the executives will never receive any benefits; and
- share-based payment awards are treated differently under Australian Accounting Standards depending on whether the performance conditions are market conditions (no reversal of share-based payments expense) or non-market conditions (reversal of share-based payments expense when ESOP options or PRP performance rights fail to vest), even though the benefit received by the executive is the same ($Nil where the ESOP option or PRP performance right fail to vest).

The information in this section has been audited together with the rest of the Remuneration Report.

C. Executive Remuneration for the Financial Year Ending 30 June 2019

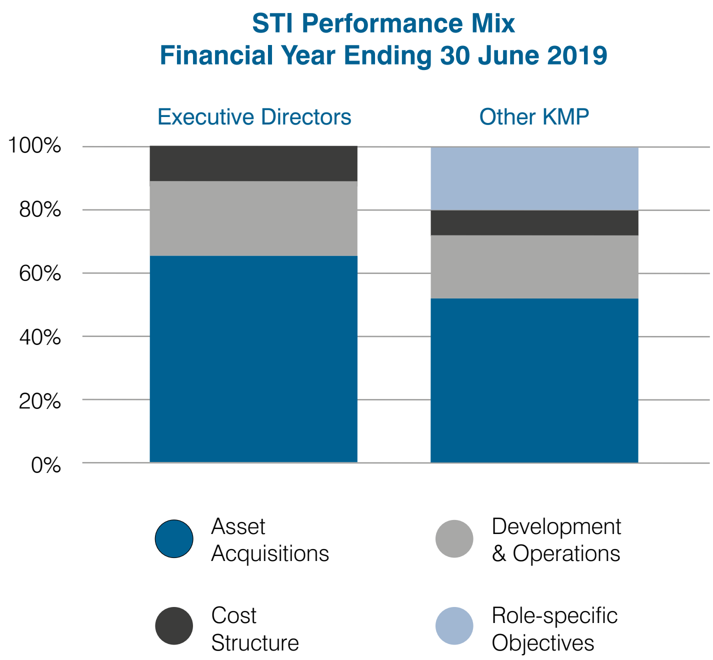
As part of the annual review of remuneration arrangements conducted on behalf of the Board of Directors, the Remuneration Committee makes the following points for the financial year ending 30 June 2019:

- no change to country base salary or overall remuneration structure has been made for executives for the financial year ending 30 June 2019;
- STI will be delivered to executives in the form of 'At Risk' performance rights, to be tested against appropriate Company-wide Operational Objectives and in some instances, Role-specific Objectives. Safety performance remains a gateway, with express negative discretion to be applied by the Board of Directors to modify STI outcomes resulting from Anti-bribery and Corruption Policy implementation and enforcement issues; and
- LTI will be delivered via a mix of ESOP options and/or PRP performance rights, to be again tested using relative TSR performance conditions and the requirement that the Absolute TSR gateway must provide for a 10% per annum accretion during the performance period as a gateway to incentives vesting.

These refinements also reflect general feedback received from institutional shareholders, retail shareholders, industry funds and proxy advisory organisations following the 2017 Annual General Meeting.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued



C. Executive Remuneration for the Financial Year Ending 30 June 2019 continued

'At Risk' Remuneration

Short-term incentives

The STI performance hurdles for the performance period from 1 July 2018 to 30 June 2019 are outlined in the table below. Vesting under each objective will occur upon satisfaction of the Company-wide Operational Objectives, and in some cases Role-specific Objectives.

Gateway

Karoon operates in a high-risk industry where Health, Safety, Security and Environment Management System procedures are paramount and therefore a TRIR of < 2 is required for any grant to proceed.

Clawback

Karoon has zero tolerance for bribery and/or corruption and therefore negative discretion will be applied based on any incidence of bribery or corruption, and management's implementation and enforcement of the Anti-bribery and Corruption Policy.

Company-wide Operational Objectives

For the performance period from 1 July 2018 to 30 June 2019, the Company-wide Operational Objectives are outlined in the table below. Vesting under each objective will occur upon satisfaction of the relative performance condition.

Criteria	Hurdle	Award Percentage 'At Risk'
Safety	TRIR of < 2 required for any award to proceed.	Gateway
Acquisition Strategy	Revenue and sustainability: Successfully complete the acquisition of a production (or near-production) asset as evidenced by: • execution of a legally binding sale and purchase agreement; and • value-accretion in the Karoon share price of not less than 20%, sustained for a period of not less than 30 days following the ASX announcement of the transaction.	65%
Development and Operations	Karoon's discovered resources: Successfully progress the southern Santos Basin Strategy in Brazil to define development and production options as evidenced by: • FEED – completing the development application stage for the Neon light oil discovery in Brazil; • strategic partner – reaching binding legal terms to introduce a strategic partner, who will jointly proceed to FID on the Neon light oil discovery; or • acquisition – reaching binding terms to purchase a production asset in the Santos Basin which is complementary to the Neon light oil discovery and southern Santos Basin Strategy.	25%
Cost Structure	The budgeted corporate cost structure for the financial year ending 30 June 2019 is lowered by 10% or more (this measure relates to corporate costs only not operational, appraisal, due diligence or development costs).	10%
Anti-bribery and Corruption	Negative discretion will be applied, if necessary, by the Board of Directors should any material event which constitutes a breach of Karoon's Anti-bribery and Corruption Policy occur.	Clawback

Role-specific Objectives

Role-specific Objectives are set at the beginning of the performance period and relate directly to the individual's specific area of responsibility.

Long-term Incentive

The LTI performance hurdle for the period commencing 1 July 2018 and ending 30 June 2021 will be relative TSR performance as assessed against a list of closely comparable and representative industry peer group companies, whose business models and/or regions of operations are similar to those of Karoon.

Gateway

Karoon believes in a direct relationship between incentives and the shareholder experience over the long-term, in respect of this, an Absolute TSR gateway of 10% per annum has now been introduced.

For the period commencing 1 July 2018 and ending 30 June 2021, the refined list of industry peer group companies will be as follows:

Australian Market Peers	Global Peers
Australis Oil and Gas Limited	Cairn Energy plc
Beach Energy Limited	GeoPark Limited
Carnarvon Petroleum Limited	Gran Tierra Energy Inc
FAR Limited	Kosmos Energy Ltd
Horizon Oil Limited	Ophir Energy plc
Oil Search Limited	New Zealand Oil & Gas Ltd
Santos Limited	QGEP Participacoes SA
Senex Energy Limited	Premier Oil plc
Woodside Petroleum Limited	SOCO International plc
	Tullow Oil plc

Vesting consideration details for the industry peer group companies is outlined in the LTI Plan table above on page 43.

Vesting outcomes will be determined in accordance with the LTI Plan table above on page 43.

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

D. Executive Agreements

Remuneration and other terms of employment for the executives are formalised in employment agreements. Each of these agreements may provide for the provision of benefits such as health insurance, motor vehicles, one expatriate business class flight for an executive and his family, and participation, when eligible, in the Company's PRP and ESOP. Other major provisions of the agreements relating to remuneration are set out below.

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

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

Name	Term	Expiry	Notice/ Termination Period	Termination Payments	Share Option Eligible	Performance Right Eligible
Executive Directors						
Mr Robert Hosking	From 1 May 2011, ongoing	Ongoing	In writing six months	Fundamental change upon a change of control: one year, two weeks' salary for each year of service	Yes	Yes
Mr Mark Smith	From 1 May 2011, ongoing	Ongoing	In writing six months	Fundamental change upon a change of control: one year, two weeks' salary for each year of service	Yes	Yes
Other key management personnel						
Mr Scott Hosking	Ongoing	Ongoing	In writing six months	Fundamental change upon a change of control: one year, two weeks' salary for each year of service	Yes	Yes
Mr Tim Hosking	From 1 December 2010, ongoing	Ongoing	In writing one month	Fundamental change upon a change of control: one year Redundancy: one year	Yes	Yes
Mr Edward Munks	From 1 January 2011, ongoing	Ongoing	In writing six months	Fundamental change upon a change of control: one year	Yes	Yes

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

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

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

There have been no changes to Non-Executive Directors' base or Committee member fees for the financial year ended 30 June 2018 or for the period ending 30 June 2019. 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 per annum is $1,200,000, as approved by shareholders at the Company's 2015 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. The Company has determined that it will not grant bonus or incentive related share-based remuneration to Non-Executive Directors. Non-Executive Directors will continue to be encouraged to purchase ordinary shares in the Company on-market.

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 2019

No changes will be made to the base or relevant Committee fee structure for the financial year ending 30 June 2019.

Non-Executive Directors' fees for the financial year ended 30 June 2018 and financial year ending 30 June 2019 (excluding superannuation contribution) are outlined in the following table:

Base fee:	
Non-Executive Chairman *	$220,000
Non-Executive Directors	$100,000
Committee member fees:	
Audit Committee	
Chairman	$20,000
Member	$15,000
Nomination Committee	
Chairman	$15,000
Member	$12,000
Remuneration Committee	
Chairman	$15,000
Member	$12,000
Risk and Governance Committee	
Chairman	$15,000
Member	$12,000

* Non-Executive Chairman's base fee includes compensation for appointment to relevant committees.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting

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

Details of the remuneration of the Directors and other key management personnel of the Group for the financial year and previous financial year are set out in the following tables:

Financial Year Ended 30 June 2018	Short-term Benefits		Post-employment Benefits		Long-term Benefits	Share-based Payments Expense		
Name	Cash Salary and Fees $	Non-monetary Benefits $	Superannuation Contributions $	Social Security and Indemnity Fund Contributions $	Long Service Leave $	Share Options/ Performance Rights** $	Remuneration Consisting of Share Options and Performance Rights* $	Total Remun-eration $
Executive Directors								
Mr Robert Hosking	576,626	99,541	20,049	-	16,374	564,688	44.2%	1,277,278
Mr Mark Smith	585,853	16,895	20,049	-	4,874	564,688	47.4%	1,192,359
Non-Executive Directors								
Dr David Klingner	220,000	-	20,049	-	-	-	-	240,049
Ms Luciana Rachid	124,000	-	-	-	-	-	-	124,000
Mr Geoff Atkins	142,000	-	13,490	-	-	-	-	155,490
Mr Clark Davey	156,000	-	14,820	-	-	-	-	170,820
Mr Peter Turnbull	157,000	-	14,915	-	-	-	-	171,915
Mr Jose Coutinho Barbosa	100,000	-	-	-	-	-	-	100,000
Total Directors' remuneration	2,061,479	116,436	103,372	-	21,248	1,129,376		3,431,911
Other key management personnel (Group)								
Mr Scott Hosking	418,000	18,862	20,049	-	5,238	86,157	15.7%	548,306
Mr Tim Hosking	408,100	50,335	-	58,453	-	70,650	12.0%	587,538
Mr Edward Munks	522,500	3,096	20,049	-	13,031	334,933	37.5%	893,609
Total other key management personnel remuneration (Group)	1,348,600	72,293	40,098	58,453	18,269	491,740		2,029,453
Total key management personnel remuneration (Group)	3,410,079	188,729	143,470	58,453	39,517	1,621,116		5,461,364

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

** Includes non-cash share-based payments expense of $34,223 relating to 2018 STI performance rights yet to be granted to Executive Directors, which were subject to achievement of performance hurdles from 1 July 2017 to 30 June 2018. The share-based payments expense was based on the achievement of 8.33% of the executive's performance hurdles and an estimation of fair value at grant date, with a vesting period of 1 July 2017 to 30 June 2019. The grant of 2018 STI performance rights for each of the Executive Directors is subject to shareholder approval at the 2018 Annual General Meeting.

Financial Year Ended 30 June 2017	Short-term Benefits		Post-employment Benefits		Long-term Benefits	Share-based Payments Expense		
Name	Cash Salary and Fees $	Non-monetary Benefits $	Superannuation Contributions $	Social Security and Indemnity Fund Contributions $	Long Service Leave $	Share Options/ Performance Rights** $	Remuneration Consisting of Share Options and Performance Rights* $	Total Remun-eration $
Executive Directors								
Mr Robert Hosking	599,691	96,801	19,616	-	11,800	521,917	41.8%	1,249,825
Mr Mark Smith	579,702	18,529	19,616	-	18,234	521,917	45.1%	1,157,998
Non-Executive Directors								
Dr David Klingner	220,000	-	19,616	-	-	-	-	239,616
Ms Luciana Rachid *(appointed 26 August 2016)*	105,241	-	-	-	-	-	-	105,241
Mr Geoff Atkins	142,000	-	13,490	-	-	-	-	155,490
Mr Clark Davey	156,000	-	14,820	-	-	-	-	170,820
Mr Peter Turnbull	157,000	-	14,915	-	-	-	-	171,915
Mr Bernard Wheelahan *(resigned 30 November 2016)*	51,667	-	4,908	-	-	-	-	56,575
Mr Jose Coutinho Barbosa	100,000	-	-	-	-	-	-	100,000
Total Directors' remuneration	2,111,301	115,330	106,981	-	30,034	1,043,834		3,407,480
Other key management personnel (Group)								
Mr Scott Hosking	418,000	21,072	19,616	-	4,265	158,305	25.5%	621,258
Mr Tim Hosking	452,807	70,922	-	41,409	-	141,370	20.0%	706,508
Mr Edward Munks	522,500	3,042	19,616	-	9,961	367,831	39.9%	922,950
Total other key management personnel remuneration (Group)	1,393,307	95,036	39,232	41,409	14,226	667,506		2,250,716
Total key management personnel remuneration (Group)	3,504,608	210,366	146,213	41,409	44,260	1,711,340		5,658,196

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

** Included non-cash share-based payments expense of $167,057 relating to 2017 STI performance rights yet to be granted to Executive Directors, which were subject to achievement of performance hurdles from 1 July 2016 to 30 June 2017. The share-based payments expense was based on the achievement of 40% of the executive's performance hurdles and an estimation of fair value at grant date, with a vesting period of 1 July 2016 to 30 June 2018. The grant of 2017 STI performance rights for each of the Executive Directors was subsequently approved by shareholders at the 2017 Annual General Meeting.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

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

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

Fair value of share options is assessed under the Black-Scholes option pricing model. The Black-Scholes option pricing model takes into account the exercise price, the term of the share option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share option.

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

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		STI (Performance Rights)		LTI (Performance Rights)		LTI (Share Options)		Remuneration Consisting of Share Options^	
Name	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Executive Directors										
Mr Robert Hosking	55.7%	58.3%	8.5%	13.8%	18.5%	8.6%	17.3%	19.3%	17.3%	19.3%
Mr Mark Smith	52.6%	55.0%	9.1%	14.9%	19.8%	9.3%	18.5%	20.8%	18.5%	20.8%
Non-Executive Directors										
Dr David Klingner	100%	100%	-	-	-	-	-	-	-	-
Ms Luciana Rachid	100%	100%	-	-	-	-	-	-	-	-
Mr Geoff Atkins	100%	100%	-	-	-	-	-	-	-	-
Mr Clark Davey	100%	100%	-	-	-	-	-	-	-	-
Mr Peter Turnbull	100%	100%	-	-	-	-	-	-	-	-
Mr Bernard Wheelahan (resigned 30 November 2016)	-	100%	-	-	-	-	-	-	-	-
Mr Jose Coutinho Barbosa	100%	100%	-	-	-	-	-	-	-	-
Other key management personnel (Group)										
Mr Scott Hosking	84.3%	74.5%	9.2%	10.0%	5.7%	7.6%	0.8%	7.9%	0.8%	7.9%
Mr Tim Hosking	88.0%	80.0%	8.4%	8.5%	3.1%	5.4%	0.5%	6.1%	0.5%	6.1%
Mr Edward Munks	62.5%	60.1%	11.5%	14.5%	19.2%	9.1%	6.8%	16.3%	6.8%	16.3%

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

Further information on share options and performance rights is set out in Note 27 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 lowest exercise price of any share option on issuance is currently $1.73 and the highest exercise price is $1.82. There is currently 5,628,232 share options (5,628,232 remain unvested) and 4,811,558 performance rights issued under the 2016 or 2012 ESOPs and 2016 or 2012 PRPs respectively, representing approximately 4.25% of the Company's total number of ordinary shares issued.

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

Grant Date	Date Vested and Exercisable	Expiry Date	Exercise Price Per Share Option or Performance Right	Fair Value Per Share Option or Performance Right at Grant Date	% Vested	Performance Condition Achieved
ESOP options						
9 October 2015	1 July 2018	30 June 2019	$3.04	$0.660	0%	Performance condition not met
30 October 2015	1 July 2018	30 June 2019	$3.04	$0.480	0%	Performance condition not met
30 November 2016	1 July 2019	30 June 2020	$1.82	$0.690	-	To be determined
2 December 2016	1 July 2019	30 June 2020	$1.82	$0.780	-	To be determined
6 October 2017	1 July 2020	30 June 2021	$1.73	$0.354	-	To be determined
9 November 2017	1 July 2020	30 June 2021	$1.73	$0.361	-	To be determined
14 November 2017	1 July 2020	30 June 2021	$1.73	$0.431	-	To be determined
16 November 2017	1 July 2020	30 June 2021	$1.77	$0.353	-	To be determined
Performance rights						
9 October 2015	1 July 2018	30 June 2019	$-	$2.080	0%	Performance condition not met
30 October 2015	1 July 2018	30 June 2019	$-	$1.775	0%	Performance condition not met
30 November 2016	1 July 2018	30 June 2019	$-	$1.860	47%	2017 Performance condition
2 December 2016	1 July 2018	30 June 2019	$-	$1.965	55%	2017 Performance condition
30 November 2016	1 July 2019	30 June 2020	$-	$1.860	-	To be determined
2 December 2016	1 July 2019	30 June 2020	$-	$1.965	-	To be determined
16 November 2017	1 July 2018	30 June 2019	$-	$1.360	40%	2017 Performance condition
6 October 2017	1 July 2019	30 June 2020	$-	$1.285	-	38%
9 November 2017	1 July 2019	30 June 2020	$-	$1.360	-	44%
14 November 2017	1 July 2019	30 June 2020	$-	$1.475	-	42%
6 October 2017	1 July 2020	30 June 2021	$-	$1.285	-	To be determined
9 November 2017	1 July 2020	30 June 2021	$-	$1.215	-	To be determined
14 November 2017	1 July 2020	30 June 2021	$-	$1.475	-	To be determined
16 November 2017	1 July 2020	30 June 2021	$-	$1.360	-	To be determined

Share options and performance rights are granted for no consideration.

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

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

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

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

Name	Number of Share Options and Performance Rights Granted During Financial Year	Fair Value Per Share Options and Performance Rights at Grant Date*	Value of Share Options and Performance Rights at Grant Date*	Number of Share Options and Performance Rights Vested During Financial Year	Number of Share Options and Performance Rights Forfeited	Value of Share Options and Performance Rights Forfeited**
Executive Directors						
Mr Robert Hosking						
– ESOP options	574,172	$0.353	$202,683	-	424,310	$490,078
– Performance rights (STI)	128,505	$1.360	$174,767	105,714	-	-
– Performance rights (LTI)	202,903	$1.360	$275,948	-	-	-
Mr Mark Smith						
– ESOP options	574,172	$0.353	$202,683	-	424,310	$490,078
– Performance rights (STI)	128,505	$1.360	$174,767	105,714	-	-
– Performance rights (LTI)	202,903	$1.360	$275,948	-	-	-
Non-Executive Director						
Mr Jose Coutinho Barbosa						
– ESOP options	18,100	$0.361	$6,534	-	-	-
– Performance rights (STI)	21,321	$1.360	$28,997	-	7,830	$9,044
– Performance rights (LTI)	14,925	$1.215	$18,134	-	-	-
Other key management personnel (Group)						
Mr Scott Hosking						
– ESOP options	222,340	$0.354	$78,708	-	197,170	$227,731
– Performance rights (STI)	157,143	$1.285	$201,929	-	79,122	$91,386
– Performance rights (LTI)	78,571	$1.285	$100,964	-	-	-
Mr Tim Hosking						
– ESOP options	238,068	$0.354	$84,276	-	173,561	$200,463
– Performance rights (STI)	168,258	$1.285	$216,212	-	76,613	$88,488
– Performance rights (LTI)	84,129	$1.285	$108,106	-	-	-
Mr Edward Munks						
– ESOP options	166,755	$0.354	$59,031	-	246,462	$284,664
– Performance rights (STI)	196,429	$1.285	$252,411	71,453	98,902	$114,232
– Performance rights (LTI)	137,500	$1.285	$176,688	-	-	-
Total key management personnel						
– Share options	1,793,607		$633,915	-	1,465,813	$1,693,014
– Performance rights	1,521,092		$2,004,871	282,881	262,467	$303,150

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

** The value of share options and performance rights forfeited during the financial year because a vesting condition was not satisfied was determined at the time of forfeit (24 August 2017), but assuming the condition was satisfied, based on the intrinsic value of the share options or performance rights at that date.

No share options or performance rights over unissued ordinary shares in the Company, held by any Director or other key management personnel, lapsed during the financial year, except for 1,465,813 share options and 262,467 performance rights that were forfeited by Directors and other key management personnel.

Shares Issued on the Exercise of Share Options Provided as Remuneration

No share options were exercised by any Director or other key management personnel, including their personally related parties, during the financial year.

Shares Issued on the Conversion of Performance Rights Provided as Remuneration

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

Name	Date of Conversion of Performance Rights	Number of Ordinary Shares Issued	Value at Conversion Date*	Amount Paid Per Performance Right
Executive Directors				
Mr Robert Hosking	29 June 2018	105,714	$119,457	$-
Mr Mark Smith	31 July 2017	105,714	$142,714	$-
Other key management personnel (Group)				
Mr Edward Munks	28 July 2017	71,453	$91,460	$-
		282,881	$353,631	

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

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

Cash-settled Payments on the Cancellation of Performance Rights Provided as Remuneration

Details of cash-settled payments by the Company, as a result of the cancellation of remuneration performance rights to each Director and other key management personnel during the financial year, including their personally related parties, are set out below:

Name	Date of Cancellation of Performance Rights	Number of Performance Rights Cancelled	Cash-settled Payment Value *	Amount Paid Per Performance Right
Other key management personnel (Group)				
Mr Scott Hosking	25 June 2018	57,162	$62,372	$-
Mr Tim Hosking	25 June 2018	55,350	$60,395	$-
		112,512	$122,767	

* The cash-settled value of performance rights that were granted as part of their remuneration and were cancelled during the financial year was determined based on a ten day volume weighed average Company share price.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Details of Remuneration – Share Options and Performance Rights

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

Name	Financial Year End Granted	Vested %	Forfeited %	Financial Years in Which Share Options or Performance Rights May Vest	Maximum Total Value of Grant Yet to Vest
Executive Directors					
Mr Robert Hosking					
– ESOP options	30 June 2016	-	-	30 June 2019	$-
– Performance rights (LTI)	30 June 2016	-	-	30 June 2019	$-
– ESOP options	30 June 2017	-	-	30 June 2020	$128,093
– Performance rights (LTI)	30 June 2017	-	-	30 June 2020	$146,919
– Performance rights (STI)	30 June 2018	-	-	30 June 2019	$-
– ESOP options	30 June 2018	-	-	30 June 2021	$154,445
– Performance rights (LTI)	30 June 2018	-	-	30 June 2021	$210,274
Mr Mark Smith					
– ESOP options	30 June 2016	-	-	30 June 2019	$-
– Performance rights (LTI)	30 June 2016	-	-	30 June 2019	$-
– ESOP options	30 June 2017	-	-	30 June 2020	$128,093
– Performance rights (LTI)	30 June 2017	-	-	30 June 2020	$146,919
– Performance rights (STI)	30 June 2018	-	-	30 June 2019	$-
– ESOP options	30 June 2018	-	-	30 June 2021	$154,445
– Performance rights (LTI)	30 June 2018	-	-	30 June 2021	$210,274

Name	Financial Year End Granted	Vested %	Forfeited %	Financial Years in Which Share Options or Performance Rights May Vest	Maximum Total Value of Grant Yet to Vest
Other key management personnel (Group)					
Mr Scott Hosking					
– ESOP options	30 June 2016	-	-	30 June 2019	$-
– Performance rights (STI)	30 June 2016	64%	-	30 June 2018	$-
– Performance rights (LTI)	30 June 2016	-	-	30 June 2019	$-
– ESOP options	30 June 2017	-	-	30 June 2020	$-
– Performance rights (STI)	30 June 2017	47%	53%	30 June 2019	$-
– Performance rights (LTI)	30 June 2017	-	-	30 June 2020	$43,936
– ESOP options	30 June 2018	-	-	30 June 2021	$23,012
– Performance rights (STI)	30 June 2018	-	-	30 June 2020	$28,127
– Performance rights (LTI)	30 June 2018	-	-	30 June 2021	$66,589
Mr Tim Hosking					
– ESOP options	30 June 2016	-	-	30 June 2019	$-
– Performance rights (STI)	30 June 2016	64%	-	30 June 2018	$-
– Performance rights (LTI)	30 June 2016	-	-	30 June 2019	$-
– ESOP options	30 June 2017	-	-	30 June 2020	$-
– Performance rights (STI)	30 June 2017	47%	53%	30 June 2019	$-
– Performance rights (LTI)	30 June 2017	-	-	30 June 2020	$30,464
– ESOP options	30 June 2018	-	-	30 June 2021	$22,283
– Performance rights (STI)	30 June 2018	-	-	30 June 2020	$27,235
– Performance rights (LTI)	30 June 2018	-	-	30 June 2021	$64,479
Mr Edward Munks					
– ESOP options	30 June 2016	-	-	30 June 2019	$-
– Performance rights (LTI)	30 June 2016	-	-	30 June 2019	$-
– ESOP options	30 June 2017	-	-	30 June 2020	$32,839
– Performance rights (STI)	30 June 2017	47%	53%	30 June 2019	$-
– Performance rights (LTI)	30 June 2017	-	-	30 June 2020	$94,042
– ESOP options	30 June 2018	-	-	30 June 2021	$43,136
– Performance rights (STI)	30 June 2018	-	-	30 June 2020	$64,913
– Performance rights (LTI)	30 June 2018	-	-	30 June 2021	$129,111

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

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

Share Options and Performance Rights over Unissued Ordinary Shares in the Company as at 30 June 2018

During the financial year 1,793,607 share options over unissued ordinary shares in the Company were issued to Directors and other key management personnel, including their personally related parties.

During the financial year 1,521,092 performance rights over unissued ordinary shares in the Company were issued to Directors and other key management personnel, including their personally related parties.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Share Options and Performance Rights over Unissued Ordinary Shares in the Company as at 30 June 2018 continued

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

	Balance as at 1 July 2017	Granted as Remuneration	Exercised (Share Options)/ Vested and Converted (Performance Rights)	Cash-settled	Share Options or Performance Rights Forfeited	Balance as at 30 June 2018	Total Vested and Exercisable as at 30 June 2018	Total Unvested as at 30 June 2018
Executive Directors								
Mr Robert Hosking								
– ESOP options	1,338,595	574,172	-	-	(424,310)	1,488,457	-	1,488,457
– Performance rights	367,702	331,408	(105,714)	-	-	593,396	-	593,396
Mr Mark Smith								
– ESOP options	1,338,595	574,172	-	-	(424,310)	1,488,457	-	1,488,457
– Performance rights	367,702	331,408	(105,714)	-	-	593,396	-	593,396
Non-Executive Directors								
Dr David Klingner	-	-	-	-	-	-	-	-
Ms Luciana Rachid	-	-	-	-	-	-	-	-
Mr Geoff Atkins	-	-	-	-	-	-	-	-
Mr Clark Davey	-	-	-	-	-	-	-	-
Mr Peter Turnbull	-	-	-	-	-	-	-	-
Mr Jose Coutinho Barbosa								
– ESOP options	12,140	18,100	-	-	-	30,240	-	30,240
– Performance rights	31,321	36,246	-	-	(7,830)	59,737	-	59,737
Other key management personnel								
Mr Scott Hosking								
– ESOP options	431,730	222,340	-	-	(197,170)	456,900	-	456,900
– Performance rights	355,606	235,714	-	(57,162)	(79,122)	455,036	-	455,036
Mr Tim Hosking								
– ESOP options	464,182	238,068	-	-	(173,561)	528,689	-	528,689
– Performance rights	315,420	252,387	-	(55,350)	(76,613)	435,844	-	435,844
Mr Edward Munks								
– ESOP options	471,566	166,755	-	-	(246,462)	391,859	-	391,859
– Performance rights	466,837	333,929	(71,453)	-	(98,902)	630,411	-	630,411
Total key management personnel								
– Share options	4,056,808	1,793,607	-	-	(1,465,813)	4,384,602	-	4,384,602
– Performance rights	1,904,588	1,521,092	(282,881)	(112,512)	(262,467)	2,767,820	-	2,767,820

All ESOP options issued during the financial year were issued under the Karoon Gas Australia 2016 Employee Share Option Plan. All performance rights issued during the financial year were issued under the Karoon Gas Australia 2016 PRP.

The number of ordinary shares held by Directors and other key management personnel, including their personally related parties, as at 30 June 2018 was as follows:

	Balance as at 1 July 2017	Received as Remuneration	Exercised (Share Options)/Vested and Converted (Performance Rights)	Ordinary Shares Purchased	Ordinary Shares Sold	Balance as at 30 June 2018
Executive Directors						
Mr Robert Hosking	12,247,409	-	105,714	-	-	**12,353,123**
Mr Mark Smith	2,765,224	-	105,714	-	-	**2,870,938**
Non-Executive Directors						
Dr David Klingner	103,591	-	-	-	-	**103,591**
Ms Luciana Rachid	-	-	-	-	-	**-**
Mr Geoff Atkins	720,676	-	-	-	-	**720,676**
Mr Clark Davey	24,294	-	-	-	-	**24,294**
Mr Peter Turnbull	41,000	-	-	-	-	**41,000**
Mr Jose Coutinho Barbosa	-	-	-	-	-	**-**
Other key management personnel						
Mr Scott Hosking	195,206	-	-	-	-	**195,206**
Mr Tim Hosking	244,571	-	-	-	-	**244,571**
Mr Edward Munks	829,697	-	71,453	-	(71,453)	**829,697**
Total key management personnel	17,171,668	-	282,881	-	(71,453)	**17,383,096**

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.

Other Transactions with Directors and Other Key Management Personnel

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

There were no new related party transactions during the financial year. The relationships described below are carried forward from the previous financial year.

During the financial year, Mr Jose Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda that provided business and geology consulting services to the Group. The value of these transactions during the financial year in the Group was $321,395 (2017: $332,210). Given Karoon's relative size to other operators in Brazil, the consulting services provided by Net Pay Óleo & Gás Consultoria Ltda are required for Karoon to operate within the Brazilian oil industry.

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director, was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration (including share-based payments expense) during the financial year was $252,311 (2017: $242,372), which includes social security and indemnity fund contributions of $38,702 (2017: $16,535). Ms Barbosa has been an employee of the Company since 2011, and has a comprehensive understanding of the Brazilian legal and regulatory framework.

During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a KMP), was employed by the Group on a part-time basis as the Sustainability and Communications Manager South America. The total value of her remuneration (including share-based payments expense) during the financial year was $115,488 (2017: $152,478), which includes social security and indemnity fund contributions of $Nil (2017: $34,967). Ms Sayao is a key member of the South American operations. The Brazilian and Peruvian regulatory and business environments require transparent and clear communication on social and environmental issues with local and federal governments.

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Loans to Directors and Other Key Management Personnel

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

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

On behalf of the Directors:

Mr Peter Turnbull
Independent Interim Non-Executive Chairman

Mr Robert Hosking
Managing Director

25 September 2018

Auditor’s Independence Declaration

Auditor’s Independence Declaration

As lead auditor for the audit of Karoon Gas Australia Ltd for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Karoon Gas Australia Ltd and the entities it controlled during the financial year.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
25 September 2018

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

Consolidated Financial Statements

For the Financial Year Ended 30 June 2018

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. The principal place of business is Level 25, 367 Collins Street, Melbourne VIC 3000.

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

The consolidated financial statements are presented in Australian dollars.

Notes to the Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 30 June 2018

	Note	Consolidated 2018 $	Consolidated 2017 $
Revenue	4	710,652	858,356
Other income	4	12,993,578	-
Total revenue and other income		13,704,230	858,356
Business development and other project costs	5	(7,285,306)	(4,526,430)
Computer support		(1,590,595)	(1,669,920)
Consulting fees		(701,066)	(731,292)
Depreciation and amortisation expense	5	(730,834)	(1,048,998)
Drilling rig mobilisation expense	5	-	(16,513,578)
Employee benefits expense (net)		(11,339,308)	(12,651,679)
Exploration and evaluation expenditure expensed, impaired or written-off	5	(162,964,693)	(34,496,452)
Farm-out costs		(509,122)	(418,848)
Finance costs	5	(237,474)	(339,322)
Insurance expense		(309,867)	(354,334)
Write-down of inventory to net realisable value		(6,679,549)	(1,326,811)
Legal fees		(66,459)	(294,799)
Net foreign currency losses		-	(13,909,734)
Property costs		(1,925,006)	(2,279,177)
Share registry and listing fees		(168,286)	(182,727)
Telephone and communication expenses		(234,477)	(302,819)
Travel and accommodation expenses		(198,491)	(597,297)
Other expenses		(2,820,294)	(941,987)
Total expenses		(197,760,827)	(92,586,204)
Loss before income tax		(184,056,597)	(91,727,848)
Tax income	6	2,278,808	10,200,335
Loss for financial year attributable to equity holders of the Company		(181,777,789)	(81,527,513)
Other comprehensive income, net of income tax:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		(26,064,346)	(20,215,327)
Other comprehensive income (loss) for financial year, net of income tax		(26,064,346)	(20,215,327)
Total comprehensive loss for financial year attributable to equity holders of the Company, net of income tax		(207,842,135)	(101,742,840)
Loss per share attributable to equity holders of the Company:			
Basic loss per ordinary share	9	(0.7403)	(0.3327)
Diluted loss per ordinary share	9	(0.7403)	(0.3327)

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 2018

	Note	Consolidated 2018 $	2017 $
Current assets			
Cash and cash equivalents	10	333,572,953	375,069,427
Receivables	11	1,152,572	1,430,487
Inventories	12	-	10,858
Security deposits	13	18,955	24,746
Current tax asset	6	185,737	391,020
Other assets	14	782,828	2,129,830
Total current assets		335,713,045	379,056,368
Non-current assets			
Inventories	12	37,696,266	46,368,852
Plant and equipment	15	802,514	1,139,163
Intangible assets	16	781,514	1,167,575
Exploration and evaluation expenditure carried forward	17	209,629,983	371,029,112
Security deposits	13	10,297,243	7,808,766
Total non-current assets		259,207,520	427,513,468
Total assets		594,920,565	806,569,836
Current liabilities			
Trade and other payables	18	6,428,989	12,234,940
Provisions	19	283,500	246,647
Total current liabilities		6,712,489	12,481,587
Non-current liabilities			
Trade and other payables	18	279,544	318,976
Deferred tax liabilities	6	32,373,298	34,585,784
Provisions	19	329,520	291,324
Total non-current liabilities		32,982,362	35,196,084
Total liabilities		39,694,851	47,677,671
Net assets		555,225,714	758,892,165
Equity			
Contributed equity	20	802,295,334	802,295,334
Accumulated losses		(214,726,693)	(32,948,904)
Share-based payments reserve		47,710,299	43,534,615
Foreign currency translation reserve		(80,053,226)	(53,988,880)
Total equity		555,225,714	758,892,165

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 2018

	Consolidated				
	Contributed Equity $	Retained Earnings (Accumulated Losses) $	Share-based Payments Reserve $	Foreign Currency Translation Reserve $	Total Equity $
Balance as at 1 July 2016	802,967,815	48,578,609	40,189,876	(33,773,553)	857,962,747
Loss for financial year	-	(81,527,513)	-	-	(81,527,513)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(20,215,327)	(20,215,327)
Total comprehensive loss for financial year	-	(81,527,513)	-	(20,215,327)	(101,742,840)
Transactions with owners in their capacity as owners:					
Ordinary shares bought back (on-market) and cancelled	(671,998)	-	-	-	(671,998)
Share buy-back transaction costs	(483)	-	-	-	(483)
Share-based payments expense	-	-	3,590,639	-	3,590,639
Prior year adjustment to recognise cash-settled share-based payments	-	-	(245,900)	-	(245,900)
	(672,481)	-	3,344,739	-	2,672,258
Balance as at 30 June 2017	802,295,334	(32,948,904)	43,534,615	(53,988,880)	758,892,165
Loss for financial year	**-**	**(181,777,789)**	**-**	**-**	**(181,777,789)**
Exchange differences arising from the translation of financial statements of foreign subsidiaries	**-**	**-**	**-**	**(26,064,346)**	**(26,064,346)**
Total comprehensive loss for financial year	**-**	**(181,777,789)**	**-**	**(26,064,346)**	**(207,842,135)**
Transactions with owners in their capacity as owners:					
Share-based payments expense	**-**	**-**	**4,175,684**	**-**	**4,175,684**
	-	**-**	**4,175,684**	**-**	**4,175,684**
Balance as at 30 June 2018	**802,295,334**	**(214,726,693)**	**47,710,299**	**(80,053,226)**	**555,225,714**

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 2018

	Note	Consolidated 2018 $	Consolidated 2017 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST refunds)		1,690,938	2,009,829
Payments to suppliers and employees (inclusive of GST)		(21,965,953)	(38,048,826)
Payments for exploration and evaluation expenditure expensed		(5,569,499)	(3,095,573)
Interest received		560,291	1,055,846
Interest and other costs of finance paid		(237,474)	(323,035)
Income taxes refund		228,527	144,422
Net cash flows used in operating activities	26(a)	(25,293,170)	(38,257,337)
Cash flows from investing activities			
Purchase of plant and equipment		(197,791)	(200,862)
Purchase of computer software		(52,173)	(216,670)
Payments for exploration and evaluation expenditure capitalised		(25,542,883)	(52,476,682)
Repayment (payment) of security deposits		(2,422,599)	1,947,061
Proceeds from disposal of non-current assets		-	100
Net cash flows used in investing activities		(28,215,446)	(50,947,053)
Cash flows from financing activities			
Share buy-back (on-market)	20(b)	-	(672,687)
Payments for finance lease	26(c)	(64,290)	(66,150)
Net cash flows used in financing activities		(64,290)	(738,837)
Net decrease in cash and cash equivalents		(53,572,906)	(89,943,227)
Cash and cash equivalents at beginning of financial year		375,069,427	479,590,366
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		12,076,432	(14,577,712)
Cash and cash equivalents at end of financial year	10	333,572,953	375,069,427

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 2018

Note 1. Significant Accounting Policies

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

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

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (the 'AASB') and the *Corporations Act 2001*. The Company 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.

Currency of Presentation

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

Historical Cost Convention

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

Significant Accounting Estimates, Assumptions and Judgements

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

Compliance with International Financial Reporting Standards

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

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/or 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 2018.

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

(i) AASB 2016-2 *'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'*

The AASB amended AASB 107 '*Statement of Cash Flows*'. The amendments to AASB 107 required disclosure of changes in liabilities arising from financing activities (refer Note 26(c)); and

(ii) AASB 2017-2 *'Annual Improvements to Australian Accounting Standards – Further Improvements 2014-2016 Cycle'*. The relevant amendment to AASB 12 '*Disclosure of Interests in Other Entities*' required disclosure of whether its joint arrangements are strategic to the Group's activities (refer Note 23).

The adoption of all relevant new and/or revised Australian Accounting Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has had no effect on either the amounts reported for the current or previous financial years.

Early Adoption of Australian Accounting Standards

The Group has not elected to apply any new or revised Australian Accounting Standards before their operative date in the financial year beginning 1 July 2017.

(b) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2018 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 21.

Note 1. Significant Accounting Policies continued

(b) Basis of Consolidation continued

All subsidiaries have a financial year end of 30 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 31 December in accordance with relevant Brazilian and Peruvian tax and accounting regulations respectively.

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

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

(c) Segment Information

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

(d) Revenue

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

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').

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

Group Companies

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

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

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

(f) Income Taxes and Other Taxes

Current Tax

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

Deferred Tax

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

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

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

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

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

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

Tax Consolidation

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

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

Goods and Services Tax ('GST')

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

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

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

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

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

Note 1. Significant Accounting Policies continued

(f) Income Taxes and Other Taxes continued

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(n). An impairment is recognised when there is objective evidence that the Group will not be able to collect the receivable. The amount of the impairment loss is the receivable's carrying amount compared to the discounted value of estimated future cash flows, discounted when material, at the original effective interest rate.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories are represented by assets acquired from third parties, in the form of casing and other drilling inventory to be consumed or used in exploration and evaluation activities. They are presented as current assets unless inventories are not expected to be consumed or used in exploration and evaluation activities within 12 months.

The cost of casing and other drilling inventory includes direct materials, direct labour and transportation costs.

(j) Security Deposits

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

Security deposits are non-derivative financial assets that are not quoted in an active market. Security deposits are initially recognised at 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(n).

(k) 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(n).

(l) 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(n).

(m) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure for each 'area of interest' is fully 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.

Note 1. Significant Accounting Policies continued

(m) Exploration and Evaluation Expenditure continued

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

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.

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

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

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

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

Impairment losses are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

Assets that suffered impairment are tested for possible reversal of the impairment loss whenever events or changes in circumstances indicate that the impairment may have reversed.

(o) 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.

(p) Employee Benefits

Wages, Salaries, Annual Leave and Personal Leave

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

The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 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 Executive Directors and employees via the Company's PRP and ESOP (refer Note 27). The Group issues equity-settled and cash-settled share-based payments to certain employees.

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

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

The fair value of share options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the share option, the impact of dilution, the non-tradeable nature of the share option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share option.

The fair value of performance rights, granted for $Nil consideration, at grant date is based on the Company's closing share price at that date.

(q) 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.

Long Service Leave

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

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

(r) Contributed Equity

Ordinary shares are classified as equity.

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

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

Note 1. Significant Accounting Policies continued

(s) Interests in Joint Operations

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

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

The Group's share of assets, liabilities, revenues and expenses employed in joint operations is set out in Note 23.

(t) Leases

A lease is classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as a Lessee

Assets held under finance leases are initially recognised as an asset of the Group at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position. Lease payments are apportioned between finance charges and reduction of the finance lease liability so as to achieve a constant rate of interest on the remaining balance of the finance lease liability. Finance charges are recognised as finance costs in the consolidated statement of profit or loss and other comprehensive income. Leased assets are amortised over the term of the finance lease.

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.

(u) 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.

(v) Parent Company Financial Information

The financial information for the Parent Company, Karoon Gas Australia Ltd, disclosed in Note 29 has been prepared on the same basis as the consolidated financial statements, except as set out below:

Investments in Subsidiaries

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

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

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

Share-based Payments

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

(w) 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 15 *'Revenue from Contracts with Customers'*

AASB 15 '*Revenue from Contracts with Customers*' is the new standard for revenue recognition, replacing AASB 118 '*Revenue*'. The new standard's core principle will require the Group to recognise revenue to depict when control over a good or service is transferred to a customer in amounts that reflect the consideration (that is, payment) to which the Group expects to be entitled in exchange for those goods or services. At the present time, as revenue comprises only interest income from unrelated entities, AASB 15 will have no impact on the consolidated financial statements, as the Group does not currently have any revenue contracts with customers.

AASB 15 is applicable to annual reporting periods beginning on or after 1 January 2018, but is available for early adoption. The Group does not intend to adopt the new standard before its operative date, which means that it would first be applied during the financial year ending 30 June 2019, following the modified retrospective approach.

(ii) AASB 9 *'Financial Instruments'*

AASB 9 '*Financial Instruments*' includes guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. Based on the Group's initial assessment of the classification and measurement impacts of the new standard, the Group does not expect the new standard to have any impact on the classification of its financial assets. As the Group does not hold any financial liabilities at fair value through profit or loss, the Group does not expect any impact of the new standard on financial liabilities. As the Group has not undertaken any hedging, the Group does not expect any impact of the new standard as a result of hedge accounting. The new standard, however, will require additional disclosures around credit risk and, if any, expected credit losses.

AASB 9 is applicable to annual reporting periods beginning on or after 1 January 2018, but is available for early adoption. The Group does not intend to adopt the new standard before its operative date, which means that it would first be applied during the financial year ending 30 June 2019.

(iii) AASB 2016-5 *'Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions'*

The amendments to AASB 2 address the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, and the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Group has assessed the amended AASB 2's will have little impact on cash-settled share-based payments in the Group.

The amendments are applicable to annual reporting periods beginning on or after 1 January 2018, but is available for early adoption. The Group does not intend to adopt the revised standard before its operative date, which means that it would first be applied during the financial year ending 30 June 2019.

(iv) AASB 16 *'Leases'*

AASB 16 '*Leases*' is the new standard for lease recognition, replacing AASB 117 '*Leases*'. AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The new standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right-to-use the leased item) and a financial liability to pay rentals.

Whilst the Group only operates as a lessee, implementation of AASB 16 will have an impact on the consolidated financial statements as it will result in the recognition of all relevant non-cancellable operating lease commitments, with a term of more than 12 months, on the consolidated statement of financial position.

As at 30 June 2018, the Group had non-cancellable operating lease commitments of $1,612,344 (refer to Note 25(b)). Of these commitments, approximately $167,052 relate to short-term leases (a term of 12 months or less).

Note 1. Significant Accounting Policies continued

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

(iv) AASB 16 *'Leases'* continued

As some of the non-cancellable operating leases expire prior to implementation of the new standard, and decisions on the extension of existing and new operating leases will be made as projects progress, the Group has not yet finalised the quantification of the impact of AASB 16. However, the following impacts on the consolidated financial statements are expected:

(a) total assets and liabilities on the consolidated statement of financial position will increase;

(b) the straight-line rental expense on operating leases will be replaced with a depreciation charge for the right-of-use assets and interest expense on lease liabilities;

(c) finance costs will increase due to the unwinding of the effective interest rate (at the Group's 'incremental' borrowing rate) in lease liabilities; and

(d) repayment of the principal portion of all lease liabilities will be classified as financing activities in the consolidated statement of cash flows.

The Group intends to apply the simplified transition approach allowed under AASB 16 and will therefore not restate comparative amounts for the financial year prior to first adoption.

AASB 16 is applicable for annual reporting periods beginning on or after 1 January 2019, but is available for early adoption. The Group does not intend to adopt the new standard before its operative date, which means that it would first be applied during the financial year ending 30 June 2020.

(v) AASB Interpretation 23 *'Uncertainty over Income Tax Treatments'*

Interpretation 23 clarifies how to apply the recognition and measurement requirements in AASB 112 '*Income Taxes*' when there is uncertainty over income tax treatments. The Group currently recognises provisions based on the most likely amount of the liability, if any, for each uncertain tax position. The Interpretation requires a probability weighed average approach to be taken for tax issues for which there are a wide range of possible outcomes. For tax issues with a binary outcome, the most likely amount method should continue to be used. The Group does not anticipate that application of Interpretation 23, as currently assessed, will have a material impact on the consolidated financial statements.

Interpretation 23 is applicable to annual reporting periods beginning on or after 1 January 2019, but is available for early adoption. The Group does not intend to adopt it before its operative date, which means that it would first be applied during the financial year ending 30 June 2020.

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

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

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.

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

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

(b) Share-based Payments

The Group measures the cost of share-based payment transactions with Directors and employees by reference to the fair value of the share options at the date they were granted. Fair value is ascertained using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. The cumulative share-based payments expense recognised reflects the extent, in the opinion of management, to which the vesting period has expired and the number of share options and performance rights granted that will ultimately vest or be settled in cash. At the end of each reporting period, the unvested share options, performance rights and cash-settled share-based payment liability are adjusted by the number forfeited during the reporting period to reflect the actual number of share options and performance rights outstanding and cash liability to be settled. Management is of the opinion that this represents the most accurate estimate of the number of share options and performance rights that will ultimately vest.

(c) 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 relevant tax laws. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax balances in the financial period in which such determination is made.

The Group has not recognised deferred tax assets in respect of Brazilian and Peruvian 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.

(d) Joint Arrangements

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

Note 3. Financial Risk Management

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

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

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

The Group's financial instruments consist of cash and cash equivalents, receivables, security deposits, trade and other payables.

The Group had no off-statement of financial position financial assets or financial liabilities at either 30 June 2018 or 30 June 2017.

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

		Consolidated	
	Note	2018 $	2017 $
Financial assets			
Cash and cash equivalents	10	333,572,953	375,069,427
Receivables	11	1,152,572	1,430,487
Security deposits	13	10,316,198	7,833,512
Total financial assets		345,041,723	384,333,426
Financial liabilities			
Trade and other payables (refer note (a) below)		5,387,801	11,124,528
Total financial liabilities		5,387,801	11,124,528
(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	18	6,708,533	12,553,916
Less: Leave liabilities		(1,320,732)	(1,429,388)
		5,387,801	11,124,528

(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 predominantly to the United States dollar and Brazilian REAL. The Group manages foreign exchange risk at the corporate level by monitoring forecast cash flows in currencies other than Australian dollars and ensuring that adequate United States dollar and Brazilian REAL cash balances are maintained.

Foreign currencies are bought on the spot market in excess of immediate requirements. Where currencies are purchased in advance of requirements, these balances do not usually exceed 3 months requirements. The appropriateness of United States dollar holdings are reviewed regularly against future commitments and current Australian dollar market expectations.

Periodically, sensitivity analysis is conducted to evaluate the potential impact of unfavourable exchange rates on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. The Group will hedge when it is deemed the most appropriate risk mitigation tool to be used.

Foreign currency hedging transactions were not entered into during the financial year or previous financial year.

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

	2018				2017			
	AUD	USD	REAL	Total	AUD	USD	REAL	Total
Consolidated	$	$	$	$	$	$	$	$
Financial assets								
Cash and cash equivalents	1,658,203	329,996,027	1,918,723	333,572,953	1,593,332	372,613,005	863,090	375,069,427
Receivables	376,922	694,732	80,918	1,152,572	39,781	1,382,239	8,467	1,430,487
Security deposits	430,695	7,701,406	2,184,097	10,316,198	430,694	7,364,726	38,092	7,833,512
Total financial assets	2,465,820	338,392,165	4,183,738	345,041,723	2,063,807	381,359,970	909,649	384,333,426
Financial liabilities								
Trade and other payables	3,558,729	669,993	1,159,079	5,387,801	2,644,329	1,013,168	7,467,031	11,124,528
Total financial liabilities	3,558,729	669,993	1,159,079	5,387,801	2,644,329	1,013,168	7,467,031	11,124,528

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
	2018	2017	2018	2017
	$	$	$	$
Change in profit (loss) before income tax				
– Improvement in AUD by 10.0%	-	-	(30,686,098)	(34,508,426)
– Decline in AUD by 10.0%	-	-	37,505,229	42,176,965
Change in financial assets				
– Improvement in AUD by 10.0%	(380,340)	(82,695)	(30,762,924)	(34,669,088)
– Decline in AUD by 10.0%	464,860	101,072	37,599,129	42,373,330
Change in financial liabilities				
– Improvement in AUD by 10.0%	105,371	678,821	60,908	92,106
– Decline in AUD by 10.0%	(128,787)	(829,670)	(74,444)	(112,574)
Change in foreign currency translation reserve				
– Improvement in AUD by 10.0%	274,969	(596,126)	15,918	68,556
– Decline in AUD by 10.0%	(336,073)	728,598	(19,456)	(83,791)

(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 2018 and 30 June 2017, there was no interest rate hedging in place.

Note 3. Financial Risk Management continued

(a) Market Risk continued

(ii) Interest Rate Risk continued

The Group's interest rate risk arises from relevant financial assets, primarily cash and cash equivalents deposited at variable rates of interest and security deposits related to Australia. As the majority of cash and cash equivalents is in United States dollars, the primary exposure is to United States interest rates.

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

	Consolidated					
2018	Weighted Average Interest Rate % p.a.	Floating Interest Rate $	Fixed Interest Rate $	Non-interest Bearing $	Fair Value $	Carrying Amount $
Financial assets						
Cash and cash equivalents	0.08	326,019,829	6,863,024	690,100	333,572,953	333,572,953
Receivables	-	-	-	1,152,572	1,152,572	1,152,572
Security deposits	2.13	4,813	8,110,455	2,200,930	10,316,198	10,316,198
Total financial assets		326,024,642	14,973,479	4,043,602	345,041,723	345,041,723
Financial liabilities						
Trade and other payables	8.45	-	122,043	5,265,758	5,387,801	5,387,801
Total financial liabilities		-	122,043	5,265,758	5,387,801	5,387,801

	Consolidated					
2017	Weighted Average Interest Rate % p.a.	Floating Interest Rate $	Fixed Interest Rate $	Non-interest Bearing $	Fair Value $	Carrying Amount $
Financial assets						
Cash and cash equivalents	0.03	367,494,725	6,527,239	1,047,463	375,069,427	375,069,427
Receivables	-	-	-	1,430,487	1,430,487	1,430,487
Security deposits	1.27	4,812	7,743,708	84,992	7,833,512	7,833,512
Total financial assets		367,499,537	14,270,947	2,562,942	384,333,426	384,333,426
Financial liabilities						
Trade and other payables	8.45	-	209,400	10,915,128	11,124,528	11,124,528
Total financial liabilities		-	209,400	10,915,128	11,124,528	11,124,528

Interest Rate Sensitivity Analysis

The following table details the Group's sensitivity to a 1.0% p.a. increase or decrease in interest rates, with all other variables held constant. The sensitivity analysis is based on the balance of floating interest rate amounts held at the end of the financial year.

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

	Consolidated	
	2018 $	2017 $
Change in profit (loss) before income tax		
– Increase of interest rate by 1.0% p.a.	3,260,246	3,674,995
– Decrease of interest rate by 1.0% p.a.	(31,194)	(16,392)
Change in financial assets		
– Increase of interest rate by 1.0% p.a.	3,260,246	3,674,995
– Decrease of interest rate by 1.0% p.a.	(31,194)	(16,392)

(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 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/A2 are accepted. For banks and financial institutions in Brazil and Peru, only independently rated counterparties with a minimum rating of BBB+/Baa1 are accepted. For banks and financial institutions in Brazil and Peru with independently rated counterparties ratings below BBB+/Baa1, exposure cannot exceed the short-term country specific cash requirements. 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 National Australia Bank Limited and HSBC Group, the maximum amount of exposure as at 30 June 2018 was $324,436,451 (30 June 2017: $367,409,992) and $8,222,145 (30 June 2017: $7,772,220) respectively. The Group is also exposed to credit risk in relation to cash and cash equivalents held with the Commonwealth Bank Limited in Australia and Banco Bradesco SA in Brazil, the maximum amount of exposure as at 30 June 2018 was $6,863,024 (30 June 2017: $6,527,239) and $4,086,781 (30 June 2017: $862,006) respectively.

As at 30 June 2018, there were $Nil (30 June 2017: $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 $326,709,929 (30 June 2017: $368,542,188) that are expected to readily generate cash inflows for managing liquidity risk.

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

The following mechanisms are utilised to manage liquidity risk:

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

Note 3. Financial Risk Management continued

(c) Liquidity Risk continued

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

	Consolidated			
	Less than 6 Months	6 –12 Months	1 – 2 Years	Total
2018	$	$	$	$
Financial liabilities				
Trade and other payables	5,313,952	48,194	25,655	5,387,801
Total financial liabilities	5,313,952	48,194	25,655	5,387,801
2017	$	$	$	$
Financial liabilities				
Trade and other payables	10,759,604	45,948	318,976	11,124,528
Total financial liabilities	10,759,604	45,948	318,976	11,124,528

(d) Fair Value Estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 30 June 2018 and 30 June 2017 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 nature of these financial liabilities, their carrying amounts are a reasonable approximation of their fair values.

	Consolidated	
	2018	2017
	$	$
Note 4. Revenue		
Interest income from unrelated entities	710,652	858,356
Total revenue	710,652	858,356
Net foreign currency gains	12,993,578	-
Total other income	12,993,578	-

	Note	Consolidated 2018 $	2017 $

Note 5. Expenses

Loss before income tax includes the following specific expenses:

	Note	2018 $	2017 $
Depreciation and amortisation expense:			
– depreciation of plant and equipment	15	371,394	672,460
– amortisation of computer software	16	359,440	376,538
Total depreciation and amortisation expense		730,834	1,048,998
Exploration and evaluation expenditure expensed, impaired or written-off:			
– exploration and evaluation expenditure expensed		5,569,500	3,067,253
– exploration and evaluation expenditure written-off	17	5,892,079	9,791,031
– exploration and evaluation expenditure impaired	17	151,503,114	21,638,168
Total exploration and evaluation expenditure expensed, impaired or written-off		162,964,693	34,496,452
Finance costs:			
– finance charges under finance lease		14,300	16,287
– bank charges		223,174	323,035
Total finance costs		237,474	339,322
Share-based payments expense	27(d)	4,409,889	3,797,668
Rental expense on operating leases – minimum lease payments		1,583,097	1,920,137
Business development and other project costs (refer (a) below)		7,285,306	4,526,430
Write-down of inventory to net realisable value (refer (b) below)		6,679,549	1,326,811
Loss on disposal of inventory (refer (c) below)		1,157,407	-
Drilling rig mobilisation expense (refer (d) below)		-	16,513,578

(a) Reviewing new exploration opportunities predominantly in Australia and Brazil on business development and other project activities that includes internal time allocation of employees and consultants and associated office charges, geotechnical data and external advice relating to due diligence reviews on potential asset acquisitions.

(b) The write-down of inventory during the financial year resulted predominantly from potential well design specifications and number of wells being considered as part of the ongoing Neon and Goiá work and the potential future development of the Neon light oil discovery, which is distinct from inventory requirements for exploration drilling.

(c) Loss on disposal of inventory relates to the liquid mud inventory for Block Z-38 in Peru, following the liquid mud plant demobilisation during the financial year.

(d) The drilling rig for Brazil was released during the previous financial year, without drilling any of the Santos Basin planned wells. Accordingly, drilling rig mobilisation costs incurred during the previous financial year were expensed.

	Note	Consolidated 2018 $	Consolidated 2017 $
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		264,780	(971,764)
Adjustments in respect of current tax of previous financial years		(30,739)	57,269
Deferred tax		2,044,767	11,114,830
Total tax income		2,278,808	10,200,335
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%		55,216,980	27,518,355
Add the tax effect of:			
Share-based payments expense (non-cash)		(1,252,705)	(1,077,192)
Other non-deductible items		(6,158,578)	(4,053,605)
Tax losses and temporary tax differences not previously recognised		(52,160,484)	(15,272,358)
Adjustment for current tax of previous financial years		(30,739)	-
Subtract the tax effect of:			
Difference in overseas tax rates		5,947,964	1,933,514
Adjustment for current tax of previous financial years		-	57,269
Non-assessable income		716,370	1,094,352
Total tax income		2,278,808	10,200,335

(b) Amounts Recognised Directly in Equity

Aggregate current and deferred tax arising during the financial year and not recognised in net profit or loss, but directly debited or credited in equity:

	Note	2018 $	2017 $
Deferred tax – credited directly in contributed equity	20(b)	-	206

(c) Current Tax Asset

	2018 $	2017 $
Income tax receivable	185,737	391,020
Total current tax asset	185,737	391,020

(d) Deferred Tax Balances

	Consolidated			
	Balance as at 1 July 2017 $	Charged (Credited) to Profit or Loss $	Charged (Credited) Directly to Equity $	Balance as at 30 June 2018 $
Temporary differences				
Exploration and evaluation expenditure	(15,300,720)	3,207,800	-	**(12,092,920)**
Provisions and accruals	632,718	(52,937)	-	**579,781**
Equity raising transaction costs	402,595	(394,294)	-	**8,301**
Unrealised foreign currency gains	(21,321,066)	(795,556)	-	**(22,116,622)**
Farm-out expenditures	92,946	85,793	-	**178,739**
Other	16,912	(6,039)	-	**10,873**
Total temporary differences	(35,476,615)	2,044,767	-	**(33,431,848)**
Unused tax losses				
Tax losses	890,831	167,719	-	**1,058,550**
Total unused tax losses	890,831	167,719	-	**1,058,550**
Net deferred tax liabilities	(34,585,784)	2,212,486	-	**(32,373,298)**
Presented in the consolidated statement of financial position as follows:				
Deferred tax liabilities	(34,585,784)			**(32,373,298)**

	Consolidated	
	2018 $	2017 $
Deferred tax liabilities expected to be settled within 12 months	**(5,529,155)**	(5,330,267)
Deferred tax liabilities expected to be settled after more than 12 months	**(26,844,143)**	(29,255,517)
Deferred tax liabilities	**(32,373,298)**	(34,585,784)

(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 at a tax rate of 34%	**31,983,685**	-
Tax losses: Brazilian operating losses at a tax rate of 34%	**39,524,231**	26,336,834
Tax losses: Peruvian operating losses at a tax rate of 32%	**8,923,638**	5,437,371
Potential tax income	**80,431,554**	31,774,205

(f) Unrecognised Taxable Temporary Differences

Temporary tax differences relating to deferred tax liabilities	**(5,106,132)**	(19,842,555)
Offset by deferred tax assets relating to operating losses	**5,106,132**	19,842,555
Total deferred tax liabilities (unrecognised)	**-**	-

Note 6. Income Tax continued

(f) Unrecognised Taxable Temporary Differences continued

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 2018 of $129,696,596 (2017: $217,337,527). 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 $36,315,047 (2017: $60,854,508).

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 may be transferred, subject to satisfying certain conditions, between projects within the Group or to other third parties on acquisitions of interests in the Group's Australian offshore permits.

	Consolidated	
	2018 $	2017 $
Note 7. Remuneration of External Auditors		
Remuneration received or due and receivable by the external auditor of the Company for:		
(a) PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	157,590	157,590
Total remuneration for audit and other assurance services	157,590	157,590
(ii) Other services		
Australian tax advice	22,500	15,000
Due diligence services	330,727	-
Taxation services	346,702	62,500
Other non-audit services	59,116	-
Total remuneration of PricewaterhouseCoopers Australia	916,635	235,090
(b) Related Practices of PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	153,105	165,227
Due diligence services	2,496	209,363
Other non-audit services	5,594	-
Total remuneration for audit and other assurance services of related practices of PricewaterhouseCoopers Australia	161,195	374,590
(ii) Other services		
Taxation services	221,813	-
Total remuneration of related practices of PricewaterhouseCoopers Australia	383,008	374,500
Total remuneration of external auditors	1,299,643	609,680
Note 8. Dividends		
There were no ordinary dividends declared or paid during the financial year by the Group (2017: $Nil).		
Balance of franking account available for subsequent reporting periods	13,164,770	13,164,770
The above amount is calculated from the balance of the Company's franking account as at the end of the financial year. Franking credits are based on the Australian tax rate of 30%.		

Note 9. Earnings Per Share

	Consolidated 2018 $	2017 $
Loss for the financial year used to calculate basic and diluted earnings per ordinary share:	**(181,777,789)**	(81,527,513)
(a) Basic loss per ordinary share	**(0.7403)**	(0.3327)
(b) Diluted loss per ordinary share*	**(0.7403)**	(0.3327)
* Diluted loss per ordinary share equates to basic loss per ordinary share in the current and previous financial year because a loss per ordinary share is not considered dilutive for the purposes of calculating earnings per share pursuant to AASB 133 '*Earnings per Share*'.		
Weighted average number of ordinary shares on issue during the financial year used in calculating basic earnings per ordinary share:	**245,560,596**	245,034,116
Weighted average number of potential ordinary shares:	**5,842,566**	4,012,485
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per ordinary share (excluding anti-dilutive share options outstanding):	**251,403,162**	249,046,601
Weighted average number of anti-dilutive share options:	**7,075,268**	7,267,017

Potential ordinary shares

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

Note 10. Cash and Cash Equivalents

	2018 $	2017 $
Cash at banks and on hand (refer note (a) below)	**325,113,355**	368,390,294
Short-term bank deposits (refer note (b) below)	**8,459,598**	6,679,133
Total cash and cash equivalents	**333,572,953**	375,069,427

(a) Cash and Cash Equivalents of Joint Operations

Cash and cash equivalents includes share of joint operation cash and short-term bank deposit balances. Refer to Note 23 for further details.

(b) Short-term Bank Deposits

Short-term bank deposits are made for varying periods of between 1 day and 120 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 2018 $	Consolidated 2017 $
Note 11. Receivables		
Current		
Other receivables	1,152,572	1,430,487
Total current receivables	1,152,572	1,430,487

(a) Financial Risk Management

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

	Consolidated 2018 $	Consolidated 2017 $
Note 12. Inventories		
Current		
Casing and other drilling inventory	-	10,858
Total current inventories	-	10,858
Non-current		
Casing and other drilling inventory	37,696,266	46,368,852
Total non-current inventories	37,696,266	46,368,852
Note 13. Security Deposits		
Current		
Karoon Petróleo & Gas Ltda, KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note (d) below)	18,955	24,746
Total current security deposits	18,955	24,746
Non-current		
Karoon Gas Australia Ltd (refer note (a) below)	7,684,573	7,317,827
Karoon Petróleo & Gas Ltda (refer note (b) below)	2,169,021	-
Karoon Gas Australia Ltd (refer note (c) below)	430,695	430,693
KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note (d) below)	12,954	60,246
Total non-current security deposits	10,297,243	7,808,766

(a) Performance Guarantee

Performance guarantee (via a letter of credit) provided to Perupetro SA (the Peruvian oil and gas regulator) for Block Z-38 by the Group (refer Note 24) for third period work commitments. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work commitments are met.

(b) Guarantee Bond

The Group has provided the ANP (the Brazilian oil and gas regulator) a letter of credit (refer Note 24) to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work program is met.

(c) Bank Guarantees

Cash deposits are held as security against bank guarantee facilities for bank guarantees (refer Note 24) given to lessors for the Group's compliance with its obligations in respect of operating lease rental agreements for office premises.

(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 24) of payment obligations for 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.

	Note	Consolidated 2018 $	2017 $
Note 14. Other Assets			
Current			
Prepayments		782,828	2,129,830
Total current other assets		782,828	2,129,830

Note 15. Plant and Equipment

	Note	2018 $	2017 $
Plant and equipment			
At cost		5,191,476	5,527,586
Accumulated depreciation		(4,388,962)	(4,388,423)
Total plant and equipment		802,514	1,139,163

Reconciliation

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

	Note	2018 $	2017 $
Balance at beginning of financial year		1,139,163	1,603,216
Additions	22(c)	216,372	254,565
Disposals		(144,527)	-
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(37,100)	(46,158)
Depreciation expense	5	(371,394)	(672,460)
Carrying amount at end of financial year		802,514	1,139,163

Note 16. Intangible Assets

	Note	2018 $	2017 $
Computer software			
At cost		3,077,235	3,185,839
Accumulated amortisation		(2,295,721)	(2,018,264)
Total intangibles		781,514	1,167,575

Reconciliation

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

	Note	2018 $	2017 $
Balance at beginning of financial year		1,167,575	1,116,739
Additions	22(c)	81,468	492,473
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(108,089)	(65,099)
Amortisation expense	5	(359,440)	(376,538)
Carrying amount at end of financial year		781,514	1,167,575

	Note	Consolidated 2018 $	Consolidated 2017 $
Note 17. Exploration and Evaluation Expenditure Carried Forward			
Geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs		209,629,983	371,029,112
Reconciliation			
The reconciliation of exploration and evaluation expenditure carried forward is set out below:			
Balance at beginning of financial year		371,029,112	376,766,598
Additions	22(c)	19,175,698	41,730,248
Exploration and evaluation expenditure written-off (refer note (a) below)	5	(5,892,079)	(9,791,031)
Exploration and evaluation expenditure impaired (refer note (b) below)	5	(151,503,114)	(21,638,168)
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(23,179,634)	(16,038,535)
Total exploration and evaluation expenditure carried forward (refer note (c) below)		209,629,983	371,029,112
Intangible		209,629,983	371,029,112

(a) The liquid mud plant for Block Z-38 was demobilised during the financial year, as more cost effective alternatives were considered whilst the block was under force majeure. Accordingly, previously capitalised mud plant costs in exploration and evaluation expenditure were written-off during the financial year (30 June 2017: exploration and evaluation expenditure carried forward associated with Block 144 had been written-off as the block was relinquished during the previous financial year. In addition, exploration and evaluation expenditure carried forward associated with drilling rig mobilisation costs capitalised was written-off, as the rig for Brazil was released without drilling any of the planned Santos Basin wells).

(b) As part of the review of the Group's non-current assets as at 30 June 2018, exploration and evaluation expenditure carried forward has been fully impaired for:

(i) exploration Blocks S-M-1101 and S-M-1165, including the Goiá light oil discovery, following the probabilistic reassessment of its contingent resources at the 2C level to 27 mmbbls during May 2018, re-assessment of its associated economics, and the Group's primary focus on developing the Neon light oil discovery. A future development of the Goiá light oil discovery would be largely dependent on a successful development of the Neon light oil discovery and associated economics. Under AASB 6 area of interest both light oil discoveries have been assessed independently of each other (30 June 2017: exploration and evaluation expenditure carried forward associated with Block S-M-1166, including the Bilby oil discovery, had been fully impaired as at 30 June 2017); and

(ii) exploration permit WA-314-P as active and significant exploration and evaluation activities in relation to the permit are no longer continuing at the present time. Karoon's continued presence in this permit remains subject to industry interest in progressing exploration and approval of its application for suspension, extension and variation of title conditions with the regulatory authority (NOPTA). A decision on whether to proceed into the next permit period will be made during the 31 December 2018 financial half-year. The current term (Years 1-3) of WA-314-P ends 13 October 2018.

(c) Exploration and evaluation expenditure carried forward relates to areas of interest in the exploration and evaluation phase for exploration tenements EPP46, WA-482-P, Block S-M-1037, Block S-M-1102, Block S-M-1537 and Block Z-38 (30 June 2017: EPP46, WA-314-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165 and Block Z-38).

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

	Note	Consolidated 2018 $	Consolidated 2017 $
Note 18. Trade and Other Payables			
Current (unsecured)			
Trade payables		2,011,915	7,888,550
Sundry payables and accruals		4,029,890	4,113,505
Cash-settled share-based payments	28(d)	290,796	140,990
Finance lease liability		96,388	91,895
Total current trade and other payables		6,428,989	12,234,940
Non-current (unsecured)			
Cash-settled share-based payments	28(d)	253,889	201,471
Finance lease liability		25,655	117,505
Total non-current trade and other payables		279,544	318,976

(a) Financial Risk Management

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

	Consolidated 2018 $	Consolidated 2017 $
Note 19. Provisions		
Current		
Provision for long service leave (refer note (a) below)	283,500	246,647
Total current provision	283,500	246,647
Non-current		
Provision for long service leave (refer note (a) below)	329,520	291,324
Total non-current provisions	329,520	291,324

(a) Provision for Long Service Leave

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

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

	Consolidated 2018 Number	Consolidated 2017 Number	Consolidated 2018 $	Consolidated 2017 $
Note 20. Contributed Equity and Reserves Within Equity				
(a) Contributed Equity				
Ordinary shares, fully paid	245,721,153	245,217,605	802,295,334	802,295,334
Total contributed equity			802,295,334	802,295,334

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.

Note 20. 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 2016	Opening balance in previous financial year		245,260,124		802,967,815
	Performance rights conversion	27(c)	472,426	-	-
	Ordinary shares bought back (on-market) and cancelled		(514,945)		(671,998)
	Share buy-back transaction costs				(689)
	Deferred tax credit recognised directly in equity	6(b)			206
30 June 2017	Balance at end of previous financial year		245,217,605		802,295,334
	Performance rights conversion	27(c)	**503,548**	**-**	**-**
30 June 2018	Balance at end of financial year		**245,721,153**		**802,295,334**

(c) Capital Management

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

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

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

There is no current on-market share buy-back.

(d) Reserves Within Equity

(i) Share-based Payments Reserve

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

(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 21. Subsidiaries

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

Name	Country of Incorporation or Registration	Business Activities Carried on in	Percentage of Equity and Voting Interests Held by the Group 2018 %	2017 %
Parent Company:				
Karoon Gas Australia Ltd	Australia	Australia		
Unlisted subsidiaries of Karoon Gas Australia Ltd:				
Karoon Energy International Pty Ltd	Australia	Australia	100	100
Karoon Gas Browse Basin Pty Ltd	Australia	Australia	100	100
Karoon Gas (FPSO) Pty Ltd	Australia	Australia	100	100
Unlisted subsidiaries of Karoon Energy International Pty Ltd:				
KEI (Brazil Santos) Pty Ltd	Australia	Australia	100	100
KEI (Peru 112) Pty Ltd	Australia	Australia	100	100
KEI (Peru Z38) Pty Ltd	Australia	Australia	100	100
Jointly owned unlisted subsidiary of Karoon Energy International Pty Ltd and KEI (Brazil Santos) Pty Ltd:				
Karoon Petróleo & Gas Ltda	Brazil	Brazil	100	100
Branch of KEI (Peru 112) Pty Ltd:				
KEI (Peru 112) Pty Ltd, Sucursal del Peru	Peru	Peru	100	100
Branch of KEI (Peru Z38) Pty Ltd:				
KEI (Peru Z38) Pty Ltd, Sucursal del Peru	Peru	Peru	100	100

Note 22. Segment Information

(a) Description of Segments

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

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

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

- Australia – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in 3 offshore exploration permit areas: WA-314-P, WA-482-P and EPP46;
- Brazil – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in 5 offshore exploration blocks: Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165 and Block S-M-1537. Block S-M-1537 was acquired during the financial year. Block S-M-1166 was requested to be relinquished during the financial year; and
- Peru – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in offshore exploration Block Z-38.

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

Note 22. Segment Information continued

(a) Description of Segments continued

Employee benefits expense 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.

(b) Operating Segments

Segment Performance	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
Result for financial year ended 30 June 2018					
Segment revenue (interest income from unrelated entities)	242,403	455,079	13,170	-	710,652
Other income	12,955,238	50,752	(12,412)	-	12,993,578
Business development and other project costs	(79,648)	(6,463,603)	-	(742,055)	(7,285,306)
Depreciation and amortisation expense	(152,588)	(421,828)	(156,418)	-	(730,834)
Employee benefits expense (net)^	(7,553,915)	(3,259,339)	(526,054)	-	(11,339,308)
Exploration and evaluation expenditure expensed, impaired or written-off	(11,670,959)	(144,386,155)	(6,725,744)	(181,835)	(162,964,693)
Finance costs	(9,288)	(157,793)	(70,393)	-	(237,474)
Write-down of inventory to net realisable value	(9,944)	(6,669,605)	-	-	(6,679,549)
Property costs	(773,591)	(877,191)	(274,224)	-	(1,925,006)
Administration and other operating expenses	(2,404,555)	(1,423,438)	(2,770,664)	-	(6,598,657)
Loss before income tax	(9,456,847)	(163,153,121)	(10,522,739)	(923,890)	(184,056,597)
Tax income	2,278,808	-	-	-	2,278,808
Loss for financial year	(7,178,039)	(163,153,121)	(10,522,739)	(923,890)	(181,777,789)
Result for financial year ended 30 June 2017					
Segment revenue (interest income from unrelated entities)	146,747	711,557	52	-	858,356
Business development and other project costs	(136,206)	(4,390,224)	-	-	(4,526,430)
Depreciation and amortisation expense	(350,456)	(408,782)	(289,760)	-	(1,048,998)
Drilling rig mobilisation expense	-	(16,513,578)	-	-	(16,513,578)
Employee benefits expense (net)^^	(8,797,547)	(2,736,569)	(1,117,563)	-	(12,651,679)
Exploration and evaluation expenditure expensed, impaired or written-off	641,063	(27,316,536)	(6,831,249)	(989,730)	(34,496,452)
Finance costs	(17,608)	(239,572)	(82,142)	-	(339,322)
Write-down of inventory to net realisable value	-	(1,326,811)	-	-	(1,326,811)
Net foreign currency losses	(14,808,172)	859,328	39,110	-	(13,909,734)
Property costs	(776,352)	(1,169,944)	(332,881)	-	(2,279,177)
Administration and other operating expenses	(2,854,461)	(1,478,891)	(1,160,671)	-	(5,494,023)
Loss before income tax	(26,952,992)	(54,010,022)	(9,775,104)	(989,730)	(91,727,848)
Tax income	10,200,335	-	-	-	10,200,335
Loss for financial year	(16,752,657)	(54,010,022)	(9,775,104)	(989,730)	(81,527,513)

^ Includes share-based payments expense of $3,256,798 (Australia) and $1,153,091 (Brazil) during the financial year.

^^ Includes share-based payments expense of $3,038,026 (Australia), $661,591 (Brazil) and $98,051 (Peru) during the previous financial year.

Segment Assets	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
As at 30 June 2018					
Segment asset information					
Cash and cash equivalents	331,353,468	2,019,810	199,675	-	333,572,953
Exploration and evaluation expenditure carried forward	41,774,616	103,474,676	64,380,691	-	209,629,983
Security deposits	430,695	2,184,097	7,701,406	-	10,316,198
Inventories	-	12,815,556	24,880,710	-	37,696,266
Other	747,017	1,806,235	1,151,913	-	3,705,165
Segment assets	374,305,796	122,300,374	98,314,395	-	594,920,565
As at 30 June 2017					
Segment asset information					
Cash and cash equivalents	373,920,044	898,220	251,163	-	375,069,427
Exploration and evaluation expenditure carried forward	52,467,284	254,225,048	64,336,780	-	371,029,112
Security deposits	430,694	38,092	7,364,726	-	7,833,512
Inventories	10,858	21,145,461	25,223,391	-	46,379,710
Other	1,256,717	2,958,744	2,042,614	-	6,258,075
Segment assets	428,085,597	279,265,565	99,218,674	-	806,569,836

Segment Liabilities	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
As at 30 June 2018					
Segment liability information					
Trade and other payables	3,321,249	2,759,038	628,246	-	6,708,533
Deferred tax liabilities	32,373,298	-	-	-	32,373,298
Provisions	613,020	-	-	-	613,020
Segment liabilities	36,307,567	2,759,038	628,246	-	39,694,851
As at 30 June 2017					
Segment liability information					
Trade and other payables	3,424,634	8,232,785	896,497	-	12,553,916
Deferred tax liabilities	34,585,784	-	-	-	34,585,784
Provisions	537,971	-	-	-	537,971
Segment liabilities	38,548,389	8,232,785	896,497	-	47,677,671

Note 22. Segment Information continued

(c) Other Segment Information

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

	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
Financial year ended 30 June 2018					
Plant and equipment	2,038	18,030	196,304	-	216,372
Intangible assets	42,305	37,404	1,759	-	81,468
Exploration and evaluation expenditure carried forward	808,269	14,669,756	3,697,673	-	19,175,698
Financial year ended 30 June 2017					
Plant and equipment	33,450	211,342	9,773	-	254,565
Intangible assets	2,068	486,894	3,511	-	492,473
Exploration and evaluation expenditure carried forward	2,440,517	33,442,453	5,847,278	-	41,730,248

Note 23. Joint Operations

The Group has an equity interest in the following joint operations as at 30 June 2018 as follows:

Petroleum Tenement	Business Activities Carried on in	Unincorporated Equity Interest (%) 2018	2017	Principal Activities	Operator of Joint Operation
WA-482-P	Northern Carnarvon Basin, Australia	50	50	Exploration and evaluation	Quadrant Northwest Pty Ltd
Block Z-38	Tumbes Basin, Peru	40^	75	Exploration and evaluation	KEI (Peru Z38) Pty Ltd, Sucursal del Peru

^ During January 2018, the Group entered into a farm-out agreement with Tullow Peru Limited to reduce its Block Z-38 equity interest to 40%, subject to conditions including regulatory approvals that were still outstanding as at 30 June 2018. During the financial year, Karoon funded 100% of Block Z-38's exploration expenditure. The Group's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are still to be completed.

The exploration and evaluation activities of both WA-482-P and Block Z-38 are 'strategic' to the Group's activities.

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(s), under the following classifications:

	Consolidated 2018 $	Consolidated 2017 $
Cash and cash equivalents	52,529	-
Receivables (current)	1,106	74
Inventories (current)	-	10,858
Exploration and evaluation expenditure carried forward (non-current)	105,733,673	105,238,634
Trade and other payables (current)	(25,746)	(72,837)
Share of net assets employed in joint operations	105,761,562	105,176,729
Interest income from unrelated entities	1,500	-
Other income	2,465	29,252
Exploration and evaluation expenditure expensed, impaired or written-off	(6,709,590)	-
Loss on disposal of inventory	(1,157,407)	-
Write-down of inventory to net realisable value	(9,944)	-

Contingent liabilities in respect of joint operations are set out in Note 24. Exploration expenditure commitments in respect of joint operations are set out in Note 25.

Parent Company guarantee has been provided to Tullow Peru Limited guaranteeing KEI (Peru Z38) Pty Ltd, Sucursal del Peru's performance under the joint operating agreement covering Block Z-38 in Peru.

	Consolidated 2018 $	2017 $
Note 24. Contingent Liabilities and Contingent Assets		
(a) Contingent Liabilities		
The Group has contingent liabilities as at 30 June 2018 that may become payable in respect of:		
(i) Performance guarantee (via a letter of credit) provided to Perupetro SA (the Peruvian oil and gas regulator) for Block Z-38 by the Group for third period work commitments. The Directors are of the opinion that the work commitments will be satisfied. The letter of credit is fully funded by way of payment of a security deposit (refer Note 13), which will be released once the work commitments are met.	7,684,573	7,317,827
(ii) The Group has provided the ANP (the Brazilian oil and gas regulator) a letter of credit (refer Note 13) to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The Directors are of the opinion that the work program commitments will be satisfied. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work program is met.	2,169,021	-
(iii) Bank guarantees were provided in respect of operating lease rental agreements for office premises of the Group. These guarantees may give rise to liabilities in the Group if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	430,695	430,693
(iv) Cash deposits (refer Note 13) are held as bonds for the Group's compliance with its obligations in respect of agreements for the guarantee of payment obligations for various accommodation in Brazil and Peru.	31,909	84,992

(v) Block Acquisition
As part of the acquisition of Pacific Exploration and Production Corp.'s equity interest of Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 during the 2017 financial year, the Group agreed to pay Pacific Exploration and Production Corp. a deferred contingent consideration of US$5.0 million payable upon first production reaching a minimum of 1 million barrels of oil equivalent from the Blocks. The deferred contingent obligation has not been provided for as at 30 June 2018, as it is dependent upon uncertain future events.

(vi) 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 2018, nor the financial effect of any potential fine by the ANP.

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

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

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

(b) Contingent Assets

The Group has no contingent assets as at 30 June 2018 (30 June 2017: $Nil).

	Consolidated 2018 $	Consolidated 2017 $
Note 25. 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	1,460,063	2,819,813
Later than one year but not later than five years	139,617	-
Total capital expenditure commitments	1,599,680	2,819,813
(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	999,845	1,859,879
Later than one year but not later than five years	612,499	1,216,073
Total operating lease rental commitments	1,612,344	3,075,952

The Group leases various offices under non-cancellable operating leases expiring within 1 to 3 years. The leases have varying terms, escalation clauses and, for some, renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated 2018 $	Consolidated 2017 $
(c) Exploration Expenditure Commitments		
The Group has 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 exploration tenements EPP46, WA-314-P, WA-482-P, Block S-M-1537 and Block Z-38 (30 June 2017: WA-314-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144) not provided for in the consolidated financial statements and payable. Included in exploration expenditure commitments are $275,361,548 (30 June 2017: $439,745,268) of commitments that relate to the non-guaranteed work commitments:		
Not later than one year	166,301	-
Later than one year but not later than five years (refer note (i) below)	376,607,883	769,920,329
Later than five years	2,169,021	-
Total exploration expenditure commitments	378,943,205	769,920,329
The above commitments include exploration expenditure commitments relating to joint operations:		
Not later than one year	166,301	-
Later than one year but not later than five years	189,522,796	216,895,151
Total joint operation exploration expenditure commitments	189,689,097	216,895,151

Estimates for future exploration expenditure commitments to government are based on estimated well and seismic costs, which will change as actual drilling locations and seismic surveys are organised, and are determined in current dollars on an undiscounted basis. The exploration and evaluation obligations may vary significantly as a result of renegotiations with relevant parties.

The commitments may also be reduced by the Group entering into farm-out agreements, which are typical of the normal operating activities of the Group.

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

(i) During February 2018, the ANP approved an application to review the appraisal plan for Santos Basin exploration Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 thereby removing the appraisal phase firm commitments to drill 2 wells and acquire 3D seismic and drilling up to four contingent wells. These were included in the previous financial year comparative exploration expenditure commitments and totalled $364,146,098.

	Consolidated 2018 $	2017 $

Note 26. Reconciliation to the Consolidated Statement of Cash Flows

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

	2018 $	2017 $
Loss for financial year	(181,777,789)	(81,527,513)
Add (subtract)		
Non-cash items included in loss for financial year:		
Depreciation of plant and equipment and amortisation of computer software	730,834	1,048,998
Share-based payments expense	4,175,684	3,590,639
Loss on disposal of inventory	1,157,407	-
Net foreign currency losses (gains)	(12,076,432)	14,577,712
Items classified as investing/financing activities:		
Net loss on disposal of non-current assets	144,527	134
Exploration and evaluation expenditure impaired or written-off	157,395,193	31,429,199
Net foreign currency gains	(917,146)	(667,978)
Write-down of inventory to net realisable value	6,679,549	1,326,811
Finance charges under finance lease	-	16,287
Change in operating assets and liabilities:		
(Increase) decrease in assets		
Receivables – current	333,300	1,247,840
Current tax asset	162,205	13,923
Other assets	118,421	267,604
Increase (decrease) in liabilities		
Trade and other payables – current	655,833	805,484
Trade and other payables – non-current	62,681	(303,300)
Provisions – current	36,853	(40,801)
Provisions – non-current	38,196	27,460
Deferred tax liabilities	(2,212,486)	(10,069,836)
Net cash flows used in operating activities	(25,293,170)	(38,257,337)

(b) Non-cash Financing Activities

	2018 $	2017 $
Acquisition of computer software by means of a finance lease	-	273,386

(c) Total Liabilities from Financing Activities

	Balance as at 1 July 2017	Cash Flow: Payments for Finance Lease Liability	Non-cash Change: Foreign Currency Translation Reserve Movement	Balance as at 30 June 2018
Finance lease liability (current and non-current)	209,400	(64,290)	(23,067)	122,043
Total liabilities from financing activities	209,400	(64,290)	(23,067)	122,043

Note 27. Share-based Payments

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

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

The Company currently has one ESOP in place, the 2016 ESOP. ESOP options expire up to 4 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 20 days of trading before the ESOP options were offered plus a premium to the market price.

Each ESOP option provides eligible employees with the right to acquire one fully paid ordinary share of the Company at the exercise price determined upon grant, or its equivalent value, subject to the achievement of the relevant performance conditions.

Share options granted under the ESOP carry no dividend or voting rights.

If there is a change of control of the Company, for all unexercised ESOP options, a percentage amount of unvested ESOP options may vest on the basis of the pro-rata achievement of pre-determined performance conditions.

During the financial year, the Group granted 1,148,344 ESOP options (2017: 846,752) over unissued ordinary shares in the Company to Executive Directors. Share options issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

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	
	2018 Number	2018 Weighted Average Exercise Price	2017 Number	2017 Weighted Average Exercise Price
Balance at beginning of financial year	**7,266,932**	**$3.02**	5,872,110	$4.11
Granted during financial year	**3,177,319**	**$1.74**	2,515,632	$1.82
Exercised during financial year	**-**	**-**	-	-
Cancelled during financial year	**-**	**-**	(225,506)	$3.18
Expired during financial year	**-**	**-**	-	-
Forfeited during financial year	**(2,820,313)**	**$4.06**	(895,304)	$6.74
Balance at end of financial year	**7,623,938**	**$2.11**	7,266,932	$3.02
Exercisable at end of financial year	**-**	**-**	-	-

All ESOP options issued during the financial year were issued under the Karoon Gas Australia 2016 Employee Share Option Plan.

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

The weighted average fair value of ESOP options granted during the financial year was $0.36 (2017: $0.74).

ESOP options outstanding as at 30 June 2018 had a range of exercise prices from $1.73 to $3.04 (30 June 2017: range of exercise prices from $1.82 to $4.06) with a weighted average remaining contractual life of 787 days (30 June 2017: 713 days).

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

Grant Date	Date of Expiry	Exercise Price Per ESOP Option	Number
9 October 2015	30 June 2019	$3.04	**1,013,888**
30 October 2015	30 June 2019	$3.04	**981,818**
30 November 2016	30 June 2020	$1.82	**1,100,476**
2 December 2016	30 June 2020	$1.82	**846,752**
2 December 2016	30 June 2020	$1.82	**503,685**
6 October 2017	30 June 2021	$1.73	**1,547,619**
9 November 2017	30 June 2021	$1.73	**421,647**
14 November 2017	30 June 2021	$1.73	**59,709**
16 November 2017	30 June 2021	$1.77	**1,148,344**
Total ESOP options			**7,623,938**

(b) Fair Value of Share Options

The fair value of each share option issued during the financial year was estimated on grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model takes into account the exercise price, the term of the share option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share option.

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

	2018	2017
Weighted average exercise price	**$1.74**	$1.82
Weighted average life of share options	**1,343 days**	1,307 days
Weighted average share price	**$1.33**	$1.92
Expected share price volatility	**54%**	46%
Risk free interest rate	**2.05%**	2.42%
Weighted average share option value	**$0.36**	$0.74

Historical volatility was the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate.

(c) Performance Rights Plan ('PRP')

The Company currently has one PRP plan in place, the 2016 PRP.

Under the PRP, eligible employees are given performance rights to be issued and allotted fully paid ordinary shares in the Company, or its equivalent value, 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.

During the financial year, the Group granted 662,816 performance rights (2017: 596,944) over unissued ordinary shares in the Company to Executive Directors. Performance rights issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

Note 27. Share-based Payments continued

(c) Performance Rights Plan ('PRP') continued

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 2018 Number	Consolidated 2017 Number
Balance at beginning of financial year	**4,470,794**	1,792,398
Granted during financial year	**3,434,635**	3,573,686
Vested and converted during financial year	**(503,548)**	(472,426)
Cancelled during financial year	**-**	(166,446)
Cash-settled during financial year	**(112,512)**	(63,946)
Forfeited during financial year	**(789,356)**	(192,472)
Balance at end of financial year	**6,500,013**	4,470,794

All performance rights issued during the financial year were issued under the 2016 PRP.

There were 503,548 (2017: 472,426) performance rights vested during the financial year, which were converted into 503,548 (2017: 472,426) fully paid ordinary shares.

The weighted average fair value of performance rights granted during the financial year was $1.31 (2017: $1.91). Fair values of performance rights were based on the Company's closing share price at grant date.

Performance rights outstanding as at 30 June 2018 had a weighted average remaining contractual life of 700 days (30 June 2017: 793 days).

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

Grant Date	Date of Expiry	Number
9 October 2015	30 June 2019	**451,395**
30 October 2015	30 June 2019	**138,460**
30 November 2016	30 June 2019	**646,845**
2 December 2016	30 June 2019	**444,327**
30 November 2016	30 June 2020	**636,546**
2 December 2016	30 June 2020	**385,516**
2 December 2016	30 June 2020	**362,289**
16 November 2017	30 June 2019	**257,010**
6 October 2017	30 June 2020	**1,367,123**
9 November 2017	30 June 2020	**382,758**
14 November 2017	30 June 2020	**42,200**
6 October 2017	30 June 2021	**724,883**
9 November 2017	30 June 2021	**233,755**
14 November 2017	30 June 2021	**21,100**
16 November 2017	30 June 2021	**405,806**
Total performance rights		**6,500,013**

(d) 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 2018 $	Consolidated 2017 $
Share options issued under ESOP	1,048,956	1,548,412
Performance rights issued under PRP	3,126,728	2,042,227
Share-based payments expense (non-cash)	4,175,684	3,590,639
Share-based payments expense (cash-settled)	234,205	207,029
Total share-based payments expense	4,409,889	3,797,668

Note 28. Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties, unless otherwise stated.

(a) Subsidiaries

Interests in subsidiaries are set out in Note 21.

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 provision of funding by the Parent Company to its overseas subsidiaries via an increase in contributed equity and intercompany loans to the Australian subsidiaries. The intercompany loans provided are at a Nil% interest rate (2017: Nil%) and no fixed term for repayment and therefore will not be repaid within 12 months. Loans are unsecured and are repayable in cash.

Where equity-settled share options and performance rights are issued to employees of subsidiaries within the Group, the transaction is recognised as an investment in the subsidiary by the Parent Company and in the subsidiary, a share-based payments expense and an equity contribution by the Parent Company.

The above transactions are eliminated on consolidation.

(b) Remuneration of Key Management Personnel

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

	Consolidated 2018 $	Consolidated 2017 $
Short-term employee benefits	3,598,808	3,714,974
Post-employment benefits	201,923	187,622
Long-term employee benefits (non-cash)	39,517	44,260
Share-based payments expense	1,621,116	1,711,340
Total key management personnel remuneration	5,461,364	5,658,196

Detailed remuneration disclosures for the Directors and other key management personnel are provided in Sections 5 of the audited Remuneration Report on pages 50 to 52.

In addition to the above, the Group is committed to pay the Executive Directors and other key management personnel up to $3,208,556 (2017: $3,160,046) 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 2018.

Note 28. Related Party Transactions continued

(c) Other Related Party Transactions Within the Group

During the financial year, Mr Jose Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda that provided business and geology consulting services to the Group. The value of these transactions during the financial year in the Group was $321,395 (2017: $332,210). The balance outstanding included in current trade and other payables is $28,486 (2017: $27,149). Given Karoon's relative size to other operators in Brazil, the consulting services provided by Net Pay Óleo & Gás Consultoria Ltda are required for Karoon to operate within the Brazilian oil industry.

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director, was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration (including share-based payments expense) during the financial year was $252,311 (2017: $242,372), which includes social security and indemnity fund contributions of $38,702 (2017: $16,535). Ms Barbosa has been an employee of the Company since 2011, and has a comprehensive understanding of the Brazilian legal and regulatory framework.

During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a key management person), was employed by the Group on a full-time basis until August 2016 and then on a part-time basis from September 2016 as the Sustainability and Communications Manager South America. The total value of her remuneration (including share-based payments expense) during the financial year was $115,488 (2017: $152,478), which includes social security and indemnity fund contributions of $Nil (2017: $34,967). Ms Sayao is a key member of the South American operations. The Brazilian and Peruvian regulatory and business environments require transparent and clear communication on social and environmental issues with local and federal governments.

During the previous financial year, Mr Mark Smith, an Executive Director, had an interest in IERS (Australia) Pty Ltd, which has an ongoing informal agreement with the Group to provide geophysical fault seal analysis software. No work was performed for the Group during the financial year.

(d) Related Party Payables

During the financial year, as part of their 'At Risk' remuneration Mr Scott Hosking and Mr Tim Hosking, Ms Marina Sayao and Ms Flavia Barbosa were issued cash-settled share-based payments for which a liability is recognised based on fair value earned by the end of the reporting period. The balance outstanding included in current trade and other payables is $290,796 (2017: $140,990) and in non-current trade and other payables $253,889 (2017: $201,471).

Note 29. Parent Company Financial Information

(a) Summary Financial Information

The individual financial statements for the Parent Company show the following aggregate amounts:

	Company 2018 $	Company 2017 $
Statement of financial position		
Current assets	331,451,574	374,469,705
Non-current assets	158,749,443	310,093,584
Total assets	490,201,017	684,563,289
Current liabilities	1,984,757	1,998,063
Non-current liabilities	24,905,701	23,456,171
Total liabilities	26,890,458	25,454,234
Net assets	463,310,559	659,109,055
Contributed equity	802,295,334	802,295,334
Accumulated losses	(386,695,074)	(186,720,894)
Share-based payments reserve	47,710,299	43,534,615
Total equity	463,310,559	659,109,055
Loss for financial year	(199,974,180)	(102,194,430)
Total comprehensive loss for financial year	(199,974,180)	(102,194,430)

	Company 2018 $	Company 2017 $
(b) Contingent Liabilities of Parent Company		
(i) Bank guarantees were provided in respect of operating lease rental agreements. These guarantees may give rise to liabilities in the Parent Company if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	430,695	430,693
(ii) Performance guarantee (via a letter of credit) was provided to Perupetro SA (the Peruvian oil and gas regulator) for Block Z-38 by the Parent Company for third period work commitments. The Directors are of the opinion that the work commitments will be satisfied. The letter of credit is fully funded by way of payment of a security deposit (refer Note 13), which will be released once the work commitments are met.	7,684,573	7,317,827
(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 guarantee provided to a third party during the financial year guaranteeing a subsidiary's performance under a joint operating agreement is set out in Note 23.

Parent Company guarantee has been provided to Perupetro SA guaranteeing a subsidiary's obligations under a License Agreement covering Tumbes Basin Block Z-38 in Peru.

Parent Company guarantees have been provided to the ANP (the Brazilian oil and gas regulator) guaranteeing a subsidiary's obligations under Concession Agreements covering Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1537 and S-M-1166^ in Brazil.

^ Block S-M-1166 was requested to be relinquished during the financial year. The request to withdraw the Parent Company guarantee, provided to the ANP, is underway.

Note 30. Subsequent Events

This Annual Report was authorised for issue by the Board of Directors on 24 September 2018. The Board of Directors has the power to amend and reissue the consolidated financial statements and notes.

Since 30 June 2018, the following material event has occurred:

Removal of Peruvian Block Z-38 Force Majeure

During September 2018, Perupetro S.A. advised that force majeure was lifted from Block Z-38. The joint operation has 22 months in which to fulfil its work obligation.

Directors' Declaration

The Directors' declare that:

(a) in the Directors' opinion, the consolidated financial statements and notes, set out on pages 63 to 105, 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 2018 and of its performance for the financial year ended on that date; and

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

Note 1(a) confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

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

On behalf of the Directors:

Mr Peter Turnbull
Independent Interim Non-Executive Chairman

Mr Robert Hosking
Managing Director

25 September 2018

Independent auditor's report

To the members of Karoon Gas Australia Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Karoon Gas Australia Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of profit or loss and other comprehensive income for the financial year then ended
- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of changes in equity for the financial year then ended
- the consolidated statement of cash flows for the financial year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit we used overall Group materiality of $5.94 million, which represents approximately 1% of the Group's total assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose the Group's total assets because, in our view, it is a commonly accepted benchmark for exploration companies in the oil and gas industry that do not currently have producing assets. The Group does not currently have revenue from producing assets, meaning profit and revenue based thresholds are less relevant. We chose 1% based on our professional judgement, nothing it is within the range of commonly accepted thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group has three operating segments in Australia, Brazil and Peru. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, and by component auditors under our instruction. Due to their financial significance, audit procedures were performed over the three main operating segments' financial information.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	How our audit addressed the key audit matter
Carrying value assessment of exploration and evaluation assets (Refer to note 17 in the financial report)	
As at 30 June 2018, the Group has capitalised exploration and evaluation expenditures of $209.6 million, related primarily to geological, geophysical, drilling and other exploration and evaluation expenditure, across Australia, Brazil and Peru. Exploration and evaluation assets are assessed for indicators of impairment by area of interest at each period end. Where there are indicators of impairment, the Group is required to assess whether the carrying amount of the exploration and evaluation assets is likely to be fully recovered from a successful development or by sale, which requires the Group to make a number of estimates and assumptions. These estimates include the recoverability of reserves, cost of development and production, legal and environmental regulation changes, and long-term commodity prices. As discussed in Note 17, during the financial year, an expense of $151.5 million was recorded in the consolidated statement of profit or loss and other comprehensive income to reflect the impairment charge recorded against the capitalised exploration and evaluation expenditure associated with permits S-M-1101, S-M-1165, and WA-314-P. We focused on this area due to the significant carrying value of the capitalised exploration and evaluation expenditure relative to the total assets of the Group, along with the significant and complex judgements and estimates required by the Group in determining whether there are any impairment indicators.	To evaluate the Group's carrying value assessment, we performed the following procedures: • Obtained an understanding of the Group's process for assessing indicators of impairment; • Considered the market data and industry forecasts for the long-term commodity prices; • Considered approved budgets and business plans, current drilling operations, permit tenure and other evidence of future intentions for individual exploration areas of interest; and • Compared the impairment charge recorded against permits S-M-1101, S-M-1165, and WA-314-respectively against historical capitalised costs.
Liquidity to fund future exploration expenditure (Refer to note 25 in the financial report)	
As of June 30, 2018 the Group has material exploration expenditure commitments arising from its obligations to perform minimum exploration and evaluation work, which are not recorded as liabilities in the consolidated statement of financial position. The Group's guaranteed exploration expenditure was $103.6 million as at 30 June 2018. In addition, non-guaranteed work commitments totalled $275.3 million at financial year end. These commitments are not due in the 2019 financial year.	We performed the following procedures, amongst others, in evaluating the Group's determination: • Obtained the Group's analysis of future exploration expenditure commitments and considered the guaranteed and non-guaranteed classification of these amounts; • Evaluated other additional non-guaranteed exploration expenditure commitments and operational cash outflows included in the Group's assessment;

Key audit matter	How our audit addressed the key audit matter
The Group holds cash and cash equivalents of approximately $333.6 million and has no committed external debt arrangements as at 30 June 2018. Notwithstanding this, the Group currently has no cash-generating assets in operation. Therefore, our assessment of the Group's determination that there are sufficient funds available to allow the Group to continue as a going concern was a key audit matter.	• Assessed whether there were any deficiencies in the Group's cash flow forecast position; and • Obtained written representations from management and the Board of Directors regarding their plans for future action and the feasibility of these plans.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report for the financial year ended 30 June 2018, including the Chairman and Managing Director's Review, Karoon at a Glance, Financial Year 2018 Highlights, Where We Operate, Resource Summary, Strengths and Risks, Operations Review, Corporate Sustainability Report, Directors' Report, Additional Securities Exchange Information, Glossary of Terms, and Corporate Directory but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Our opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 33 to 60 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Karoon Gas Australia Ltd for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
25 September 2018

Additional Securities Exchange Information

Additional information required by the ASX Listing Rules and not disclosed elsewhere in the Annual Report is set out below. The information was applicable for the Company as at 17 September 2018.

Distribution of Shareholding

The number of shareholders ranked by size of holding is set out below:

Size of Holding	Number of Holders	Number of Ordinary Shares on Issue
Less than 1,000	2,488	1,111,412
1,001 to 5,000	2,887	8,034,209
5,001 to 10,000	1,226	9,340,413
10,001 to 100,000	1,415	39,739,229
More than 100,000	177	187,495,890
Total	8,193	245,721,153

There were 1,291 shareholders holding less than a marketable parcel of ordinary shares to the value of $500.

Substantial Shareholders

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

	Fully Paid Ordinary Shares	
Shareholder	Number Held	% of Issued Ordinary Shares
Talbot Group Holdings Pty Ltd	26,358,356	10.73
Wellington Management Group, LLP and its related bodies corporate	18,044,551	7.34
Janus Henderson Group PLC	12,562,452	5.11
Total	56,965,359	23.18

Twenty Largest Shareholders

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

		Fully Paid Ordinary Shares	
Shareholder		Number Held	% of Issued Ordinary Shares
1	HSBC Custody Nominees (Australia) Limited	40,886,668	16.64
2	J P Morgan Nominees Australia Limited	28,227,471	11.49
3	Talbot Group Holdings Pty Ltd <Talbot Equities A/C>	15,317,043	6.23
4	BNP Paribas Noms Pty Ltd <DRP>	14,697,276	5.98
5	Citicorp Nominees Pty Limited	11,394,454	4.64
6	Talbot Group Investments Pty Ltd	11,000,313	4.48
7	Ropat Nominees Pty Ltd	9,210,022	3.75
8	National Nominees Limited	4,308,682	1.75
9	Nero Resource Fund Pty Ltd <Nero Resource Fund A/C>	4,219,938	1.72
10	UBS Nominees Pty Ltd	2,484,740	1.01
11	BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	1,778,614	0.72
12	Mrs Mara Spong	1,127,888	0.46
13	IERS (Australia) Pty Ltd <Smith Family Investment A/C>	1,071,500	0.44
14	Aranim Pty Ltd	1,024,378	0.42
15	Mr Samuel Thomas Henderson	999,879	0.41
16	Mr Mark Alexander Smith	991,658	0.40
17	Safari Capital Pty Ltd	834,047	0.34
18	IERS (Australia) Pty Ltd <Bonnie Doon Super Fund A/C>	807,780	0.33
19	Mrs Pauline Frolley	770,746	0.31
20	Mr Steven Mark Sinclair + Mrs Heather Joy Sinclair	724,724	0.29
Total		151,877,821	61.81

Unlisted Equity Securities: Share Options and Performance Rights

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

	Number of Holders	Number of Unlisted Share Options and Performance Rights on Issue
Share options issued pursuant to Karoon Gas Australia Employee Share Option Plan	40	5,628,232
Performance rights issued pursuant to Company's Performance Rights Plan	42	4,811,558
Total	82	10,439,790

Voting Rights

(a) Ordinary Shares, Fully Paid

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

(b) Unlisted Share Options and Performance Rights

No voting rights.

Other Information

The Company was incorporated as a public company on 11 November 2003.

The Company was admitted to the ASX official list during June 2004 and quotation of its ordinary shares commenced on 8 June 2004.

The register of securities is held at Computershare Investor Services Pty Limited, GPO Box 2975 Melbourne VIC 3001 Australia. Investor enquiries can be made via telephone on 1300 850 505 (within Australia).

Schedule of Interests in Petroleum Tenements

Exploration Permit/Block	Basin	% Equity Interest Held
EPP46	Ceduna Sub-basin, Australia	100
WA-314-P	Browse, Australia	100#
WA-482-P	Northern Carnarvon, Australia	50^
Block S-M-1037	Santos, Brazil	100
Block S-M-1101	Santos, Brazil	100
Block S-M-1102	Santos, Brazil	100
Block S-M-1165	Santos, Brazil	100
Block S-M-1537	Santos, Brazil	100
Block Z-38	Tumbes, Peru	40^^

\# 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.

^^ During January 2018, the Group entered into a farm-out agreement with Tullow Peru Limited to reduce its Block Z-38 equity interest to 40%, subject to conditions including regulatory approvals that are still outstanding as at the date of this Annual Report. The Group's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are still to be completed.

Glossary of Terms

Term	Definition
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
$ or cents	Units of Australian currency.
AASB	Australian Accounting Standards Board.
amplitude anomaly	A change in seismic amplitude that may represent a change in subsurface properties, such as the presence of hydrocarbons or improved reservoir.
ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
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.
ASX	ASX Limited (ACN 008 624 691), trading as Australian Securities Exchange.
ATO	Australian Taxation Office.
AUD	Australian currency.
AVO	Amplitude versus offset.
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.
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.
Company or Parent Company	Karoon Gas Australia 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.
Director	A Director of the Company.
discovery well	The first successful well on a new prospect.
DoC	Declaration of Commerciality.
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.
E&P	Exploration and production.
ESG	Environmental, social and governance.
ESOP	Karoon Gas Australia 2016 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.
FEED	Front End Engineering and Design.
FID	Final Investment Decision.

Term	Definition
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 2018.
FPSO	Floating production, storage and off-loading facility.
GAB	Great Australian Bight.
GABRWS	Great Australian Bight Right Whale Study in Australia.
G&G	Geological and geophysical.
GST	Goods and Services Tax in Australia.
HSSE	Health, safety, security and environment.
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.
km	Kilometres.
lead	A potential hydrocarbon target which has been identified, but requires further evaluation before it is drill ready, at which point it becomes a prospect.
LNG	Liquefied natural 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).
NOPTA	National Offshore Petroleum Titles Administrator.
NOPSEMA	National Offshore Petroleum Safety and Environmental Management Authority.
OMS	Operating Management System.
Operator	One joint operation participant that has been appointed to carry out all operations on behalf of all the joint operation participants.
ordinary shares	The ordinary shares in the capital of the Company.
OWC	Oil-water-contact.
p.a.	Per annum.
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 2017.
PRP	Karoon Gas Australia 2016 Performance Rights Plan and 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.

Glossary of Terms (continued)

Term	Definition
prospective resource	The estimated quantities of petroleum that may potentially be recoverable by the application of a future development project related to undiscovered accumulations. Low estimate (P90): P90 refers to a 90% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Best estimate (P50): P50 refers to a 50% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. High estimate (P10): P10 refers to a 10% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Mean estimate (Mean): Mean is the expected value, equal to the sum of the values in that distribution divided by the number of values.
prospectivity	Referring to the likelihood of finding commercial hydrocarbons.
PRRT	Petroleum Resource Rent Tax in Australia.
PSDM	Pre-stack depth migration.
REAL	Brazilian currency.
recoverable gas	An estimated measure of the total amount of gas which could be brought to surface from a given reservoir. In a good quality reservoir this is usually in the order of 70-80% of the estimated gas-in-place.
reserves	Quantities of economically recoverable hydrocarbons estimated to be present within a trap.
reservoir	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
RFAD	Final Discovery Evaluation Report.
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.
sq km	Square kilometres.
STI	Short-term incentive.
TCF	Trillion cubic feet (1,000,000,000,000 cubic feet).
TRIR	Total Recordable Incident Rate.
TSR	Total shareholder return.
Tullow	Tullow Peru Limited or Tullow Oil plc.
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 Peter Turnbull – Independent Interim Non-Executive Chairman

Mr Robert Hosking – Managing Director

Mr Mark Smith – Executive Director

Ms Luciana Rachid – Independent Non-Executive Director

Mr Geoff Atkins – Independent Non-Executive Director

Mr Clark Davey – 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)

Ms Luciana Rachid

Mr Clark Davey

Mr Peter Turnbull

Remuneration Committee Members

Mr Peter Turnbull (Chairman of Committee)

Mr Geoff Atkins

Mr Clark Davey

Risk and Governance Committee Members

Mr Peter Turnbull (Chairman of Committee)

Ms Luciana Rachid

Mr Clark Davey

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External Auditor

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2 Riverside Quay
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Australia

Telephone + 61 3 8603 1000
Facsimile + 61 3 8603 1999

Share Registrar

Computershare Investor Services Pty Limited
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Melbourne VIC 3001
Australia

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+ 61 3 9415 4000 (outside Australia)
Facsimile + 61 3 9473 2500
Website **www.computershare.com**

Securities Exchange Listing

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

ASX code KAR

Karoon