ANNUAL REPORT
2019

Karoon Energy

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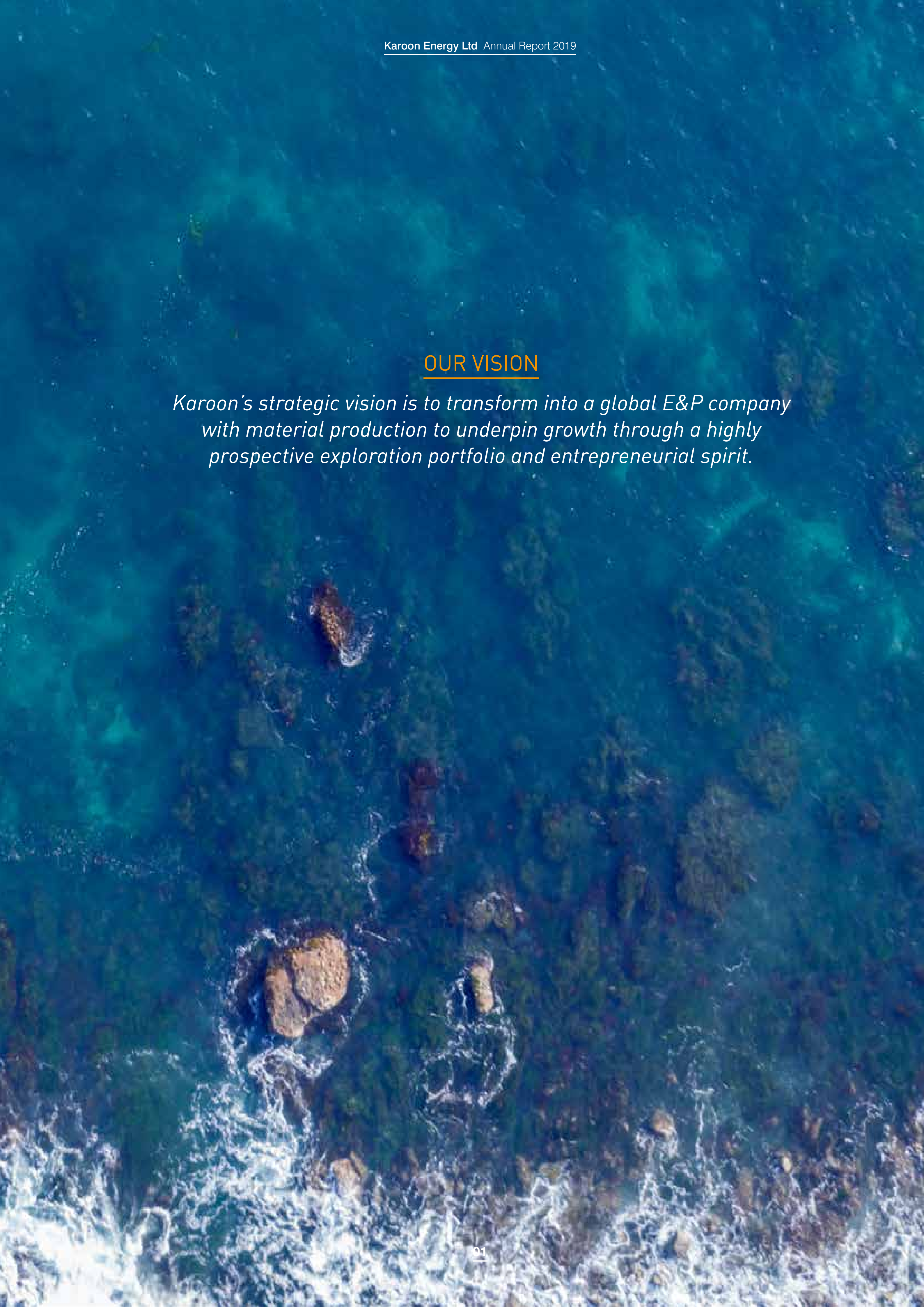
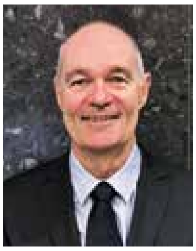


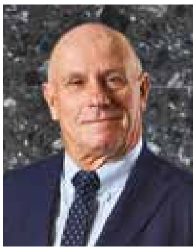
OUR VISION

Karoon's strategic vision is to transform into a global E&P company with material production to underpin growth through a highly prospective exploration portfolio and entrepreneurial spirit.

CHAIRMAN AND MANAGING DIRECTOR'S REVIEW



Mr Bruce Phillips
Independent
Non-Executive Chairman



Mr Robert Hosking
Managing Director

Delivering the southern Santos Basin Strategy has been the major pillar of Karoon's core strategy since 2015 and will enable Karoon to take advantage of any recovery in long-term oil prices as Karoon develops this regional portfolio.

Dear Shareholders,

A Transformative Year

Karoon is moving rapidly from a successful oil and gas explorer to a global Exploration and Production ('E&P') company with material long-term oil production underpinned by a highly prospective exploration portfolio. On completion of the transaction, the Baúna acquisition should prove to be immediately beneficial for Karoon.

Karoon's top strategic objective over recent years has been to secure a high-quality production asset. On completion, the acquisition of the Baúna oil production asset will realise this first major pillar of Karoon's strategy. Baúna contains developed oil reserves in a world class geological setting and offers immediate potential to grow production upon installation and/or replacement of up to 4 electrical submersible pumps ('ESPs').

Baúna is located 60 km from Karoon's Neon light oil discovery. Baúna potentially offers synergies and new project development opportunities by providing options to realise the second pillar of Karoon's strategy, which is to develop the Neon and Goiá light oil discoveries.

The third pillar, and the fundamental building block of Karoon's strategy, is exploration led growth where the focus is on acquiring high-equity interests in under explored, early stage offshore acreage within proven petroleum systems. On completion, the Baúna acquisition should give Karoon the cash flow and balance sheet strength to support compelling exploration opportunities in the basins where the Company has extensive geological knowledge.

Progressing the Southern Santos Basin Strategy

Concession BM-S-40 contains the Baúna light oil field and the existing undeveloped Patola oil discovery and is in close proximity to Karoon's existing Santos Basin portfolio. Karoon still needs to complete the funding, commercial and regulatory approvals for the Baúna acquisition and move to transaction completion. Once this is complete, Karoon will have a world-class cornerstone asset in Baúna to deliver on Karoon's southern Santos Basin Strategy.

Delivering the southern Santos Basin Strategy has been the major pillar of Karoon's core strategy since 2015 and will enable Karoon to take advantage of any recovery in long-term oil prices as Karoon develops this regional portfolio.

On completion, the Baúna oil reserves and production will be added to Karoon's asset portfolio and allow the Company to focus on generating and expanding cash flow in the short-term to pay down borrowings associated with the acquisition. Baúna currently produces approximately 20,000 barrels of oil per day ('bopd') and Karoon expects to be able increase it to over 30,000 bopd through focused well workovers, installation and/or replacement of up to 4 ESPs, and the tie-in of the Patola oil discovery.

Karoon has commenced planning work associated with workovers to install new ESPs in some wells and replace existing ESPs in other wells. Development planning work for Patola will begin in the fourth quarter of calendar year 2019. Once complete, a Plan of Development will be submitted to the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP', the Brazilian oil and gas regulator), with approvals expected before field execution work targeted for the first quarter of calendar year 2021.

The acquisition of Baúna will result in Karoon's first reserves booking, with certified 2P reserves of 52.5 million barrels of oil and the addition of 15 million barrels of 2C contingent resources in Concession BM-S-40 as at 1 January 2019.

Karoon's southern Santos Basin assets will include producing reserves from Baúna and contingent resources from Patola, Neon and Goiá and future upside opportunities from Clorita. Karoon will be in a position to build significant value by producing and developing its existing exploration assets and taking advantage of a number of available synergies between these assets.

"Baúna potentially offers synergies and new project development opportunities by providing options to realise the second pillar of Karoon's strategy, which is to develop the Neon and Goiá light oil discoveries."

A Development Path for Neon and Goiá

Karoon submitted a Development Plan ('PD') to the ANP for the Neon and Goiá fields during August 2019. The Neon and Goiá fields will be retained under a Production License that extends for 27 years giving Karoon time to produce full economic resources from the discoveries. Karoon expects that the potential future development of Neon and Goiá could add value to Baúna via synergistic logistics savings and consolidation of field planning.

The first of these synergies could be cost savings associated with the drilling of a Neon 'control well' in the same campaign as the Baúna workovers and Patola tie-in during calendar year 2021. The 'control well' has the twin goals of delineating the southern extent of the field and assisting with locating and designing the first horizontal production well. The 2C contingent resource estimates for the Neon and Goiá discoveries are 55 million barrels and 27 million barrels respectively, and their development will target peak production of an additional 30,000 bopd.

A potential Neon phase-1 development is planned to produce from 2 horizontal production wells and 1 gas injection well tied into a small floating production, storage and off-loading facility ('FPSO') with the aim of ensuring a low risk, high rate of return initial phase. Further expansion opportunities would be assessed after phase-1 production begins. The planned Neon development is a 'right sized development' for Karoon and together with Baúna could foreseeably take Karoon's southern Santos Basin operated production to 50,000 bopd.

Given its 100% ownership of the entire Santos Basin portfolio, Karoon will look to bring in a joint operation partner to assist with any future development of Neon.

Karoon has additional exploration upside within its strategic southern Santos Basin area with exploration Block S-M-1537. This Block lies to the south of Baúna and potentially provides future incremental growth through the Clorita exploration lead.

Brazil in the Global Oil Context

The financial year was a volatile period with oil prices ranging from US$52 to US$80 a barrel. The period saw a continuation of a positive trend for the global oil and gas industry with oil prices rising to higher than average levels in comparison to the previous 3 financial years.

Generally, the oil and gas industry remained competitive as various companies and private investment firms looked to take advantage of global opportunities. Karoon continued its engagement with entities looking to sell production and near-term development assets, and with buyers looking to enter Brazil through access to Karoon's potential Neon development opportunity. As a result of under investment in conventional oil, and investor pressure to slow capital spending on unconventional producing basins, Karoon is hopeful that oil prices will continue to trend upwards over the medium-term.

Karoon's standing in Brazil sees it well positioned within an improving local environment as Brazil continues to actively seek to attract investment in its oil and gas sector. During 2018, Brazil was the 9th largest global oil producer with an established E&P industry producing on average 3.4 million bopd during calendar year 2018, with 25% of the world's FPSO's stationed offshore of Brazil.

Tumbes Basin Offshore Peru: a High Impact Opportunity

During the financial year, Karoon completed the farm-out to Tullow of an equity interest in Block Z-38. Karoon is currently finalising negotiations for a rig contract for the drilling of the Marina-1 exploration well. The Marina Prospect has an unrisked best estimate gross prospective resource of 256 mmbbls. This Prospect will be the first drilled in Block Z-38.

The farm-out to Tullow followed extensive work completed by Karoon in recent years to better define the Block's prospectivity. It leaves Karoon with a 40% operated interest in the Block, subject to Karoon completing its farm-in obligations. Success at the Marina Prospect could re-invigorate the region for large prospective opportunities. Karoon has assessed multi-billion barrel prospectively in the deeper water, akin and of similar oil type to the existing production along the shallow water and onshore areas where oil production in this region of Peru has been conducted for over 100 years.

Karoon is continuing to prepare for drilling operations, currently targeting drilling early 2020 calendar year.

Adjacent to and south of Block Z-38, Karoon agreed a Technical Evaluation Agreement ('TEA') for Area 73. The TEA increases Karoon's potential prospective acreage position in the Tumbes Basin without creating a large economic commitment and allows Karoon to utilise the results of the Marina-1 well to plan a larger strategy for the region.

CHAIRMAN AND MANAGING DIRECTOR'S REVIEW *(CONTINUED)*

Australia: Attractive Northern Carnarvon Basin Potential

Karoon has established itself with a highly skilled exploration team in Australia. As a result of that skill set it has been able to identify opportunities in the subsurface in Australia.

Our Australian focus is now firmly directed towards the Carnarvon Basin, offshore Western Australia, where the reprocessing of seismic data in the eastern part of exploration permit WA-482-P is ongoing. The eastern extent of the permit is geographically close to the recent Dorado oil discovery made by Karoon's joint operation partner Santos Limited and also Carnarvon Petroleum Limited. This discovery has revived interest and provided new opportunities within WA-482-P. During the financial year Santos Limited, as the operator, submitted a renewal application for WA-482-P to conduct seismic re-processing and geological and geophysical ('G&G') studies, which will enable the joint operation to review the prospectivity in more detail.

Australia: EPP46 and WA-314-P

Due to the difficulties associated with regulatory approvals to conduct operations, Karoon has commenced discussions with the regulatory authorities to surrender Ceduna Sub-basin exploration permit EPP46. An application has also been made to surrender Karoon's remaining Browse Basin exploration permit WA-314-P.

Looking Ahead – Good Governance and Prudent Management

In line with our strategy, the Board of Director's priority for capital management is to achieve the best returns for shareholders in the medium to longer term. The Board believes that acquiring a world class long-life production asset that complements Karoon's existing portfolio is also the best, lowest risk and most effective method of delivering near term value.

Despite Karoon's success in signing a binding SPA to acquire the Baúna asset, the Board continues to remain conscious of other capital management initiatives. These will continue to be monitored alongside the reconfiguration of the business required for the integration of a significant production asset.

With respect to cost-cutting measures, senior management has been reviewing Karoon's current overhead structure and separately has made significant progress over the last 24 months in reducing Karoon's overall spend. Fundamental changes, such as multi-million dollar reductions in guaranteed work programme commitments have already been achieved in Brazil, Peru and Australia and a new workplan is being formulated to prepare for the upcoming exploration, appraisal and development work in Brazil and Peru.

Importantly, the Board has continued to target overall corporate costs, in an effort to become more efficient as Karoon transitions into oil production and in recognition of the desire for shareholders to see tangible spending reductions (without adversely impacting Karoon's operational capabilities).

The Board and senior management both understand that Karoon's operations must be sustainable and most of all operated safely, securely and in an environmentally effective way, whilst still maintaining the high degree of historical geological success through disciplined due diligence, if the Company is to attain the status of a top tier global mid-cap E&P company.

Whilst the Board of Directors of Karoon has a good breadth of skills and experience, we will continue to review its composition and size to ensure we continue to have the right capabilities to support the delivery of our strategy, particularly as we transition to oil production in Brazil.

Karoon is firmly focused on delivering on its strategic agenda for the benefit of its shareholders. While there is still much more work to be done, the Karoon team is enthusiastic about the future of the Company. Karoon has certainly come a long way since the initial IPO during June 2004, when it listed on the Australian Securities Exchange with a market capitalisation of $8 million, to now being focussed in Brazil and operating in one of the most prolific oil and gas basins in the world.

The Board of Directors would like to thank you, our shareholders, for your continued support and patience, which we feel confident will lead to future success for all of us. We would also like to take the opportunity to thank the dedicated employees and contractors of Karoon for their continuing efforts to advance Karoon towards its long-term goals.

Mr Bruce Phillips
Independent Non-Executive Chairman

Mr Robert Hosking
Managing Director

25 September 2019

KAROON ENERGY – TOWARDS PRODUCTION

Our History

Karoon Energy Ltd ('Karoon' or 'the Company') was incorporated during November 2003, listing on the Australian Securities Exchange during June 2004 with a market capitalisation of $8 million and an issue 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 a focus on geology and looking at high impact exploration opportunities with world class growth 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 which time Karoon discovered the multi-TCF Poseidon gas discovery (2009). Poseidon was subsequently sold by Karoon during June 2014 for US$600 million, and a 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 pre-salt discoveries were being made in Brazil. Karoon secured a footprint with 5 offshore exploration Blocks during Bid Round 9 and subsequently made 3 oil discoveries between 2012 and 2015, with the Neon light oil discovery providing a potential future strategic growth opportunity for the Company.

Following the sale of the multi-TCF Poseidon gas discovery during June 2014, the Company turned its efforts and resources to take advantage of the cyclical downturn in the global oil market to try and secure a foundation production or development asset to underpin the next decade of growth and beyond. Karoon focused its efforts on the regions where it had built a strong knowledge base and had an existing presence, being Brazil, Peru and Australia.

During July 2019, Karoon executed on its priority strategic goal of acquiring a high quality, cash generating production asset, by signing a binding sale and purchase agreement ('SPA') to acquire the Baúna light oil field in the Santos Basin, offshore Brazil, for a headline consideration of US$665 million. On completion, this acquisition will transform Karoon, providing a solid foundation for future growth and complement its '*Three Pillar*' corporate strategy.

Our Strategy

The corporate vision is to transform Karoon from successful oil and gas explorer to a global Exploration and Production company with material long-term oil production underpinned by a highly prospective exploration portfolio, providing a foundation for future exploration and production growth. In the short to medium-term, this will be achieved through Karoon's '*Three Pillar*' corporate strategy which is focused on production and exploration opportunities in proven petroleum basins where Karoon has an existing footprint, possesses strong technical knowledge of the geology and also has regulatory expertise.

Pillar 1

Acquire a high quality cash generating production asset

On completion, the acquisition of Baúna will realise the first major pillar of Karoon's strategy. Baúna is a producing asset in the offshore southern Santos Basin that Karoon understands well. The opportunity is to utilise the current undeveloped resources (from the existing undeveloped Patola oil discovery) and realise immediate potential to grow production upon the workover of a number of existing production wells.

Pillar 2

Realise value by developing existing discoveries

Karoon has undertaken work required to move Neon and Goiá forward. Prior to FID being reached, Karoon anticipates drilling a 'control well' to assist delineating the southern region of the Neon field. On completion of the acquisition, the addition of Baúna, which is located near the Neon light oil discovery, brings significant logistical and field management synergies and new project development opportunities.

Pillar 3

Exploration led growth

Karoon has a highly specialist technical team assessing outstanding opportunities in the short-term. Validation of this skill set will be gained from drilling the Marina-1 exploration well in the Tumbes Basin, offshore Peru, where the Company has secured a dominant footprint, and the consolidation of its offshore acreage in the southern Santos Basin, Brazil. As pillars 1 and 2 are progressed, Karoon will look to use its exploration skill set and a measured approach to provide a new pipeline of highly prospective opportunities. Karoon has historically driven value through the geotechnical workup of exploration and appraisal acreage to identify prospective opportunities. The focus is on acquiring high-equity interests in under explored early stage offshore acreage within proven petroleum systems.

FINANCIAL YEAR 2019 HIGHLIGHTS

> During July 2019, Karoon signed a binding SPA to acquire the Baúna light oil field in the Santos Basin, offshore Brazil, for a headline consideration of US$665 million. Completion is expected during the first half of calendar year 2020 and the headline consideration will be reduced by interim net cash flows from the acquisition's effective date of 1 January 2019, which is expected to be approximately US$140-US$200 million at close.[1]

> Baúna's current oil production is approximately 20,000 bopd with potential to grow to over 30,000 bopd by calendar year 2022 following the workover of existing production wells and the tie-in of the existing undeveloped Patola oil discovery. Baúna is located 50-60 km from Karoon's Neon and Goiá discoveries, and 50 km from Karoon's Clorita exploration area.

> The Baúna acquisition concludes the Company's search for a high-quality production asset at this stage. Planning for increasing production at Baúna by calendar year 2022 has already commenced.

> In preparation to drill the high impact Marina-1 exploration well, offshore Peru, during early 2020 calendar year, rig negotiations are being concluded alongside Karoon's new farm-out partner Tullow Oil Peru Limited Sucursal del Peru ('Tullow').

> Karoon continued pursuing its southern Santos Basin Growth Strategy with finalisation of the PD for the Neon and Goiá fields and submission of it to the ANP during August 2019. The submission of the PD does not mean that Karoon has reached, nor is compelled to reach, a final investment decision ('FID') to proceed into a development of the fields.

1. Disclosed in the 25 July 2019 ASX announcement 'Karoon Baúna Acquisition Presentation'.

KAROON'S FOOTPRINT – SOUTH AMERICA AND AUSTRALIA

Permit/ Block	Country	Basin	Interest	Type	Phase
S-M-1037, S-M-1101	Brazil	Santos	100% *	Oil	Exploration
S-M-1357	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	Discussions to surrender
WA-314-P	Australia	Browse	100% *	Oil	Application to surrender

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

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.

RESOURCE SUMMARY

Management's Assessment of Contingent and Prospective Resources

Net Contingent Resource (mmbbls)

Discovery	Block	Interest	Type	1C	2C	3C
Neon	S-M-1037	100%	Oil	30	55	92
Goiá	S-M-1101	100%	Oil	16	27	46
TOTAL				**46**	**82**	**138**

Net Unrisked Prospective Resource (mmbbls)

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

The contingent and prospective resource volume estimates were assessed by Karoon'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 were 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.

STRENGTHS AND RISKS

Strengths

- On track to secure material production.
- Highly qualified and experienced personnel to manage the transition to production.
- Demonstrated ability to create and develop strategic partnerships with oil and gas industry participants.
- Proven track record of monetising exploration and appraisal assets.
- Robust balance sheet to fund organic and non-organic growth opportunities.
- Significant acreage position in proven and prospective petroleum systems.
- Application of leading seismic techniques and leading-edge exploration and analysis technology.
- 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.

Specific Risks

- Geological evaluation relies on the interpretation of complex and often uncertain data, which might not lead to a fully accurate outcome.
- Financial markets are uncertain and Karoon may be unsuccessful in obtaining additional funding via debt and equity raisings to existing shareholders and new investors, and obtaining interim net cash inflows from the acquisition's effective date of 1 January 2019 through to closing to complete the acquisition of a 100% equity interest in Concession BM-S-40. Operating risks, such as adverse weather conditions, mechanical failures, equipment and personnel availability and permitting delays, can have adverse economic implications.
- Insurance coverage may be insufficient to cover all risks associated with oil and gas exploration, evaluation, development and production.
- Volatile market conditions for oil and gas may affect the Company's ability to attract capital and may cause a variable return on its operations.
- 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.

OPERATIONS REVIEW

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

SANTOS BASIN, BRAZIL

Karoon entered Brazil during 2008 through Bid Round 9 with the award of a 100% participating interest 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.

Following early success in offshore Australia, increasing competition led Karoon to look overseas for new opportunities. New basins of interest were identified based on proven petroleum systems with the potential to deliver world class resources where Karoon could acquire a material acreage position on reasonable financial and fiscal terms.

During 2007 Karoon identified the Santos Basin, offshore Brazil, as an exciting opportunity with prolific oil prone source rocks, proven exploration potential and a well-established oil and gas industry.

Karoon entered Brazil during 2008 through Bid Round 9 with the award of a 100% participating interest 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.

Since then, Karoon has acquired significant operational experience and geological data through over a decade of operating in the Santos Basin. During this time Karoon made 3 oil discoveries (Neon, Goiá and Bilby), from 2 Karoon operated exploration and appraisal drilling campaigns with a safety record of TRIR of less than 1 per 200,000 man hours worked.

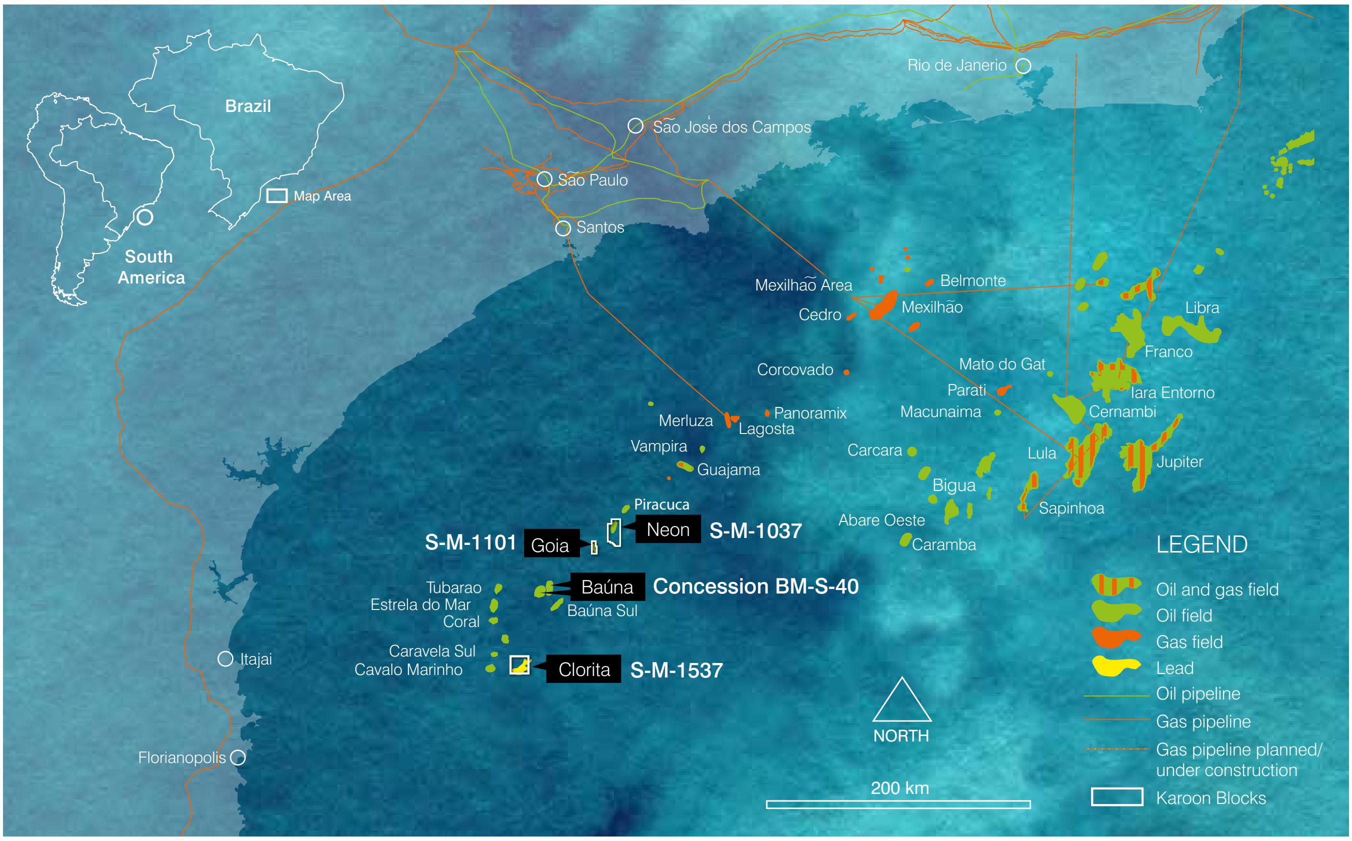
Consistent with its southern Santos Basin Growth Strategy, Karoon expanded its exploration acreage position in the area during 2017 through Bid Round 14 with the acquisition of exploration Block S-M-1537. The Block covers 171 sq km with a water depth of approximately 400 metres. The Block presents an exciting exploration opportunity with the main target, the Clorita exploration area, mapped to contain reservoirs comprising Oligocene turbidite sands with high porosity and permeability as seen in the producing Baúna and Piracaba oil producing accumulations.

On 25 July 2019 Karoon advanced its top strategic priority of acquiring a quality, cash generating production asset by signing a binding SPA with Petrobras for a 100% operating interest in Concession BM-S-40, which includes the producing Baúna light oil field and the existing undeveloped Patola oil discovery. Headline consideration for the purchase was US$665 million and a non-refundable cash deposit of US$49.9 million was paid to Petrobras during July 2019.

Baúna is strategically located near Karoon's existing southern Santos Basin assets, approximately 50-60 km to the southwest of Neon and Goiá and approximately 50 km to the north of the Clorita exploration area. This proximity offers significant opportunities to realise synergies with any potential Neon development through a shared management model and the potential for operational synergies through logistics and shared shore base facilities. The 100% interest in Baúna, along with Karoon's other

Key Statistics		
Blocks:	S-M-1037, S-M-1101 *	S-M-1537
Karoon 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:	Exploration phase	Exploration phase

* As part of the annexation for the Neon and Goiá light oil discoveries Blocks S-M-1102 and S-M-1165 where terminated and included as part of the retained gross acreage above.



existing Santos Basin acreage, presents significant farm-out optionality, and the ability to realise important economic efficiencies between exploration, development and production.

With a significant presence in Brazil and after having undertaken a number of successful exploration campaigns, Karoon has developed a detailed knowledge of the geology of the Santos Basin. In the process, the Company has accrued valuable understanding and experience of Brazil's regulatory regime, enabling it to assess and pursue significant acquisition and development opportunities.

Concession BM-S-40 Baúna Light Oil Field and the Existing Undeveloped Patola Oil Discovery

For Karoon, Baúna is a right-sized and relatively uncomplicated producing asset with currently 6 oil producers and 4 injectors (1 gas and 3 water), and a leased FPSO (the Cidade de Itajai) which has significant under utilised capacity and with charter and service contracts already in place.

Baúna is currently producing approximately 20,000 bopd which will transform Karoon into a significant, ASX-listed oil producer on completion of the acquisition. In addition, Karoon has a clearly defined plan to increase oil production from the current field and nearby discoveries within Concession BM-S-40 to between 30,000 and 40,000 bopd over the medium-term through well workovers during calendar year 2021 and installing and/or replacing ESPs, and developing the Patola oil discovery.

As part of the acquisition process, during the September 2019 quarter an independent reserves and contingent resources certification was prepared by a globally recognised reserves certification consultancy firm, AGR Petroleum Services Reservoir Management Division (AGR). AGR estimates the gross 2P reserves estimate for the Baúna and Piracaba oil producing accumulations to be 52.5 mmbbls (from 1 January 2019, the effective date), based on a US$65/bbl oil price scenario. The gross 2C contingent resources estimate is 18.8 mmbbls.

"Baúna is currently producing approximately 20,000 bopd which will transform Karoon into a significant, ASX-listed oil producer on completion of the acquisition."

OPERATIONS REVIEW *(CONTINUED)*

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

The Concession area also includes the existing undeveloped Patola oil discovery which is adjacent to the Piracaba oil producing accumulation. Karoon plans to drill up to 2 production wells at Patola during the calendar year 2021 well intervention program and create a tie-in to the leased FPSO, with additional production in excess of 10,000 bopd expected.

Karoon will work towards completing the government approvals and transition to operatorship of Baúna during the first half of calendar year 2020. Karoon is currently working with Petrobras and the industry and environmental regulators to fulfil the conditions precedent under the SPA. Karoon anticipates the outstanding conditions will be satisfied and both parties will be in a position to close the transaction during the first half of calendar year 2020.

The remaining key conditions to be satisfied are as follows:

- payment of the outstanding consideration (purchase price less the deposit and closing adjustments);
- Brazilian oil and gas regulatory approval from the ANP;
- issue of a new environmental licence to Karoon by the Brazilian environmental agency, the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis (IBAMA); and
- assignment of the FPSO charter and service contracts.

Karoon intends to use a portion of its existing cash balance to fund part of the Baúna acquisition. However, Karoon is reliant on both debt and equity raisings as well as interim net cash flows from 1 January 2019 to the date of closing to complete the Baúna acquisition.

As at the date of this Annual Report, Karoon had a US$250 million credit-approved commitment from ING for a senior term loan facility, subject to confirmatory due diligence and receipt of final documentation. Negotiations with potential equity underwriters had also commenced and were well advanced.

Blocks S-M-1037 and S-M-1101

Over the course of the financial year, Karoon continued its pursuit of its southern Santos Basin Growth Strategy, focusing primarily on the Neon light oil discovery.

During January 2019, ANP approved the annexation for the Neon and Goiá light oil discoveries. Under the Australian regulatory framework, this is akin to receiving a Retention Licence over the oil discoveries.

While Karoon had previously targeted a potential FID for the end of calendar year 2018, negotiations with industry suppliers for equipment and services for the Neon light oil discovery remain ongoing. As a result of these negotiations, prior to FID being reached, Karoon anticipates drilling a 'control well' to assist delineating the southern region of the field and assisting with planning and design of both development wells and infrastructure.

As new data is incorporated and the uncertainties of the modelling are reduced, the risks can be better identified and mitigated, and a complementary development may be proposed. The initial Neon development phase concept consists of a 3 well development (2 oil producers, 1 gas injector) producing to a leased FPSO.

A renewed farm-out process is underway as Karoon remains committed to farming down an equity interest in the projects. The addition of Baúna provides an interesting regional package of assets with the potential for a long production life, which could be marketed at the right time to assist in the potential development of Neon.

Block S-M-1537

The exploration phase for Block S-M-1537 is 7 years. The minimum work program consists of seismic acquisition and geological studies.

Seismic analysis shows encouraging Amplitude versus Offset ('AVO') anomalies supportive of the presence of trapped oil. G&G studies and mapping work is being undertaken over the Block.

The Block contains one main lead targeting Oligocene turbidite sands with high porosity and permeability as seen in the nearby producing Baúna and Piracaba oil producing accumulations.

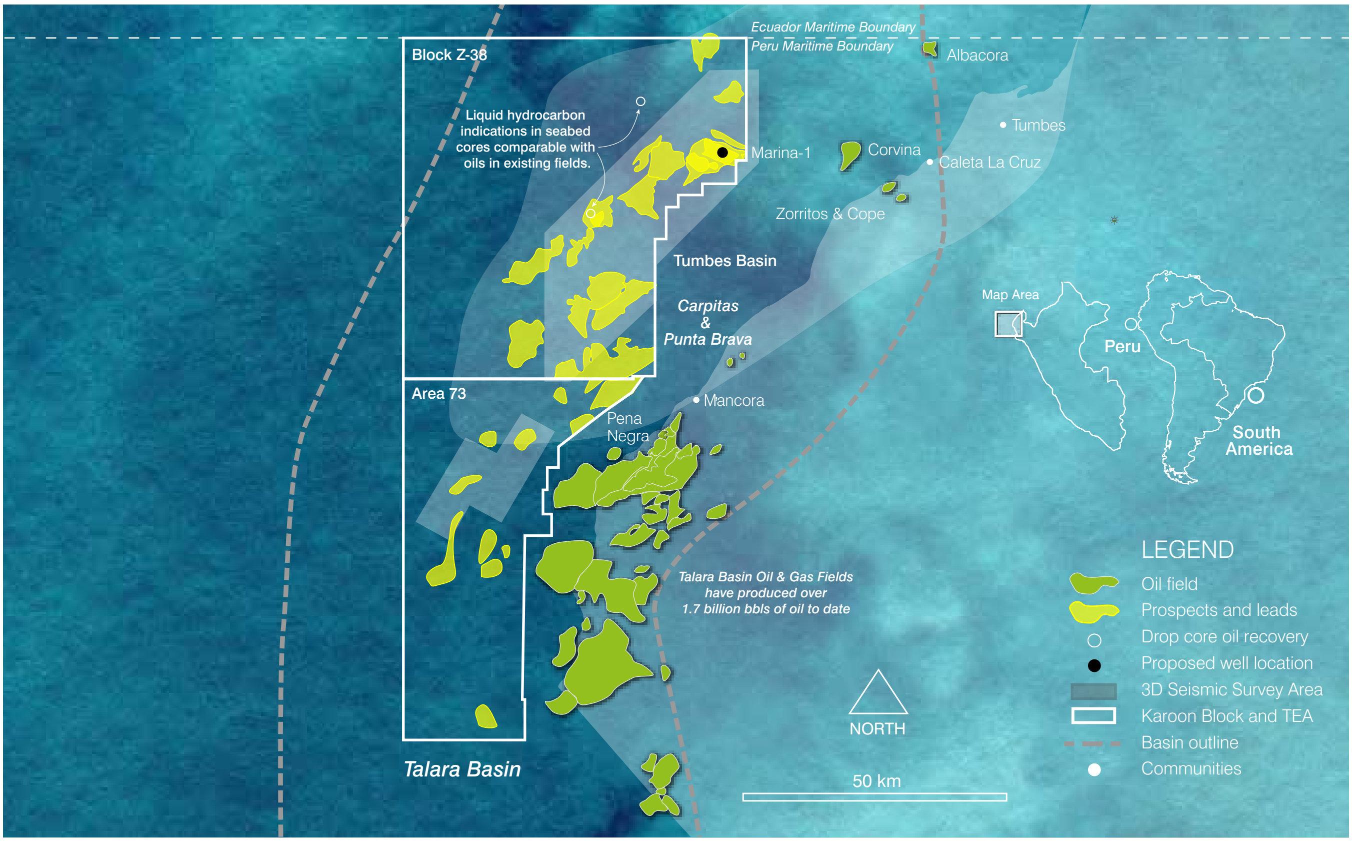
Forward Work Program

Karoon has ambitious growth and development plans for the southern Santos Basin over the coming 4 years, including: well workovers and installation and/or replacement of up to 4 ESPs at Baúna; development drilling for the Patola oil discovery and tie-in to the leased FPSO; and progressing the development of the Neon and Goiá fields.

The operational plan for Baúna has the potential to grow oil production up to a peak of 40,000 bopd by calendar year 2022 with a further opportunity, on success, to see a Neon development targeting peak production of an additional 30,000 bopd (at 100%) starting in the next 5 years.

TUMBES BASIN AND TALARA BASIN, PERU

Karoon believes that the application of the first 3D marine seismic in Peru was the key to understanding the prospectivity of the region.



Key Statistics	
Block:	Z-38
Karoon Equity Interest:	40% *
Operator:	Karoon
Gross Acreage:	4,750 sq km
Water Depth:	200 to 2,000 metres
Type:	Oil
Status:	Exploration phase

Key Statistics	
Technical Evaluation Area:	Area 73
Operator:	Karoon
Gross Acreage:	2,489 sq km
Water Depth:	200-2,000 metres
Type:	Oil
Status:	TEA

* Karoon's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are to be completed.

OPERATIONS REVIEW *(CONTINUED)*

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

Karoon entered offshore Peru during 2008, around the same time as it entered the Santos Basin, offshore Brazil, and sought to expand its prospective exploration portfolio in geographies where Karoon could acquire exploration acreage under competitive terms.

The Tumbes Basin presented an opportunity to acquire relatively low-cost 3D marine seismic to de-risk prospective underexplored areas in a Basin that contains a proven system with large structures and lying adjacent to the prolific Talara Basin, which has produced over 1.7 billion barrels of oil to date.

Karoon's entry into the Tumbes Basin Block Z-38, offshore Peru, came through a farm-in to acquire an initial 20% equity interest, increasing the interest to 75% over time and assuming operatorship, subject to completion of farm-in obligations with Pitkin Petroleum Peru Z-38 SRL. The Block is located 10 km off the coast of Peru and covers an area of 4,750 sq km.

During January 2018, Karoon successfully executed a farm-out of a 35% equity interest to Tullow. Regulatory approval for the assignment of the interest was received during May 2019. 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.

Historically, there has been little exploration in the offshore portion of both the Talara Basin and the Tumbes Basin, particularly in water depths over 120 metres. Karoon believes that the application of the first 3D marine seismic in Peru was the key to understanding the prospectivity of the region. 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 in California, which has produced over 12 billion barrels of oil and 3.5 TCF of 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 the financial year, Karoon sought to increase its footprint in Peru and entered a strategic TEA for offshore Area 73, adjacent to Block Z-38. The TEA, signed on 12 December 2018 and effective for 18 months from 1 January 2019, gives Karoon a strategic position in the area. Area 73 is in the Talara Basin, however the northern part of the TEA area is in the south of the Tumbes Basin, and several prospects have already been identified. Drilling at Block Z-38 will provide additional knowledge for potentially similar plays in Area 73, providing significant leverage to any drilling success.

The obligations under the Area 73 TEA are for seismic reprocessing, interpretation and geological studies. The TEA provides a right to negotiate a licence contract with Perupetro SA (the Peruvian oil and gas regulator) in respect of the whole area or one portion of the area for a referenced minimum work program. Area 73 is located strategically in front of the Talara Basin oil fields of the Peruvian northwest.

The first exploration well to be drilled in Block Z-38, Marina-1, has the potential to open a new oil and gas production opportunity for the industry and re-ignite one of the oldest oil producing regions in the world. Karoon has mapped several large structures around Block Z-38 and Area 73. In addition, information obtained from the Marina-1 well will be utilised to further develop the geological model for Area 73. The Marina Prospect has an unrisked best estimate prospective resource of 256 mmbbls at 100% (102 mmbbls net to Karoon).

Ocean state modelling commenced during the financial year with the installation of 10 buoys around the Marina-1 well location, which marked the beginnings of formal operations for drilling.

Tendering for a drilling rig and services was initiated during late calendar year 2018 and bought strong interest from rig owners, and a number of proposals were received. Karoon is currently finalising rig negotiations alongside Karoon's new farm-out partner Tullow for the drilling of the high impact Marina-1 exploration well. Karoon is continuing discussions with regulators to clear final approvals. This final stream of works will pave the way for Karoon and Tullow to progress plans to drill the Marina-1 exploration well.

Forward Work Program

Block Z-38 is in the third period term with the current work program obligations, drilling of Marina-1 and the reprocessing of 2D marine seismic, to be completed by July 2020.

Karoon will look to drill the Marina-1 exploration well during early 2020 calendar year. The Marina Prospect will be the first drilled in Block Z-38.

Karoon is currently reprocessing 3D marine seismic data for Area 73. With Block Z-38 and the addition of Area 73, Karoon believes it now has a high-quality strategic acreage position and looks forward to testing the Basin's prospectivity with the drill bit in the near term. Exploration success at Marina-1 would significantly enhance the prospects identified in Area 73.

Equity Interests

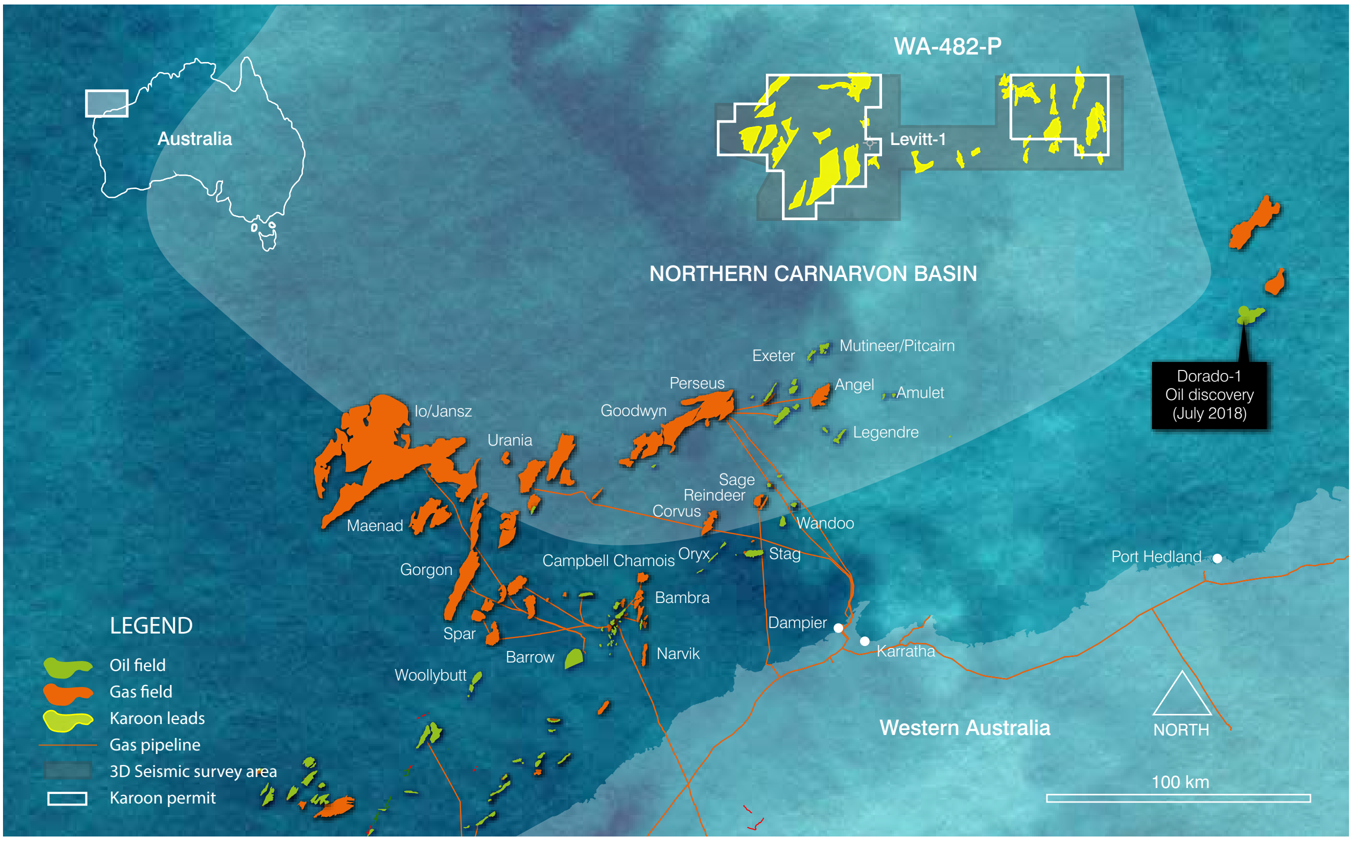
Equity interests of the participants in Block Z-38 are:

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

* Tullow's interest is subject to satisfying certain farm-out conditions. Karoon's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are also still to be completed.

"The first exploration well to be drilled in Block Z-38, Marina-1, has the potential to open a new oil and gas production opportunity for the industry and re-ignite one of the oldest oil producing regions in the world."

NORTHERN CARNARVON BASIN, AUSTRALIA



Key Statistics	
Permit:	WA-482-P
Karoon Equity Interest:	50%
Operator:	Santos WA Northwest Pty Ltd (50% equity interest)
Gross Acreage:	6,730 sq km
Water Depth:	400 to 2,000 metres
Type:	Oil
Status:	Exploration phase

OPERATIONS REVIEW *(CONTINUED)*

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

The Carnarvon Basin is one of Australia's largest and most prolific oil and gas regions. The Basin area south and west of WA-482-P is host to multiple world scale LNG projects, a number of oil projects and is also a region being actively explored by major international oil companies. During recent times the region nearer to exploration permit WA-482-P has played host to a series of exploration campaigns looking to extend the prospectivity of the Basin to previously underexplored areas.

The Dorado oil discovery during July 2018 was one success the industry has had recently in the Carnarvon Basin and provided valuable information which can be utilised by Karoon to better understand the region. It showed that source rocks in the area, seen by the industry as predominantly gas prone, can generate prolific oil resources. Dorado is billed as one of the largest oil discoveries in recent times in Australia, with a reported contingent resource of 186 mmbbls located approximately 100 km from exploration permit WA-482-P.

While in a relatively underexplored part of the Northern Carnarvon Basin, the WA-482-P permit covers a significant area and straddles Jurassic depocentres (Wigmore Sub-basin and Whitetail Graben). Good quality oil mature source rocks seen in nearby wells are interpreted to be present over large parts of the permit. Successful drilling results would open up new exploration plays in the Basin.

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 Australia coast in water depths ranging from 400 to 2,000 metres. The original exploration permit covered an area of 13,539 sq km.

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

From the acquisition of the Capreolus 3D marine seismic survey data the joint operation has a high quality 3D data set covering all of the renewed permit area. Further seismic interpretation work will allow Karoon to better define, risk and rank the 10 significant prospects which have been identified.

A 'Renewal Application' was lodged with the National Offshore Petroleum Titles Administrator ('NOPTA') by the Operator on 8 March 2019. As part of the renewal process there was a mandatory requirement to relinquish approximately 50% of the area, resulting in a reduction of the permit's area to 6,730 sq km. The renewal was subsequently approved and the joint operation committed to a firm 3 year program of seismic reprocessing of existing 3D data and geoscience studies.

All prospective areas of the original exploration permit area were renewed, with the net unrisked prospective resource volume best estimate of WA-482-P still assessed as 1,398 mmbbls.

Forward Work Program

The firm 3 year work program of seismic data reprocessing and geological studies will be used to further de-risk numerous large fault block features identified on high quality 3D seismic.

The Levitt-1 exploration well has proven reservoir quality in both the North Rankin Formation and the Legendre Formation objectives. Structures at the Legendre play level have shown encouraging AVO anomalies supportive of the presence of trapped oil. Geological studies will assess new concepts as to the presence of oil in Jurassic depocentres such as the Wigmore Sub-basin and Whitetail Graben, and Triassic source rocks such as those identified in the Dorado oil discovery.

Upon completion of the reprocessing and geoscience studies, the focus will be on de-risking the numerous prospects identified on the 3D dataset with a view to attracting a farminee to partner in progressing the area.

Equity Interests

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

Karoon Gas (FPSO) Pty Ltd	50%
Santos WA Northwest Pty Ltd (Operator)	50%

CEDUNA SUB-BASIN, GREAT AUSTRALIAN BIGHT ('GAB'), AUSTRALIA

Exploration Permit EPP46

Karoon was awarded exploration permit EPP46 during October 2016.

Since 2011, various GAB exploration permits have been held by Murphy Oil, Santos Limited, Chevron, BP and Equinor (formerly Statoil) with over 42,000 sq km of 3D marine 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 its initial permit term, which falls during April 2020.

Karoon does not plan to commit any further resources to EPP46 until there is a clear pathway of support from NOPSEMA to safely and commercially pursue exploration drilling activities.

Due to the difficulties associated with regulatory approvals to conduct operations, Karoon has commenced discussions with the regulatory authorities to surrender exploration permit EPP46.

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

BROWSE BASIN, AUSTRALIA

Exploration Permit WA-314-P

Over a 10 year period 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 (WA-314-P and WA-315-P) 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) to Origin Energy Limited for US$600 million, and a contingent milestone consideration of up to US$200 million.

During the financial year G&G studies did not identify any further significant prospectivity in exploration permit WA-314-P and Karoon has decided to relinquish it. The Company has submitted its work program evaluation to NOPTA together with an application to surrender the permit in good standing.

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

SUSTAINABILITY REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

In keeping with Karoon's commitment to continuous improvement it has sought to identify ways to improve efficiency and effectiveness in its governance practices.

Karoon is focussed on creating a bright future for its shareholders, employees and the local communities where it operates. As Karoon transitions to oil production in Brazil, Karoon is more conscious than ever of its responsibilities to employees, local communities and the environment.

Karoon has been working toward acquiring a production asset since 2015. Key due diligence items for the Baúna acquisition assessment undertaken during the financial year included the application, implementation and performance of the Health, Safety and Environment ('HSE') management systems and compliance with the approved Baúna Environmental Plan. Independent technical consultants were appointed to investigate the Baúna acquisition prior to Karoon signing the SPA on 25 July 2019. This investigation is ongoing and Karoon will be working closely with the FPSO operator prior to reaching transaction completion to ensure that Baúna continues to operate to a high standard, and is aligned with Karoon's Operating Management System ('OMS') and Karoon's commitment to conduct its business ethically and responsibly, encourage community initiatives, consider the environment and ensure a safe, equitable and supportive workplace.

During the financial year, Karoon's social projects team was focussed on Peru in preparation for the upcoming exploration drilling campaign in the Tumbes Basin. Karoon places a high priority on communicating openly with local communities on all relevant operational activities. Karoon has implemented strategies to maintain strong relationships with local Tumbes stakeholders, fostering trust over many years, in order to carry out safe, transparent and responsible operations.

A locally based website has been established specifically in Peru to keep local communities informed on the status of Karoon's upcoming exploration drilling activities **www.operacioneskaroon.com.pe**.

In all of Karoon's activities undertaken, including both asset assessments and operations planning, Karoon's strategic planning and risk management principles and practices have ensured informed and careful decision making. In keeping with Karoon's commitment to continuous improvement it has sought to identify ways to improve efficiency and effectiveness in its governance practices. A review was recently undertaken in recognition of the ASX fourth edition Corporate Governance Principles and Recommendations and the ongoing implementation of Karoon's OMS, adopted from the International Association of Oil and Gas Producers (IOGP) 510 standards. Karoon looks forward to finalising the review and putting the recommendations into practice during the financial year ending 30 June 2020.

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

Philosophy and Management

Karoon's approach to sustainability and the environmental, social and governance principles is developed and implemented through its broader risk management framework, currently 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 also helps focus Karoon's sustainability efforts. Karoon regularly reviews its Corporate Risk Register to ensure its risk mitigation strategies are appropriate. The Risk and Governance Committee reviews the Corporate Risk Register at least annually to ensure material risks have been identified and assessed, that the assessment reflects the Board of Directors' risk appetite and to ensure that adequate controls have been identified and put in place.

In assessing potential acquisitions a Project Risk Register, reflecting Karoon's specific risk assessment, was prepared for each asset under consideration. This has assisted Karoon in taking a coordinated, consistent and efficient approach to its due diligence, in line with its Board of Directors' risk appetite and overall sustainability obligations.

Health, Safety, Security and Environment ('HSSE')

Karoon's first priority is 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 undertaking is both understood and followed. Education and training programs have included both internal and external workshops and specific programs such as First Aid training.

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

SUSTAINABILITY REPORT *(CONTINUED)*
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

Respect for Communities

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

Local community communication and engagement is particularly important in preparing and implementing any operational campaign, so Karoon's primarily focus during the financial year was the Tumbes region in Peru. A locally based website has been established to ensure up-to-date information is made available to relevant local communities, while also keeping the general public informed. This also provides a convenient way for people to seek further information or clarification from Karoon.

Karoon has been proud to support many programs in the Tumbes region, which have been successfully implemented over a number of years, providing tangible long-term benefits in healthcare, education, environmental stewardship and economic independence.

During this financial year, Karoon commenced implementation of the social initiatives listed in the government environmental approval for the upcoming Peru exploration drilling campaign. Social initiatives implemented included:

- assistance with formalising fishing licences and international maritime training for local fisherman;
- donations of supplies to local schools; and
- food donations to recognise Fishermen's Day and Christmas.

In addition, Karoon sought to expand its successful educational program, 'Tumpis', which was originally introduced in Peru during 2013. The program began with supporting low income and disadvantaged students to obtain a tertiary education and has now seen 8 students complete their studies in topics ranging from Tourism and Hospitality to Accounting and Agroindustry. From 2019 the program will now include:

"Connecting with Your Future"

This program is going to be implemented in conjunction with Tumbes University and local public schools and aims to ensure students are well informed about courses available at Tumbes University. The program will be offered to 432 students from 8 public schools from Tumbes and will include guided visits to the faculties and university facilities as well as a presentation of potential career paths.

Karoon Educa Scholarship

Karoon Educa is a scholarship program that aims to support tertiary students from low socio-economic backgrounds to be able to continue with their studies. Karoon is launching 25 scholarships to benefit 25 students that are currently studying at Tumbes University. Each student will receive a monthly scholarship of Peruvian Sol 400,00 during one semester to fund school materials, transportation and/or meals. The program has been developed in conjunction with the university and is particularly aimed at students with strong academic records who may otherwise be unable to continue with their studies.

Learn to Teach Scholarship

This program provides high school, elementary and kindergarten teachers from 11 different communities in Tumbes the opportunity to undertake mid-term training courses in specialised education topics. The program aims to broaden teachers' knowledge and thereby improve the level of education offered at local schools. The program, which Karoon will operate over a period of 12 months, will provide financial assistance to teachers interested in the post-graduate degrees.

Since beginning operations in Peru, Karoon has been able to assist:

1,180	Fishermen with licencing and international maritime training
200	Women through the Mutumbi micro-business program
546	Children, young people and teachers with financial scholarships and support for vocational talks
49,142	Members of local Tumbes communities with food and other donations through school, Christmas and Fisherman's Day campaigns

Karoon has also provided different levels of support to communities in Brazil and Australia during this financial year through:

- 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 ('GABRWS') in Australia.

Karoon is proud to be able to sponsor these and other programs. Further details of Karoon's social and environmental projects in Brazil are available at the Karoon Brazil website at **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 (TCFD) 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 industry participant, successfully identifying and managing these challenges is paramount and necessary for the long-term success and sustainability of Karoon's business.

Karoon will move from a prolonged period of very low carbon emissions, due to limited or no operations, into a period of continuous emissions generation, following transaction close on the Baúna acquisition. Karoon is aware of its responsibility to endeavour to optimise efficient operations, thereby leading to reduced emissions, where possible.

Karoon will look to identify opportunities to develop new and expand existing programs that aim to increase operational efficiency and/or reduce carbon emissions during the transition planning process.

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 must be addressed and reduced to an acceptable level of risk before operations commence.

Detailed operational risk assessments have been planned for both the upcoming Peru exploration drilling campaign and the final handover of Baúna from Petrobras following completion. These processes include an assessment of climate change related risks and opportunities for each project, which may enable further carbon emissions reductions measures to be identified.

Metrics and Targets

Karoon's Scope 1 emissions for the financial year were approximately 57 tonnes of carbon dioxide equivalent and Scope 2 emissions were approximately 168 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 financial year.

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

Due to the very low carbon emissions generated solely through administrative functions compared to operations, Karoon has not set targets for emissions reductions in recent years as the targets would not be material. With Peru drilling operations expected to commence during early 2020 calendar year Karoon will seek to assess the carbon emissions generated during the drilling campaign and will work with the successful rig tenderer to ensure operations are carried out responsibly with regard to all aspects of HSSE.

As the specific requirements for carbon emissions reporting in Brazil are different to Australia, Karoon will seek to determine what historic data is available for Baúna during the transition process in order to estimate the existing carbon emission levels. This will assist Karoon to identify possible opportunities to improve operations to potentially reduce carbon emissions. Karoon will look to consider measurable targets once existing carbon emission levels are properly understood.

People and Culture

Staff Engagement and Education

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

World Environment Day, which Karoon celebrates each year as part of Karoon's Environment Week, was acknowledged in all offices.

This financial year, all employees were encouraged to consider the 'Air Pollution' theme and look at what they could do reduce their own carbon emissions that contribute to air pollution, particularly through using more sustainable transport methods to travel to and from work.

Across the Group, Karoon employees continued to be offered training in areas of HSSE, including First Aid training, and anti-bribery and no corruption refreshers. Staff wellbeing was also supported through Karoon's ongoing programs, including healthy snacking and support for regular exercise.

Diversity

Karoon has a robust Diversity Policy, applicable across all its offices and 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 almost 30% of senior executives are female across the Group.

DIRECTORS' REPORT

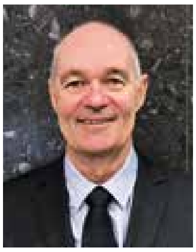
At the 2018 Annual General Meeting, shareholders approved the change of name from Karoon Gas Australia Ltd to Karoon Energy Ltd.

The Board of Directors submits its Directors' Report on Karoon Energy Ltd (the 'Company') and its subsidiaries (the 'Group') for the financial year ended 30 June 2019 (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 Bruce Phillips

BSc. (Hons), (Geology)
Independent Non-Executive Chairman
Appointed 1 January 2019.

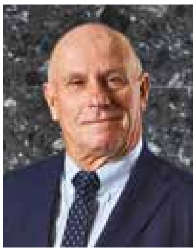
Mr Phillips has 43 years' of technical, financial and commercial experience in the global energy industry, encompassing a number of corporate entities. Bruce has extensive experience in upstream oil and gas exploration and production via involvement in projects in Australasia, Africa, Europe and the Americas. He also has considerable experience in governing publicly listed companies, including the chairmanship of four companies listed on the ASX.

Since founding AWE Limited in 1997, Mr Phillips has held positions as CEO, Chairman and Non-executive Director. He is currently the Chairman of ALS Limited (ALQ: ASX), is the former Chairman of Platinum Capital and AWE Limited (now part of Mitsui Corporation), and a former Non-Executive Director of AGL Energy Limited (AGL: ASX) and Sunshine Gas Limited (formerly SHG: ASX: pre-merger with QGC). During Mr Phillips' executive career he held varied positions within the industry initially as a geophysicist for AMAX and Esso, graduating to a business development role at Command Petroleum Limited and General Manager of Petroleum Securities Australia Limited.

Current directorships of other listed companies include: Chairman, ALS Limited.

He is a member of the Petroleum Society of Australia and the Australian Society of Exploration Geophysicists.

Member of the Nomination and Remuneration Committees from 8 March 2019.

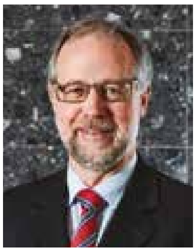


Mr Robert Hosking

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 Petrobras. 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 Petrobras 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 Petrobras E&P Deepwater Strategic Project and a variety of technical and economic feasibility studies on major projects including participation in the first Petrobras project finance deals.

Luciana has also held positions in the Petrobras 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, and Risk and Governance Committees.

Mr Geoff Atkins

FIE Aust. CP Eng.
Independent Non-Executive Director
Appointed 22 February 2005.

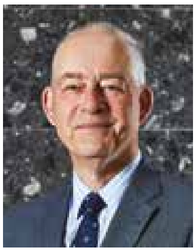
Geoff has over 45 years' experience in investigation, planning, design, documentation and project management of numerous significant port, harbour and maritime projects. These include container terminals, LNG jetties, oil and gas wharves, heavy lift facilities, cement, coal, bauxite, iron ore and other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

Board of Directors *(continued)*



Mr Clark Davey

B. Commerce, FTIA, MAICD
Independent Non-Executive Director
Appointed 1 October 2010.

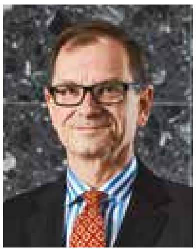
Clark is a professional independent Company Director with over 40 years of experience in the natural resources industry as a taxation and strategy advisor. Clark was a partner at Price Waterhouse and PricewaterhouseCoopers for a number of years with an oil and gas and natural resources specialty holding 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, Remuneration, and Risk and Governance Committees.



Mr Peter Turnbull

B. Commerce, LLB, FGIA (Life), FAICD
Independent Non-Executive Director
Appointed an independent Non-Executive Director on 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 commercial, legal and governance experience gained from working with boards and management to conceive, structure, fund and complete corporate transactions and to prioritise and maximise the value of organic growth strategies for shareholders.

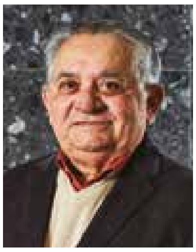
Peter has significant regulatory and public policy experience from prior executive roles including as a Director of the Securities & Futures Commission of Hong Kong. Over time, Peter has held roles as a director or senior officer of several global organisations which promote best practice governance and is a regular contributor and speaker in Australia and overseas on corporate governance issues. Peter is a former President and current Life Member of the Governance Institute of Australia.

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. This experience included over a decade in energy markets and the resources sector including as Company Secretary of Newcrest Mining Limited, Company Secretary and General Counsel of BTR Nylex Limited and General Manager, Legal and Corporate Affairs with Energex Limited.

Current directorships of other listed companies include: Chair, Calix Limited, since its ASX listing on 20 July 2018.

Chairman of the Remuneration, and Risk and Governance Committees.

Member of the Audit and Nomination Committees.



Mr Jose Coutinho Barbosa

Bsc. (Geology), Msc. (Geophysics)
Non-Executive Director
Appointed 31 August 2011.

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

Earlier in his career, Jose Coutinho was Executive Vice-President and CEO of Petrobras Internacional SA (otherwise known as Braspetro) and was Managing Director for Exploration and Production of Petrobras 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.

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
Mr Bruce Phillips	5	5	–	–	1	1	–	–	–	–
Dr David Klingner	1	–	–	–	1	–	–	–	2	–
Mr Robert Hosking	11	11	–	–	–	–	–	–	–	–
Mr Mark Smith	11	10	–	–	–	–	–	–	–	–
Ms Luciana Rachid	11	11	–	–	–	–	3	3	7	7
Mr Geoff Atkins	11	11	5	5	3	3	3	3	–	–
Mr Clark Davey	11	11	5	5	6	6	3	3	7	7
Mr Peter Turnbull	11	11	5	5	6	6	3	3	7	7
Mr Jose Coutinho Barbosa	11	11	–	–	–	–	–	–	–	–

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

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

DIRECTORS' REPORT *(CONTINUED)*

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	12,131,868	574,172	202,903
Mr Mark Smith	3,014,443	574,172	202,903
Mr Bruce Phillips	–	–	–
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 $28,417,537 (2018: $181,777,789).

The loss for the financial year included:

- write-off of capitalised exploration and evaluation expenditure associated with historical Australian exploration and evaluation activities for exploration permit WA-482-P of $13,226,427 in relation to designated acreage relinquishment (2018: $5,892,079 in South America);
- write-down of the carrying value of inventory to net realisable value of $6,213,639 resulted from the consideration of utilising a particular type of rig for the upcoming drilling of the Marina-1 exploration well in Block Z-38, offshore Peru, which would mean a portion of Karoon's existing Peru inventory may not be suitable for that generation of rig (2018: $6,679,549 in Peru);
- business development and other project activities of $5,214,563 (2018: $7,285,306) 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;
- exploration and evaluation expenditure expensed of $4,191,536 (2018: $5,569,500) from reviewing new exploration ventures predominantly in South America; and
- net employee benefits expense of $11,100,470 (2018: $ 11,339,308), which included share-based payments expense of $3,996,372 (2018: $ 4,409,889).

Partially offsetting the loss for the financial year were net foreign currency gains of $17,486,787 (2018: $12,993,578), interest income of $2,314,803 (2018: $710,652) and tax income of $1,160,404 (2018: $2,278,808) relating largely to the de-recognition of a deferred tax liability in relation to capitalised Australian exploration and evaluation expenditure that was written-off during the financial year.

Interest income is earned on the Group's USD cash holdings, which represents USD proceeds received from the sale of the Group's Browse Basin assets during August 2014. The Group made the decision to retain these proceeds in USD to provide a natural hedge against future USD exploration expenditure and benefit from an appreciation in the USD to fund corporate overheads largely denominated in AUD, whilst managing the income tax exposure arising from the movement of these funds. The USD proceeds were initially received at a value of USD1:AUD1.07 which compares to USD1:AUD1.43 as at 30 June 2019, representing an appreciation of approximately $77 million or 34% in AUD equivalent.

The net foreign currency gains were almost entirely attributable to the appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.7391 as at 30 June 2018 to AUD1:USD0.7013 as at 30 June 2019) 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 $21,964,059 (2018: $25,293,170), predominantly for payments to suppliers and employees. Cash outflow from investing activities for the financial year were $2,864,425 (2018: $28,215,446) relating principally to the payment for exploration and evaluation expenditure in Australia, Brazil and Peru; offset by recoupment of exploration and evaluation expenditure and upfront payment on farm-out to Tullow of $5,591,334 and a net security deposit receipt for Peru (performance guarantee for Block Z-38) of $2,553,281. Cash outflow from financing activities for the financial year was $94,081 related to payments for the finance lease in Brazil (2018: $64,290).

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 $17,540,743 (2018: $12,076,432).

Financial Position

At the end of June 2019, the Group had a cash and cash equivalents balance of $326,191,131 (30 June 2018: $333,572,953).

The Group's working capital, being current assets less current liabilities, decreased from $329,000,556 as at 30 June 2018 to $323,978,091 as at 30 June 2019 predominantly as a result of expenditure on exploration and evaluation assets and expenditure on new business development associated with the acquisition of Baúna; 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 $594,920,565 to $581,089,382, total liabilities increased from $39,694,851 to $39,850,473 and total equity decreased by $13,986,805 to $541,238,909. 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;
- write-off of capitalised exploration and evaluation expenditure associated with historical Australian exploration and evaluation activities for permit WA-482-P in relation to designated acreage relinquishment;
- write-down of inventory to net realisable value;
- appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.7391 as at 30 June 2018 to AUD1:USD0.7013 as at 30 June 2019) on cash assets and security deposits held in United States dollars; and
- positive movement in the foreign currency translation reserve as a result of the appreciation of both the Brazilian REAL and United States dollar against the Australian dollar.

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

Exploration and evaluation expenditure of $11,411,205 was incurred during the financial year, in the following operating segments:

- Peru, with drill planning and logistics, G&G studies, at a total cost of $6,111,047;
- Brazil, continued work on the Neon light oil discovery and G&G studies, at a total cost of $4,551,542; and
- Australia, the Group and its joint operation partner in WA-482-P continued G&G studies, at a total cost of $748,616.

Review of Operations

Information on the operations of the Group is set out in the Operations Review on pages 10 to 17 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.

DIRECTORS' REPORT *(CONTINUED)*

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	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
ESOP options	21 September 2018	30 June 2022	$1.40	3,297,603
ESOP options	31 December 2018	30 June 2022	$1.40	1,069,686
Total ESOP options				7,544,608

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	6 October 2017	30 June 2020	$-	81,369
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
Performance rights	21 September 2018	30 June 2021	$-	638,617
Performance rights	21 September 2018	30 June 2021	$-	264,402
Performance rights	31 December 2018	30 June 2022	$-	864,095
Performance rights	31 December 2018	30 June 2022	$-	280,298
Total performance rights				3,514,325

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

1,180,378 fully paid ordinary shares have been issued since 1 July 2019 as a result of the vesting and conversion of Karoon Gas Australia Performance Rights Plan ('PRP') performance rights.

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 parties 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.karoonenergy.com**.

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 225 tonnes of carbon dioxide equivalent based on equity share and including scope 1 and scope 2 emissions (2018: 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 on page 21.

DIRECTORS' REPORT *(CONTINUED)*

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 55 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 matter disclosed in Note 30 of the consolidated financial statements, no other matter or circumstance has arisen since 30 June 2019 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 2019

Dear Shareholders,

On behalf of the Board of Directors and the Remuneration Committee, I am pleased to present to you Karoon Energy Ltd's Remuneration Report for the financial year ended 30 June 2019.

1. Overview

Over the financial year significant strategic and operational progress has been achieved, including:

- as announced to the ASX on 25 July 2019, Karoon entered into a legally binding SPA to acquire the Baúna light oil field in the southern Santos Basin, offshore Brazil, which was Karoon's priority strategic goal of acquiring a high quality, cash generating production asset;
- farming-out the prospective exploration Block Z-38, offshore Peru, to Tullow and being operationally advanced and ready for drilling the Marina-1 exploration well during early 2020 calendar year; and
- taking further steps to reduce the ongoing annual operating costs and progressing the development of a new corporate operating model to cater for the transition to oil production and a higher proportion of the management structure being based in Brazil.

Notwithstanding this progress, as an overall guiding principle, the Board of Directors has again taken a conservative stance in relation to remuneration during the 2018/2019 financial year. As the Baúna SPA was signed during July 2019, this achievement did not meet the precise asset acquisition Short-term Incentive ('STI') milestone prescribed for the 2018/2019 financial year, so there will be no award of any STI to executives for this outcome in the 2018/2019 financial year. Credit for achieving this milestone will be considered as part of the 2019/2020 financial year and its relevant milestones.

It is also noted that:

- executive base salaries have remained unchanged since 2015; and
- Board and Committee fees have not been increased since 2013.

During the financial year we continued to observe significant pressure on the retention and attraction of key people, in particular in the South American region. While our human resourcing represents a blend of local nationals and globally sourced petroleum geologists, engineers, rig operators and analysts at all levels, we have observed increasing competitive influences in retaining talent which we are in the process of reviewing while also focusing on retaining our knowledgeable and long-serving Australian based professional staff. It is vital that we attract and retain the right people as we transition to oil production in Brazil and commence exploration drilling offshore Peru, which is currently a key objective. Karoon is not able to outbid salaries being offered by other international energy companies but aims to set salaries at a competitive rate and provide a good working environment with associated conditions.

2. Remuneration Guiding Principles and Shareholder Alignment

Our overriding aim remains to ensure that executive performance outcomes are aligned with building asset value, preserving and prioritising available capital and securing long-term cash flow in order to support share price growth for all shareholders over the longer term.

Karoon's guiding principles for its remuneration framework have not significantly changed between financial years and are as follows:

- **Safety, culture and ethics –** ensuring that clear vesting gateways exist based on appropriate safety outcomes and the ethical and culturally sound 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 reflect the value delivered to shareholders through achievement of strategic objectives and/or total shareholder return ('TSR') in a relative and/or absolute basis; 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 STI Plan) and through aiming to outperform a select group of 17 industry peer group companies in the longer term alongside the achievement of 14% in Absolute TSR terms via the individual hurdles under the Long-term Incentive ('LTI') Plan;

Remuneration Report (Audited) *(continued)*

- **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, including Directors, 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 to review and understand; and
- **Longer term focus –** we aim to ensure that key decision making is always appropriately longer term in its nature and focus.

3. Future Remuneration Strategy

While Karoon commenced a review of its remuneration policies during the 2018/2019 financial year we have, after engagement with relevant stakeholders, formed the view that our overall strategy remains relevant for the 2019/2020 financial year.

We have retained a relatively conservative and market sensitive approach to remuneration levels. However, improvements can always be made to policy and procedure and the following will be implemented for the 2019/2020 financial year:

(a) Executive base salaries – while there have been no increases to key management personnel ('KMP') base salary for 5 years, it is the Board's intention to closely review the market competitiveness of these salaries in the different regions in which we operate, and the proportion of reward 'At' Risk' and the focus of 'At' Risk' reward.

In making any changes, we remain committed to ensuring that our key staff remuneration outcomes remain firmly aligned with shareholders as well as strategic and operational outcomes; and

(b) Board fees:

- the structure and size of the Board is currently under review, together with Board Committees. The aim is to ensure an appropriate size, mix of skills and sharing of responsibilities across the Board and Board Committees as Karoon transitions to oil production. Part of this review will assess Board and Board Committee fees against current market rates;
- the Board has implemented a minimum shareholding policy requirement for all Non-Executive Directors, whereby Directors must acquire and hold a value of Karoon ordinary shares equivalent to 50% of their first years' Director's fee; and
- options are also being investigated to enable Non-Executive Directors to sacrifice cash-based Board fees for fully paid ordinary shares in Karoon at prevailing market prices so as to encourage further share ownership by the Board of Directors.

4. 2018/2019 Financial Year STI and LTI Outcomes:

- no STI allocated to Company-wide Operational Objectives was awarded by the Remuneration Committee or the Board.

  As noted above, whilst considerable strategic progress was made during the financial year, the specific 2018/2019 STI milestone(s) were based on achieving final binding legal terms in relation to an acquisition (a position which was reached in the month after the testing date of the STI) and reducing overall corporate overheads by 10% which was not achieved year-on-year (due to new venture workload and essential acquisition expenditure relating to the resulting acquisition of Baúna).

  For KMPs who are not Executive Directors, a component of their STI Role-specific Objectives was granted depending on individual performance in accordance with pre-set proportions of STI; and
- confirming no LTI will be awarded for the 2018/2019 financial year, which is assessed over the prior 3 year period.

5. 2019/2020 Financial Year STI and LTI Hurdles and Goals:

- the STI hurdles for the 2019/2020 financial year have been targeted to provide incentives that support the overall strategic objectives of the business which are: delivering on the southern Santos Basin Strategy (appraisal and development milestones); testing high value Peruvian exploration targets within the current portfolio; re-structuring the corporate operating model to suit future operations; and reducing overheads by 20% whilst preparing to complete the Baúna acquisition; and
- existing LTI awards retain their focus on peer-based relative TSR and in the more recent awards also on an Absolute TSR hurdle for 50% of the LTI testing outcome.

The strategic STI goals for the 2019/2020 financial year are as follows:

- complete the funding, commercial and regulatory approvals for the Baúna acquisition and move to transaction completion;
- successfully drilling the first Peru exploration well (including satisfying all safety targets) in the prospective Tumbes Basin with Karoon's joint operation partners;
- re-structure the corporate operating model to align for the transition to oil production;
- continue the overhead reduction project which aims to reduce overhead costs by 20% year-on-year; and
- continue to restructure our corporate operating model, including the overall management structure and location of personnel to align with the transition to oil production.

6. Summary

During the financial year, we made positive operational progress with our Neon and Goiá future development plans in the southern Santos Basin, offshore Brazil, as well as with committing to a production acquisition and readying Karoon to drill its first exploration well in Peru. We have also reduced the total costs of operating the business through reducing our overall operating footprint through office moves and staff reductions in Australia and South America, better use of technology and reviewing the overall corporate model.

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 restraint by holding salaries and Non-Executive Director's fees steady, by providing no reward on the Company-wide Operational Objective STI outcome and confirming no LTI outcome will be awarded for the 2018/2019 financial year.

Forward looking, the 2019/2020 STI milestones are designed to reward our people for achieving the funding and completion of the Baúna acquisition, pursuing the drilling campaign offshore Peru, together with a range of other key milestones, which should aim to create share price appreciation for our shareholders.

As always, we will continue to engage with our shareholders, proxy advisors and our own Remuneration Consultant 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 2019

DIRECTORS' REPORT *(CONTINUED)*

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 2019, 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		
Mr Bruce Phillips	Independent Non-Executive Chairman	Appointed 1 January 2019
Dr David Klingner	Independent Non-Executive Chairman	Ceased being a Director on 13 August 2018
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

* Appointed on 15 August 2018 as the Independent Interim Non-Executive Chairman; ceased 1 January 2019 on the appointment of Mr Bruce Phillips as the new Independent Non-Executive Chairman.

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 2019 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 of majority 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 all 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.karoonenergy.com**.

Use of Independent Remuneration Consultants

During the financial year ended 30 June 2019, 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 advice on remuneration structure as well as a recommendation in relation to testing the performance milestones under the 2017 LTI conditions, which were tested during July 2019. The recommendation was provided to, and discussed directly with, the Chairman of the Remuneration Committee.

2018 Remuneration Report Vote

At Karoon's 2018 Annual General Meeting, Karoon's 2018 Remuneration Report received a 62.95% vote AGAINST on a poll. This was the Company's second strike, however, shareholders voted against a Board spill. Feedback on the 2018 Remuneration Report was not received during the 2018 Annual General Meeting. However, Karoon sought and received feedback from institutional shareholders, retail shareholders and proxy advisory organisations during the 2018/2019 financial year. Views expressed during annual meetings have contributed to decision making by the Remuneration Committee on Karoon's 2019/2020 financial year reward practices. In reviewing reward arrangements, assessing industry practices 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.

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 ended 30 June 2019 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.karoonenergy.com**.

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 the delivery of its strategic objectives in the short-term and clear demonstration of shareholder value creation on the long-term.

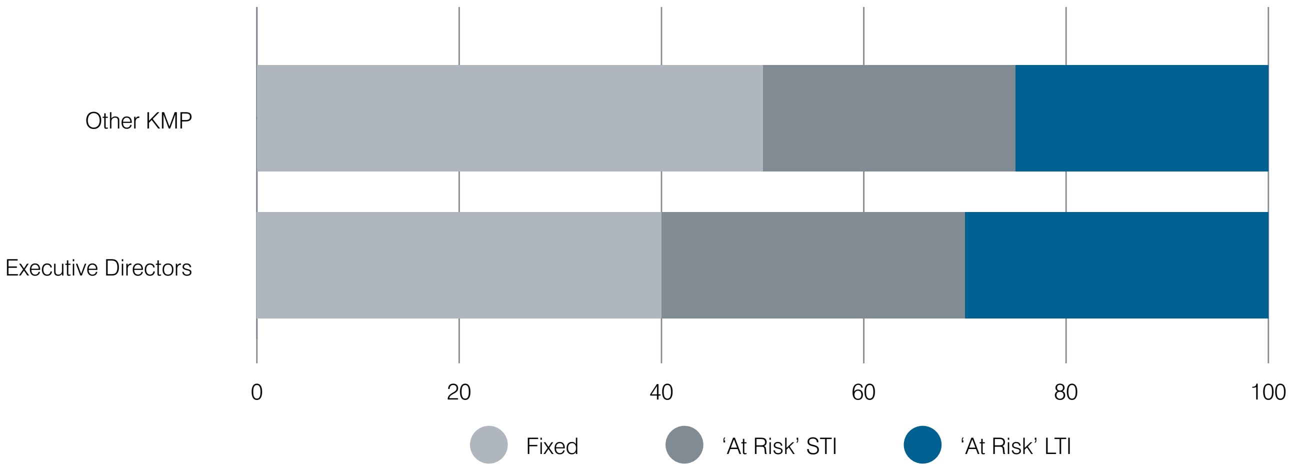
Broadly, the objectives of Karoon's executive remuneration framework are to ensure:

- 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, having regard to Karoon's performance and rewards individual capability;
- remuneration structures create 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; and
- remuneration incentivises the best possible health and safety outcomes, along with best practice in preventing bribery and/or corruption.

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2019

The following table summarises the remuneration mix for executives for the financial year ended 30 June 2019, based on maximum achievement of incentive plan outcomes:

Remuneration Mix



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, base salary for Executive Directors and other KMP did not increase for the financial year ended 30 June 2019.

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.

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. However, the executive upon retirement will only be entitled to a portion of this contribution. A further 8% of their cash remuneration is required to be contributed to a Federal Severance Indemnity Fund ('FGTS'). In the situation of unfair dismissal without just cause, the Group would have to pay a fine equivalent to 50% of the accumulated balance of the individual's FGTS account.

'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 2019, under the Karoon Gas Australia 2016 Employee Share Option Plan ('2016 ESOP') and 2016 Performance Rights Plan ('2016 PRP').

STI Plan

The key features of the STI award for the financial year ended 30 June 2019 ('FY19 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 dependant on seniority in the Group. 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 retention period of 12 months, being the continuation of employment with Karoon, immediately following the satisfaction of performance conditions.
Performance Conditions	As part of the 2019 remuneration review, for the financial year ended 30 June 2019 the Remuneration Committee set out the FY19 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.

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 FY19 award are outlined below in the STI outcomes within Section 3B on page 39.

Remuneration Report (Audited) *(continued)*

Section 3. Executive Remuneration *(continued)*

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2019 *(continued)*

STI Plan (continued)

Grant Date	Maximum amount of performance rights available were determined following finalisation of the 30 June 2018 audited accounts and remained 'At Risk' until tested during July 2019 and retention conditions are met 1 July 2020. 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 Board of Directors 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 challenging 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 assess the goals for the performance period annually 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 and anti-bribery and no corruption paramount to its operations. Safety is used as a gateway for vesting conditions, while bribery and corruption can be utilised to clawback incentives.

LTI Plan

The key features of the LTI grant for the financial year ended 30 June 2019 are outlined in the table below:

Participation	All executives. Participation in the LTI plan is at the discretion of the Board of Directors on the recommendation of the Remuneration Committee. No executive has a contractual right to receive performance rights or ESOP options.
LTI Opportunity	The LTI opportunity available to an executive is between 15%-30% of total remuneration dependant on seniority in the Company.
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. ESOP options granted have a 30% premium strike price to the trading share price at the beginning of the performance period. PRP performance rights do not have a strike price.
Performance Period	3 years.
Performance Conditions	For the financial year ended 30 June 2019, Karoon's relative TSR performance was measured against an extensive industry peer group of companies. 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%

Grant Date	ESOP options and PRP performance rights were granted during the financial year ended 30 June 2019, following finalisation of the 30 June 2018 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 Board of Directors 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 and overall share price performance over the long-term. In the case where performance does not reach the 50th percentile, no incentive will be paid.

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.

Whilst Karoon completed the Acquisition Strategy and Development Operations Hurdle in the period immediately after the performance period, these items were not achieved in the performance period and therefore the STI did not vest. Likewise, the LTI testing failed to meet minimum vesting requirements and therefore equally did not vest.

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

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

Criteria	Hurdle
Safety	TRIR of < 2 required for any award to proceed.
Acquisition Strategy	**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.
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.
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).
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.

Based on actual results, a total of 0% of the available STI opportunity vested to Executive Directors against the STI performance targets outlined above. For other KMP, a total of 20% of the available STI opportunity vested based on the results of Role-specific performance targets.

Vested STI have a 1 year retention period ending 30 June 2020 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.

Remuneration Report (Audited) *(continued)*

Section 3. Executive Remuneration *(continued)*

B. Executive Remuneration Outcomes *(continued)*

LTI Outcomes

Karoon did not achieve the minimum 50th percentile tested over a 3 year period required to vest the LTI's and therefore 0% of the LTI will vest.

Voluntary Information: 2019 'Remuneration Received'

The amounts disclosed below reflect the actual benefits received by each executive during the financial year ended 30 June 2019. 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 2019.

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 2019.

Name	Fixed Remuneration $	Short-term Incentives $	Long-term Incentives $	Total Remuneration Received $
Executive Directors				
Mr Robert Hosking	704,887	–	–	**704,887**
Mr Mark Smith	625,061	–	–	**625,061**
Other KMP (Group)				
Mr Scott Hosking	457,028	62,372	–	**519,400**
Mr Tim Hosking	480,691	65,227	–	**545,918**
Mr Edward Munks	554,815	–	–	**554,815**

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 2020

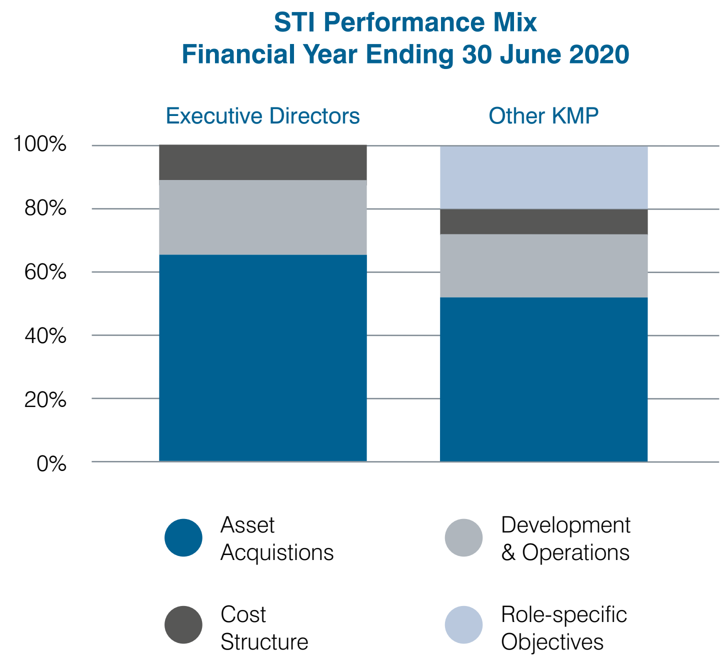
As part of the annual review of remuneration arrangements conducted on behalf of the Board of Directors, the Remuneration Committee makes the following points for the financial year ending 30 June 2020:

- there is currently no proposed change to country base salary, however, the overall remuneration structure for executives has been adjusted to create a greater proportion of overall remuneration as incentive based for the financial year ending 30 June 2020. It is the Board of Directors' intention to closely review the market competitiveness of salaries in which we operate given the change to our business structure under a production operating model, and more closely align incentives with the market;
- STI will be delivered in the same manner as described in section 3A 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 as PRP performance rights, to be tested using 50% relative TSR and 50% Absolute TSR performance conditions will be tested independently.

'At Risk' Remuneration

Short-term incentives

The STI performance hurdles for the performance period from 1 July 2019 to 30 June 2020 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.

Remuneration Report (Audited) *(continued)*

Section 3. Executive Remuneration *(continued)*

C. Executive Remuneration for the Financial Year Ending 30 June 2020 *(continued)*

Company-wide Operational Objectives

For the performance period from 1 July 2019 to 30 June 2020, 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
Safety	TRIR of < 2 required for any award to proceed.
Acquisition Strategy	Complete the funding, commercial and regulatory approvals for the Baúna acquisition and move to transaction completion.
Southern Santos Basin	Progress Karoon's strategic goals at Neon and Goiá and a potential farm-out.
Exploration	Marina-1 exploration well drilled safely, on time and within budget.
Corporate Operating Model	Corporate re-structure to move toward a more development and production centric business model.
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.

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 hurdles for the period commencing 1 July 2019 and ending 30 June 2022 will be split 50% 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; and 50% Absolute TSR, which is set at 14% (the Company's weighted average cost of capital plus 4%).

For the period commencing 1 July 2019 and ending 30 June 2022, the refined list of industry peer group companies will be as follows:

Australian Market Peers	Global Peers
Australis Oil & 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	New Zealand Oil & Gas Ltd
Oil Search Limited	QGEP Participacoes SA
Santos Limited	Premier Oil plc
Senex Energy Limited	SOCO International plc
Woodside Petroleum Limited	Tullow Oil plc

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.

Vesting consideration details for the industry peer group companies is outlined in the LTI Plan table above on page 38.

Karoon will no longer provide for vesting of 120% of the 'At Risk' component of the LTI. In the case where all relative TSR and Absolute TSR hurdles are met, 100% of the LTI will vest.

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 KMP 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 KMP						
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 July 2011, ongoing	Ongoing	In writing six months	Fundamental change upon a change of control: one year	Yes	Yes

All termination payments are subject to the limits prescribed under Section 200B of the *Corporations Act 2001*.

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

DIRECTORS' REPORT *(CONTINUED)*

Remuneration Report (Audited) *(continued)*

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

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

There have been no changes to Non-Executive Directors' base or Committee member fees for the financial year ended 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. For the financial year ended 30 June 2019, the total fees paid to Non-Executive Directors was $800,228 (excluding superannuation contributions).

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 2020

The Board of Directors is currently reviewing its Committee structure and membership for the financial year ending 30 June 2020. If changes are made, there will no increase in the overall Non-Executive Directors' fees paid.

Non-Executive Directors' fees for the financial year ended 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.

Section 5. Statutory and Share-based Reporting

Details of the Remuneration of the Directors and Other KMP

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

Financial Year Ended 30 June 2019	Short-term Benefits		Post-employment Benefits		Long-term Benefits	Share-based Payments Expense	Remuneration Consisting of Share Options and Performance Rights*	
Name	Cash Salary and Fees $	Non-monetary Benefits $	Superannuation Contributions $	Social Security & Indemnity Fund Contributions $	Long Service Leave $	Share Options/ Performance Rights $	%	Total Remuneration $
Executive Directors								
Mr Robert Hosking	599,691	84,665	20,531	–	16,059	457,372	38.8%	1,178,318
Mr Mark Smith	588,621	15,909	20,531	–	14,753	457,372	41.7%	1,097,186
Non-Executive Directors								
Mr Bruce Phillips *(appointed 1 January 2019)*	110,000	–	10,266	–	–	–	–	120,266
Dr David Klingner *(ceased being a Director on 13 August 2018)*	25,103	–	2,354	–	–	–	–	27,457
Ms Luciana Rachid	124,000	–	–	–	–	–	–	124,000
Mr Geoff Atkins	104,500	–	9,928	–	–	–	–	114,428
Mr Clark Davey	156,000	–	14,820	–	–	–	–	170,820
Mr Peter Turnbull	180,625	–	17,159	–	–	–	–	197,784
Mr Jose Coutinho Barbosa	100,000	–	–	–	–	–	–	100,000
Total Directors' remuneration	1,988,540	100,574	95,589	–	30,812	914,744		3,130,259
Other KMP (Group)								
Mr Scott Hosking	418,000	18,497	20,531	–	9,552	162,727	25.9%	629,307
Mr Tim Hosking	379,956	45,477	–	55,258	–	148,185	23.6%	628,876
Mr Edward Munks	522,500	11,784	20,531	–	14,568	409,979	41.9%	979,362
Total other KMP remuneration (Group)	1,320,456	75,758	41,062	55,258	24,120	720,891		2,237,545
Total KMP remuneration (Group)	3,308,996	176,332	136,651	55,258	54,932	1,635,635		5,367,804

* 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.

Remuneration Report (Audited) *(continued)*

Section 5. Statutory and Share-based Reporting *(continued)*

Details of the Remuneration of the Directors and Other KMP *(continued)*

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 & 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 KMP (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 KMP remuneration (Group)	1,348,600	72,293	40,098	58,453	18,269	491,740		2,029,453
Total KMP 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.

** Included non-cash share-based payments expense of $34,223 relating to 2018 STI performance rights that were planned 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% 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 these 2018 STI performance rights for each of the Executive Directors that required shareholder approval at the 2018 Annual General Meeting was withdrawn before the meeting.

The amounts disclosed for the remuneration of Directors and other KMP 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	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Executive Directors										
Mr Robert Hosking	61.2%	55.7%	–	8.5%	21.4%	18.5%	17.4%	17.3%	17.4%	17.3%
Mr Mark Smith	58.3%	52.6%	–	9.1%	23.0%	19.8%	18.7%	18.5%	18.7%	18.5%
Non-Executive Directors										
Mr Bruce Phillips *(appointed 1 January 2019)*	100%	–	–	–	–	–	–	–	–	–
Dr David Klingner *(ceased being a Director on 13 August 2018)*	100%	100%	–	–	–	–	–	–	–	–
Ms Luciana Rachid	100%	100%	–	–	–	–	–	–	–	–
Mr Geoff Atkins	100%	100%	–	–	–	–	–	–	–	–
Mr Clark Davey	100%	100%	–	–	–	–	–	–	–	–
Mr Peter Turnbull	100%	100%	–	–	–	–	–	–	–	–
Mr Jose Coutinho Barbosa	100%	100%	–	–	–	–	–	–	–	–
Other KMP (Group)										
Mr Scott Hosking	74.1%	84.3%	13.3%	9.2%	12.3%	5.7%	0.3%	0.8%	0.3%	0.8%
Mr Tim Hosking	76.4%	88.0%	12.8%	8.4%	10.8%	3.1%	0.0%	0.5%	0.0%	0.5%
Mr Edward Munks	58.1%	62.5%	12.4%	11.5%	20.2%	19.2%	9.3%	6.8%	9.3%	6.8%

^ 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 KMP 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.

Remuneration Report (Audited) *(continued)*

Section 5. Statutory and Share-based Reporting *(continued)*

Share-based Remuneration

The lowest exercise price of any share option on issuance is currently $1.40 and the highest exercise price is $1.77. There are currently 7,544,608 share options (7,544,608 remain unvested) and 3,514,325 performance rights issued under the 2016 ESOP and 2016 PRP respectively, representing approximately 4.47% 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						
30 November 2016	1 July 2019	30 June 2020	$1.82	$0.690	0%	Performance conditions not met
2 December 2016	1 July 2019	30 June 2020	$1.82	$0.780	0%	Performance conditions not met
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
21 September 2018	1 July 2021	30 June 2022	$1.40	$0.285	–	To be determined
31 December 2018	1 July 2021	30 June 2022	$1.40	$0.100	–	To be determined
Performance rights						
30 November 2016	1 July 2019	30 June 2020	$-	$1.860	0%	Performance conditions not met
2 December 2016	1 July 2019	30 June 2020	$-	$1.965	0%	Performance conditions not met
6 October 2017	1 July 2019	30 June 2020	$-	$1.285	40%	2018 Performance condition
9 November 2017	1 July 2019	30 June 2020	$-	$1.360	45%	2018 Performance condition
14 November 2017	1 July 2019	30 June 2020	$-	$1.475	42%	2018 Performance condition
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
21 September 2018	1 July 2020	30 June 2021	$-	$1.150	–	37%
21 September 2018	1 July 2021	30 June 2022	$-	$1.150	–	To be determined
31 December 2018	1 July 2020	30 June 2021	$-	$0.850	–	47%
31 December 2018	1 July 2021	30 June 2022	$-	$0.850	–	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.

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 KMP, 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	–	–	–	–	490,909	$571,909
– Performance rights (STI)	–	–	–	128,505	–	–
– Performance rights (LTI)	–	–	–	–	69,230	$80,653
Mr Mark Smith						
– ESOP options	–	–	–	–	490,909	$571,909
– Performance rights (STI)	–	–	–	128,505	–	–
– Performance rights (LTI)	–	–	–	–	69,230	$80,653
Non-Executive Director						
Mr Jose Coutinho Barbosa						
– ESOP options	49,386	$0.100	$4,939	–	–	–
– Performance rights (STI)	25,882	$0.845	$21,870	10,594	12,437	$14,489
– Performance rights (LTI)	12,941	$0.845	$10,935	–	–	–
Other KMP (Group)						
Mr Scott Hosking						
– ESOP options	369,258	$0.285	$105,239	–	136,192	$158,664
– Performance rights (STI)	193,519	$1.15	$222,547	70,164	159,900	$186,284
– Performance rights (LTI)	96,759	$1.15	$111,273	–	–	–
Mr Tim Hosking						
– ESOP options	398,971	$0.285	$113,707	–	131,873	$153,632
– Performance rights (STI)	209,090	$1.15	$240,454	67,939	164,220	$191,316
– Performance rights (LTI)	104,545	$1.15	$120,227	–	–	–
Mr Edward Munks						
– ESOP options	461,572	$0.285	$131,548	–	102,144	$118,998
– Performance rights (STI)	241,898	$1.15	$278,183	87,705	222,205	$258,869
– Performance rights (LTI)	120,949	$1.15	$139,091	–	–	–
Total KMP						
– Share options	1,279,187		$355,433	–	1,352,027	$1,575,112
– Performance rights	1,005,583		$1,144,580	493,412	697,222	$812,264

* 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 (12 September 2018), 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 KMP, lapsed during the financial year, except for 1,352,027 share options and 697,222 performance rights that were forfeited.

DIRECTORS' REPORT *(CONTINUED)*

Remuneration Report (Audited) *(continued)*

Section 5. Statutory and Share-based Reporting *(continued)*

Shares Issued on the Exercise of Share Options Provided as Remuneration

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

Shares Issued on the Conversion of Performance Rights Provided as Remuneration

No remuneration performance rights were exercised and/or converted by any Director or other KMP, including their personally related parties, during the financial year.

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 KMP, 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 Year 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	–	100%	30 June 2019	$-
– Performance rights (LTI)	30 June 2016	–	100%	30 June 2019	$-
– ESOP options	30 June 2017	–	–	30 June 2020	$-
– Performance rights (LTI)	30 June 2017	–	–	30 June 2020	$-
– Performance rights (STI)	30 June 2018	40%	60%	30 June 2019	$-
– ESOP options	30 June 2018	–	–	30 June 2021	$77,223
– Performance rights (LTI)	30 June 2018	–	–	30 June 2021	$105,137
Mr Mark Smith					
– ESOP options	30 June 2016	–	100%	30 June 2019	$-
– Performance rights (LTI)	30 June 2016	–	100%	30 June 2019	$-
– ESOP options	30 June 2017	–	–	30 June 2020	$-
– Performance rights (LTI)	30 June 2017	–	–	30 June 2020	$-
– Performance rights (STI)	30 June 2018	40%	60%	30 June 2019	$-
– ESOP options	30 June 2018	–	–	30 June 2021	$77,223
– Performance rights (LTI)	30 June 2018	–	–	30 June 2021	$105,137

Name	Financial Year End Granted	Vested %	Forfeited %	Financial Year in Which Share Options or Performance Rights May Vest	Maximum Total Value of Grant Yet to Vest
Other KMP (Group)					
Mr Scott Hosking					
– ESOP options	30 June 2016	–	100%	30 June 2019	$-
– Performance rights (LTI)	30 June 2016	–	100%	30 June 2019	$-
– ESOP options	30 June 2017	–	–	30 June 2020	$-
– Performance rights (LTI)	30 June 2017	–	–	30 June 2020	$-
– ESOP options	30 June 2018	–	–	30 June 2021	$(2,501)
– Performance rights (STI)	30 June 2018	27%	73%	30 June 2020	$-
– Performance rights (LTI)	30 June 2018	–	–	30 June 2021	$26,419
– ESOP options	30 June 2019	–	–	30 June 2022	$20,410
– Performance rights (STI)	30 June 2019	–	–	30 June 2021	$105,606
– Performance rights (LTI)	30 June 2019	–	–	30 June 2022	$67,204
Mr Tim Hosking					
– ESOP options	30 June 2016	–	100%	30 June 2019	$-
– Performance rights (LTI)	30 June 2016	–	100%	30 June 2019	$-
– ESOP options	30 June 2017	–	–	30 June 2020	$-
– Performance rights (LTI)	30 June 2017	–	–	30 June 2020	$-
– ESOP options	30 June 2018	–	–	30 June 2021	$(2,422)
– Performance rights (STI)	30 June 2018	27%	73%	30 June 2020	$-
– Performance rights (LTI)	30 June 2018	–	–	30 June 2021	$25,581
– ESOP options	30 June 2019	–	–	30 June 2022	$19,763
– Performance rights (STI)	30 June 2019	–	–	30 June 2021	$102,257
– Performance rights (LTI)	30 June 2019	–	–	30 June 2022	$65,073
Mr Edward Munks					
– ESOP options	30 June 2016	–	100%	30 June 2019	$-
– Performance rights (LTI)	30 June 2016	–	100%	30 June 2019	$-
– ESOP options	30 June 2017	–	–	30 June 2020	$-
– Performance rights (LTI)	30 June 2017	–	–	30 June 2020	$-
– ESOP options	30 June 2018	–	–	30 June 2021	$21,568
– Performance rights (STI)	30 June 2018	27%	73%	30 June 2020	$-
– Performance rights (LTI)	30 June 2018	–	–	30 June 2021	$64,556
– ESOP options	30 June 2019	–	–	30 June 2022	$94,704
– Performance rights (STI)	30 June 2019	–	–	30 June 2021	$58,669
– Performance rights (LTI)	30 June 2019	–	–	30 June 2022	$100,135

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 2019

During the financial year 1,279,187 share options over unissued ordinary shares in the Company were issued to Directors and other KMP, including their personally related parties.

During the financial year 1,005,583 performance rights over unissued ordinary shares in the Company were issued to Directors and other KMP, 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 2019 *(continued)*

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

	Balance as at 1 July 2018	Granted as Remuneration	Exercised (Share Options)/ Vested and Converted (Performance Rights)	Cash-settled	Share Options or Performance Rights Forfeited	Balance as at 30 June 2019	Total Vested and Exercisable as at 30 June 2019	Total Unvested as at 30 June 2019
Executive Directors								
Mr Robert Hosking								
– ESOP options	1,488,457	–	–	–	(490,909)	997,548	–	997,548
– Performance rights	593,396	–	–	–	(69,230)	524,166	128,505	395,661
Mr Mark Smith								
– ESOP options	1,488,457	–	–	–	(490,909)	997,548	–	997,548
– Performance rights	593,396	–	–	–	(69,230)	524,166	128,505	395,661
Non-Executive Directors								
Mr Bruce Phillips *(appointed 1 January 2019)*	–	–	–	–	–	–	–	–
Dr David Klingner *(ceased being a Director on 13 August 2018)*	–	–	–	–	–	–	–	–
Ms Luciana Rachid	–	–	–	–	–	–	–	–
Mr Geoff Atkins	–	–	–	–	–	–	–	–
Mr Clark Davey	–	–	–	–	–	–	–	–
Mr Peter Turnbull	–	–	–	–	–	–	–	–
Mr Jose Coutinho Barbosa								
– ESOP options	30,240	49,386	–	–	–	79,626	–	79,626
– Performance rights	59,737	38,823	–	–	(12,437)	86,123	10,594	75,529
Other KMP								
Mr Scott Hosking								
– ESOP options	456,900	369,258	–	–	(136,192)	689,966	–	689,966
– Performance rights	455,036	290,278	–	–	(159,900)	585,414	70,164	515,250
Mr Tim Hosking								
– ESOP options	528,689	398,971	–	–	(131,873)	795,787	–	795,787
– Performance rights	435,844	313,635	–	–	(164,220)	585,259	67,939	517,320
Mr Edward Munks								
– ESOP options	391,859	461,572	–	–	(102,144)	751,287	–	751,287
– Performance rights	630,411	362,847	–	–	(222,205)	771,053	87,705	683,348
Total KMP								
– Share options	4,384,602	1,279,187	–	–	(1,352,027)	4,311,762	–	4,311,762
– Performance rights	2,767,820	1,005,583	–	–	(697,222)	3,076,181	493,412	2,582,769

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 KMP, including their personally related parties, as at 30 June 2019 was as follows:

	Balance as at 1 July 2018	Received as Remuneration	Exercised (Share Options)/ Vested and Converted (Performance Rights)	Ordinary Shares Purchased	Ordinary Shares Sold	Other	Balance as at 30 June 2019
Executive Directors							
Mr Robert Hosking	12,353,123	–	–	–	–	–	**12,353,123**
Mr Mark Smith	2,870,938	–	–	–	–	–	**2,870,938**
Non-Executive Directors							
Mr Bruce Phillips *(appointed 1 January 2019)*	–	–	–	–	–	–	**–**
Dr David Klingner *(ceased being a Director on 13 August 2018)*	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 KMP							
Mr Scott Hosking	195,206	–	–	–	–	–	**195,206**
Mr Tim Hosking	244,571	–	–	–	–	–	**244,571**
Mr Edward Munks	829,697	–	–	–	–	–	**829,697**
Total KMP	17,383,096	–	–	–	–	(103,591)	**17,279,505**

None of the ordinary shares are held nominally by any Director or any of the other KMP. 'Held nominally' refers to the situation where the ordinary shares are in the name of the Director or other KMP, but they are not the beneficial owner.

Other Transactions with Directors and Other KMP

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.

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 $343,961 (2018: $321,395). 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 effectively 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 $235,487 (2018: $252,311), which includes social security and indemnity fund contributions of $36,588 (2018: $38,702). Ms Barbosa has been an employee of the Company since 2011, and has a comprehensive understanding of the Brazilian legal and regulatory framework.

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 $106,166 (2018: $115,488). 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.

DIRECTORS' REPORT *(CONTINUED)*

Remuneration Report (Audited) *(continued)*

Section 5. Statutory and Share-based Reporting *(continued)*

Other Transactions with Directors and Other KMP *(continued)*

During the financial year, Mr Mark Smith, an Executive Director, had an interest in Quantiseal Pty Ltd which provided geophysical fault seal analysis for the Group's Santos Basin assets. The Risk and Governance Committee and then Karoon Board approved the transaction during the financial year, prior to it being entered into, being on arm's length terms. The value of this transaction during the financial year in the Group was $64,000.

In addition, Mr Mark Smith has an interest in BNN Energy Limited ('BNN') which provides geological and engineering expertise and services to Liberty Petroleum Corporation. Where BNN business involves any activity connected to the Group, Mr Smith maintains an arm's length relationship to BNN. Mr Mark Smith is also excluded from any Board of Director discussions and decisions regarding BNN and/or Liberty Petroleum Corporation. Liberty Petroleum Corporation is entitled to: (a) certain milestone cash bonuses and an over-riding royalty in the event of production on the Group's exploration permit WA-482-P; and (b) an over-riding royalty in the event of production on the Group's exploration permit WA-314-P. BNN has a 1/3 share of Liberty Petroleum Corporation's over-riding royalty, if a discovery is made for exploration permits WA-482-P or WA-314-P and developed.

Loans to Directors and Other KMP

There were no loans to Directors or other KMP 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 Bruce Phillips
Independent Non-Executive Chairman

Mr Robert Hosking
Managing Director

25 September 2019

AUDITOR'S INDEPENDENCE DECLARATION

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Auditor's Independence Declaration

As lead auditor for the audit of Karoon Energy Ltd for the financial year ended 30 June 2019, 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 Energy Ltd and the entities it controlled during the financial year.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
25 September 2019

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CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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 Energy 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 2019

		Consolidated	
		2019	2018
	Note	$	$
Revenue	4	2,314,803	710,652
Other income	4	17,503,183	12,993,578
Total revenue and other income		19,817,986	13,704,230
Business development and other project costs	5	(5,214,563)	(7,285,306)
Computer support		(1,375,903)	(1,590,595)
Consulting fees		(783,544)	(701,066)
Depreciation and amortisation expense	5	(692,957)	(730,834)
Employee benefits expense (net)		(11,100,470)	(11,339,308)
Exploration and evaluation expenditure expensed, impaired or written-off	5	(19,058,902)	(162,964,693)
Farm-out costs		(339,023)	(509,122)
Finance costs	5	(180,122)	(237,474)
Insurance expense		(390,048)	(309,867)
Write-down of inventory to net realisable value		(6,213,639)	(6,679,549)
Legal fees		(246,156)	(66,459)
Property costs		(1,322,108)	(1,925,006)
Share registry and listing fees		(196,411)	(168,286)
Telephone and communication expenses		(240,495)	(234,477)
Travel and accommodation expenses		(372,303)	(198,491)
Other expenses		(1,669,283)	(2,820,294)
Total expenses		(49,395,927)	(197,760,827)
Loss before income tax		(29,577,941)	(184,056,597)
Tax income	6	1,160,404	2,278,808
Loss for financial year attributable to equity holders of the Company		(28,417,537)	(181,777,789)
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		10,765,446	(26,064,346)
Other comprehensive income (loss) for financial year, net of income tax		10,765,446	(26,064,346)
Total comprehensive loss for financial year attributable to equity holders of the Company, net of income tax		(17,652,091)	(207,842,135)
Loss per share attributable to equity holders of the Company:			
Basic loss per ordinary share	9	(0.1156)	(0.7403)
Diluted loss per ordinary share	9	(0.1156)	(0.7403)

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 2019

		Consolidated	
		2019	2018
	Note	$	$
Current assets			
Cash and cash equivalents	10	326,191,131	333,572,953
Receivables	11	1,880,833	1,152,572
Inventories	12	2,124,577	–
Security deposits	13	535,884	18,955
Current tax asset	6	54,303	185,737
Other assets	14	1,161,836	782,828
Total current assets		331,948,564	335,713,045
Non-current assets			
Inventories	12	31,495,438	37,696,266
Plant and equipment	15	793,638	802,514
Intangible assets	16	535,655	781,514
Exploration and evaluation expenditure carried forward	17	208,803,023	209,629,983
Security deposits	13	7,513,064	10,297,243
Total non-current assets		249,140,818	259,207,520
Total assets		581,089,382	594,920,565
Current liabilities			
Trade and other payables	18	7,384,308	6,428,989
Provisions	19	586,165	283,500
Total current liabilities		7,970,473	6,712,489
Non-current liabilities			
Trade and other payables	18	546,766	279,544
Deferred tax liabilities	6	31,212,894	32,373,298
Provisions	19	120,340	329,520
Total non-current liabilities		31,880,000	32,982,362
Total liabilities		39,850,473	39,694,851
Net assets		541,238,909	555,225,714
Equity			
Contributed equity	20	802,295,334	802,295,334
Accumulated losses		(243,144,230)	(214,726,693)
Share-based payments reserve		51,375,585	47,710,299
Foreign currency translation reserve		(69,287,780)	(80,053,226)
Total equity		541,238,909	555,225,714

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 2019

	Consolidated				
	Contributed Equity $	Accumulated Losses $	Share-based Payments Reserve $	Foreign Currency Translation Reserve $	Total Equity $
Balance as at 1 July 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
Loss for financial year	–	(28,417,537)	–	–	(28,417,537)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	–	–	–	10,765,446	10,765,446
Total comprehensive loss for financial year	–	(28,417,537)	–	10,765,446	(17,652,091)
Transactions with owners in their capacity as owners:					
Share-based payments expense	–	–	3,665,286	–	3,665,286
	–	–	3,665,286	–	3,665,286
Balance as at 30 June 2019	802,295,334	(243,144,230)	51,375,585	(69,287,780)	541,238,909

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 2019

	Note	Consolidated 2019 $	Consolidated 2018 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST refunds)		546,057	1,690,938
Payments to suppliers and employees (inclusive of GST)		(20,909,866)	(21,965,953)
Payments for exploration and evaluation expenditure expensed		(3,640,144)	(5,569,499)
Interest received		2,077,040	560,291
Interest and other costs of finance paid		(180,122)	(237,474)
Income taxes refund		142,976	228,527
Net cash flows used in operating activities	26(a)	(21,964,059)	(25,293,170)
Cash flows from investing activities			
Purchase of plant and equipment		(319,617)	(197,791)
Purchase of computer software		(47,768)	(52,173)
Payments for exploration and evaluation expenditure capitalised		(10,641,655)	(25,542,883)
Release/refund (payment) of security deposits		2,553,281	(2,422,599)
Recoupment of exploration and evaluation expenditure on Block Z-38 farm-out	17	5,591,334	–
Net cash flows used in investing activities		(2,864,425)	(28,215,446)
Cash flows from financing activities			
Payments for finance lease	26(b)	(94,081)	(64,290)
Net cash flows used in financing activities		(94,081)	(64,290)
Net decrease in cash and cash equivalents		(24,922,565)	(53,572,906)
Cash and cash equivalents at beginning of financial year		333,572,953	375,069,427
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		17,540,743	12,076,432
Cash and cash equivalents at end of financial year	10	326,191,131	333,572,953

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 2019

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 ('AASB') and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing financial statements.

The consolidated financial statements have been prepared using the going concern assumption which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

On 25 July 2019 Karoon advanced its top strategic priority of acquiring a quality, cash generating production asset by signing a binding SPA with Petrobras for a 100% operating interest in Concession BM-S-40, which includes the producing Baúna light oil field located in the Santos Basin, offshore Brazil. Headline consideration for the purchase was US$665 million and a non-refundable cash deposit of US$49.9 million was paid to Petrobras.

As at 30 June 2019, Karoon had a cash balance of $326,191,131 (that included the above US$49.9 million cash deposit) which is sufficient to meet the Group's existing corporate and administrative activities and its exploration expenditure commitments as at 30 June 2019. However, the cash balance is not sufficient to fund the entire Baúna acquisition price.

Karoon intends to use a portion of its existing cash balance to fund part of the Baúna acquisition, however, Karoon's ability to complete the acquisition is dependent upon:

- being successful in obtaining additional funding via debt;
- an equity raising to existing shareholders and new investors; and
- interim net cash inflows from Baúna which Karoon is entitled to under the SPA from 1 January 2019 through to closing expected during the first half of calendar year 2020.

As at the date of this Annual Report, Karoon was well advanced in negotiations on the final documentation and confirmatory due diligence for a US$250 million underwritten senior secured syndicated term loan facility from ING Bank N.V.

Furthermore, negotiations with potential equity underwriters had also commenced and were well advanced.

The interim net cash inflows generated from the acquisition (operational cash flows less income tax, capital expenditures and interest on acquisition consideration from the acquisition's effective date of 1 January 2019 through to closing) are dependent on a number of operational and macro factors (e.g. crude oil price and foreign exchange risks). Karoon has internally modelled these cash flows to estimate a range of probable outcomes and will adopt strategies to mitigate the associated financial risks where possible.

The Directors believe that Karoon will be successful in the above matters. Notwithstanding this belief, there is a risk that the Group may not be successful in implementing some or all of these initiatives in order to complete the acquisition. In the event Karoon does not compete the acquisition, Petrobras would retain the deposit.

Should the Company be unable to complete the transaction and forfeit the deposit, the Directors are satisfied that the Company will have sufficient cash reserves to meet its firm corporate and administrative activities and exploration expenditure commitments for at least the next 12 months from the date of signing the Directors' Declaration with the ability to defer or accelerate some of these commitments as required. Based upon the details set out above, the Directors have prepared the consolidated financial statements on a going concern basis.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 1. Significant Accounting Policies *(continued)*

(a) Basis of Preparation *(continued)*

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 2019.

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 9 '*Financial Instruments*';

(ii) AASB 15 '*Revenue from Contracts with Customers*'; and

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

The adoption of AASB 9 and AASB 15 has resulted in changes in the Group's: accounting policies for revenue (refer Note 1(d)), receivables (refer Note 1(h)) and security deposits (refer Note 1(j)); credit risk disclosures and the nature of impairments for receivables and security deposits (refer to Note 3(b)); and disclosures on significant judgement (refer Note 2(d)). The main change for the Group from AASB 9 relates to a new model for the credit loss measurement of financial assets, a hybrid of expected and incurred loss (hereinafter referred to as the 'expected credit loss' model). The core principle in AASB 15 requires 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.

The initial adoption of each of the above new standards or revisions has had no effect on either the amounts reported for the current or previous financial years but may affect the accounting for future transactions or arrangements.

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 2018.

(b) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2019 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.

All subsidiaries have a financial year end of 30 June, with the exception of: Karoon Petróleo & Gas Ltda; KEI Peru Pty Ltd, Sucursal del Peru; and KEI (Peru Z38) Pty Ltd, Sucursal del Peru which 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 from contracts with customers is recognised when the performance obligations are considered met, which is when control of the products or services provided are transferred to the customer. Revenue is recognised at an amount that reflects the consideration the Group expects to be entitled to, net of goods and services tax or similar taxes.

Interest Income

Interest income on financial assets at amortised cost calculated using the effective interest rate method is recognised in the consolidated statement of profit or loss and other comprehensive income as revenue. Interest income is calculated by applying the effective interest rate to the gross carrying amount of the relevant financial asset, except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 1. Significant Accounting Policies *(continued)*

(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.

Petroleum Resource Rent Tax ('PRRT')

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

(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 are subject to insignificant risk of changes in value.

(h) Receivables

Receivables, which normally have 30 day terms, are generally non-interest bearing amounts. They are recognised initially at the amount of the consideration that is unconditional unless they contain significant financing components, when they are recognised initially at fair value. The Group holds receivables with the objective to collect the contractual cash flows. They are presented as current assets unless collection is not expected for more than 12 months after reporting date. For receivables expected to be settled within 12 months, these are subsequently measured at amortised cost using the effective interest method, less any loss allowance. For receivables expected to be settled later than 12 months, these are subsequently measured at amortised cost based on discounted cash flows using an effective interest rate, less any loss allowance.

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

Refer Note 3(b) for a description of the Group's receivable impairment policies.

(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 fair value. Such assets are subsequently carried at amortised cost using the effective interest method, less any loss allowance. 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 lease rental agreements have expired or been transferred.

Refer Note 3(b) for a description of the Group's security deposit impairment policies.

(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 1. Significant Accounting Policies *(continued)*

(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.

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 receivables, inventories, security deposits 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 1. Significant Accounting Policies *(continued)*

(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.

(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 Energy 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 16 '*Leases*'

AASB 16 '*Leases*' is the new standard for lease recognition, replacing AASB 117 '*Leases*'. Under AASB 16, distinctions of operating leases (off-balance sheet) and finance leases (on balance sheet) are removed for lease accounting, replaced by a single model where a right-of-use asset and a corresponding liability have to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources are specifically excluded from AASB 16.

The Group's finance team has reviewed the Group's lease arrangements to identify and quantify the impact of the new lease accounting rules in AASB 16 as at 1 July 2019.

Whilst the Group only operates as a lessee, implementation of AASB 16 will have an impact on the consolidated financial statements from 1 July 2019. The Group will need to recognise lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. In contrast, for the South American finance lease, where the Group is a lessee, the Group has already recognised an asset and a related finance lease liability for that lease arrangement, as such implementation of AASB 16 will have no impact on the amounts recognised in the consolidated financial statements as at 1 July 2019.

A right-of-use asset will initially be measured at cost, and subsequently measured at cost less accumulated depreciation and adjusted for any remeasurement of the relevant lease liability. The lease liability will initially be measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability will be adjusted for interest and lease payments. Furthermore, the classification on the consolidated statement of cash flows will also be affected as operating lease payments under AASB 117 are currently presented as operating cash flows, whereas under AASB 16 the lease payments will be split into a principal and an interest portion which will then be presented as financing and operating cash flows respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 1. Significant Accounting Policies *(continued)*

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

(i) AASB 16 '*Leases*' *(continued)*

The Group expects to apply the simplified transition approach available under AASB 16 and will therefore not be required to restate comparative amounts for the financial year prior to first adoption. Right-of-use assets for non-cancellable operating lease commitments will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on transition. In applying the new standard for the first time, the Group intends to use the following transition practical expedients permitted by AASB 16:

(a) the use of a single discount for operating leases, as they have reasonably similar characteristics (and it is not considered to have a material effect);

(b) the accounting for operating leases with a remaining lease term of 12 months (or less) to be classified as short-term leases, which will continue to be recognised on a straight-line basis as an expense in profit or loss; and

(c) the use of hindsight in determining the lease term where the lease agreement contains an option to extend the operating lease.

The Group will also elect under AASB 16 not to apply the new standard to contracts that were not identified as containing a lease under AASB 117 and AASB Interpretation 4 '*Determining whether an Arrangement contains a Lease*'.

As at 1 July 2019, the Group expects to recognise right-of-use assets of $1,013,036 and a corresponding lease liability of $1,013,036. Overall, net assets will be the same, but working capital is expected to be $286,291 lower due to the presentation of a portion of the lease liability as a current liability. The Group estimates that there will be no change in accumulated losses as a result of applying AASB 16 from 1 July 2019. The depreciation of the right-of-use assets and interest on the lease liability will be recognised in the consolidated statement of profit or loss and other comprehensive income during the financial year ending 30 June 2020.

The new standard is applicable to annual reporting periods beginning on or after 1 January 2019. This means that it would first be applied by the Group for the financial year beginning 1 July 2019.

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

Interpretation 23 clarifies how to apply the recognition and measurement requirements in AASB 112 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. This means that it would first be applied by the Group for the financial year beginning 1 July 2019.

(iii) AASB 2019-1 '*Amendments to Australian Accounting Standards – References to the Conceptual Framework*'

The AASB has issued the International Accounting Standards Board's revised *Conceptual Framework for Financial Reporting* ('revised Conceptual Framework') and made consequential amendments to various Australian Accounting Standards (AASB 2019-1).

As Karoon states compliance with International Financial Reporting Standards, during the financial year it needed to consider whether it previously relied on the current Conceptual Framework. Karoon confirms that it has not relied on the current Conceptual Framework in determining accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards. As such, it believes it will not need to apply the revised Conceptual Framework at this time.

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020, but is available for early adoption. The Group has not adopted it before its operative date, which means that it would first be applied during the financial year ending 30 June 2021.

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 operations 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) Impairment of Financial Assets

The loss allowance for a financial asset is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on its assessment of available external credit ratings, historical loss rates and days past due.

(e) Joint Arrangements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

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 2019 or 30 June 2018.

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

		Consolidated	
	Note	2019 $	2018 $
Financial assets			
Cash and cash equivalents	10	**326,191,131**	333,572,953
Receivables	11	**1,880,833**	1,152,572
Security deposits	13	**8,048,948**	10,316,198
Total financial assets		**336,120,912**	345,041,723
Financial liabilities			
Trade and other payables (refer note (a) below)		**6,622,302**	5,387,801
Total financial liabilities		**6,622,302**	5,387,801
(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	**7,931,074**	6,708,533
Less: Leave liabilities		**(1,308,772)**	(1,320,732)
		6,622,302	5,387,801

(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:

	2019				2018			
Consolidated	AUD $	USD $	REAL $	Total $	AUD $	USD $	REAL $	Total $
Financial assets								
Cash and cash equivalents	415,997	325,480,379	294,755	326,191,131	1,658,203	329,996,027	1,918,723	333,572,953
Receivables	37,839	1,612,614	230,380	1,880,833	376,922	694,732	80,918	1,152,572
Security deposits	431,133	5,296,506	2,321,309	8,048,948	430,695	7,701,406	2,184,097	10,316,198
Total financial assets	884,969	332,389,499	2,846,444	336,120,912	2,465,820	338,392,165	4,183,738	345,041,723
Financial liabilities								
Trade and other payables	1,555,844	2,674,159	2,392,299	6,622,302	3,558,729	669,993	1,159,079	5,387,801
Total financial liabilities	1,555,844	2,674,159	2,392,299	6,622,302	3,558,729	669,993	1,159,079	5,387,801

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	
	2019 $	2018 $	2019 $	2018 $
Change in profit (loss) before income tax				
– Improvement in AUD by 10.0%	–	–	(29,467,759)	(30,686,098)
– Decline in AUD by 10.0%	–	–	36,016,150	37,505,229
Change in financial assets				
– Improvement in AUD by 10.0%	(258,768)	(380,340)	(30,217,227)	(30,762,924)
– Decline in AUD by 10.0%	316,272	464,860	36,932,167	37,599,129
Change in financial liabilities				
– Improvement in AUD by 10.0%	217,482	105,371	243,105	60,908
– Decline in AUD by 10.0%	(265,811)	(128,787)	(297,129)	(74,444)
Change in foreign currency translation reserve				
– Improvement in AUD by 10.0%	41,286	274,969	506,363	15,918
– Decline in AUD by 10.0%	(50,461)	(336,073)	(618,888)	(19,456)

(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 2019 and 30 June 2018, there was no interest rate hedging in place.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 3. Financial Risk Management *(continued)*

(a) Market Risk *(continued)*

(ii) Interest Rate Risk *(continued)*

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					
2019	**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	**1.55**	**305,650,430**	**15,621,805**	**4,918,896**	**326,191,131**	**326,191,131**
Receivables	**–**	**–**	**–**	**1,880,833**	**1,880,833**	**1,880,833**
Security deposits	**3.31**	**2,309,051**	**5,616,242**	**123,655**	**8,048,948**	**8,048,948**
Total financial assets		**307,959,481**	**21,238,047**	**6,923,384**	**336,120,912**	**336,120,912**
Financial liabilities						
Trade and other payables	**8.45**	**–**	**35,545**	**6,586,757**	**6,622,302**	**6,622,302**
Total financial liabilities		**–**	**35,545**	**6,586,757**	**6,622,302**	**6,622,302**

	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

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	
	2019 $	**2018 $**
Change in profit (loss) before income tax		
– Increase of interest rate by 1.0% p.a.	**3,079,595**	3,260,246
– Decrease of interest rate by 1.0% p.a.	**(3,078,740)**	(31,194)
Change in financial assets		
– Increase of interest rate by 1.0% p.a.	**3,079,595**	3,260,246
– Decrease of interest rate by 1.0% p.a.	**(3,078,740)**	(31,194)

(b) Credit Risk

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.

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 currently 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 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. The Group's credit exposure and external credit ratings of its counterparties are monitored on a periodic basis.

Where commercially practical, the Group seeks to limit the amount of credit exposure to any one bank or financial institution. The Group is exposed to concentration of credit risk in relation to cash and cash equivalents and security deposits held with the National Australia Bank Limited in Australia and the HSBC Group in Australia, the maximum amount of exposure as at 30 June 2019 was $305,705,084 (30 June 2018: $324,436,451) and $13,509,138 (30 June 2018: $8,222,145) respectively. The Group is also exposed to material concentration of credit risk in relation to cash and cash equivalents and/or security deposits held with the Commonwealth Bank Limited in Australia, Itau Unibanco SA in Brazil, Banco Bradesco SA in Brazil and Banco de Credito del in Peru, the maximum amount of exposure as at 30 June 2019 was $7,390,641 (30 June 2018: $6,863,024), $2,329,541 (30 June 2018: $2,248,792), $267,987 (30 June 2018: $1,837,989) and $4,923,033 (30 June 2018: $183,906) respectively.

(i) Impairment of Financial Assets

The Group has 2 types of financial assets that are subject AASB 9's new 'expected credit loss' model: receivables and security deposits. The Group has applied the AASB 9 general model approach to measuring expected credit losses for all receivables and security deposits.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was considered not significant given the counterparties and/or the short maturity.

Expected Credit Loss

When required, the carrying amount of the relevant financial asset is reduced through the use of a loss allowance account and the amount of any loss is recognised in the statement of profit or loss and other comprehensive income. When measuring expected credit losses, balances are reviewed based on available external credit ratings, historical loss rates and the days past due.

Security Deposits

The Group's security deposits relating to Australia and Peru are considered to have low credit risk on the basis that there is a low risk of default with the relevant bank counterparty. Management considers 'low credit risk' for security deposits with banks and financial institutions to be an investment grade credit rating with at least 1 major rating agency.

The Group is exposed to credit risk in relation to a security deposit of $2,303,797 (30 June 2018: $2,169,021) held with Itau Unibanco SA in Brazil. The Group provided the ANP (the Brazilian oil and gas regulator) a letter of credit 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 (refer Note 13(b)), which will be released once the work program is met. The credit rating of Itau Unibanco SA is Ba2 (30 June 2018: Ba2), which is a non-investment grade rating that carries substantial credit risk. The credit rating of Itau Unibanco SA in Brazil is monitored on a periodic basis for credit deterioration. In addition, Management continually monitors Brazilian macro-economic factors for any deterioration which directly impacts the credit ratings of Brazilian financial institutions. As there has not been an increase in credit risk since initial recognition of this security deposit, any impairment test uses a 12 month expected credit loss model measure.

As at 30 June 2019, there were $Nil (30 June 2018: $Nil) security deposits past due. The loss allowance recognised during the financial year for security deposits was $Nil. Accordingly, interest income revenue has been calculated on the gross carrying amount during the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 3. Financial Risk Management *(continued)*

(b) Credit Risk *(continued)*

(i) Impairment of Financial Assets *(continued)*

Receivables

The Group's receivables relating to Australia and Peru are considered to have low credit risk on the basis that there is a low risk of default and the debtor has a strong (robust) capacity to meet its obligations in the short-term. Accordingly, for receivables any impairment test uses a 12 month expected credit loss model measure.

The Group is exposed to credit risk in relation to an interest receivable of $230,380 (30 June 2018: $180,902) predominantly related to the security deposit held with Itau Unibanco SA in Brazil. As there has not been an increase in credit risk since initial recognition of the security deposit, which is predominantly impacted by negative macro-economic factors in Brazil, any impairment test uses a 12 month expected credit loss model measure.

As at 30 June 2019, there were $Nil (30 June 2018: $Nil) receivables past due. The loss allowance for receivables recognised during the financial year was considered to be $Nil.

Previous Accounting Policy for Impairment of Receivables and Security Deposits

In the previous financial year, the impairment of receivables and security deposits were individually assessed based on the accounting policy described in Note 1(n).

For receivables, an impairment would have been recognised when there was objective evidence that the Group would not be able to collect the receivable. The amount of the impairment loss would have been the receivable's carrying amount compared to the discounted value of estimated future cash flows, discounted when material, at the original effective interest rate. Individual receivables known to be uncollectible would have been written-off when identified.

(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 $310,569,326 (30 June 2018: $326,709,929) 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 and long-term loan facilities;
- investing surplus cash only in credit quality banks and financial institutions; and
- maintaining a reputable credit profile.

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

2019	Consolidated Less than 6 Months $	6-12 Months $	1-3 Years $	Total $
Financial liabilities				
Trade and other payables	6,075,536	–	546,766	6,622,302
Total financial liabilities	6,075,536	–	546,766	6,622,302
2018				
Financial liabilities				
Trade and other payables	5,060,063	48,194	279,544	5,387,801
Total financial liabilities	5,060,063	48,194	279,544	5,387,801

(d) Fair Value Estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 30 June 2019 and 30 June 2018 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 current 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 2019 $	2018 $
Note 4. Revenue		
Interest income from unrelated entities	2,314,803	710,652
Total revenue	2,314,803	710,652
Net foreign currency gains	17,486,787	12,993,578
Services revenue from joint operations	15,855	–
Sundry income	541	–
Total other income	17,503,183	12,993,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

	Note	Consolidated 2019 $	Consolidated 2018 $
Note 5. Expenses			
Loss before income tax includes the following specific expenses:			
Depreciation and amortisation expense:			
– depreciation of plant and equipment	15	363,842	371,394
– amortisation of computer software	16	329,115	359,440
Total depreciation and amortisation expense		692,957	730,834
Exploration and evaluation expenditure expensed, impaired or written-off:			
– exploration and evaluation expenditure expensed		4,191,536	5,569,500
– exploration and evaluation expenditure written-off	17	13,226,427	5,892,079
– exploration and evaluation expenditure impaired	17	1,640,939	151,503,114
Total exploration and evaluation expenditure expensed, impaired or written-off		19,058,902	162,964,693
Finance costs:			
– finance charges under finance lease		5,881	14,300
– bank charges		174,241	223,174
Total finance costs		180,122	237,474
Share-based payments expense	27(d)	3,996,372	4,409,889
Rental expense on operating leases – minimum lease payments		957,619	1,583,097
Business development and other project costs (refer (a) below)		5,214,563	7,285,306
Write-down of inventory to net realisable value (refer (b) below)		6,213,639	6,679,549
Loss on disposal of inventory (refer (c) below)		–	1,157,407

(a) Reviewing new business development and other project activities predominantly in Brazil. Expenditure 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 from the consideration of utilising a particular type of rig for the upcoming drilling of the Marina-1 exploration well in Block Z-38, offshore Peru, which would mean a portion of Karoon's existing Peru inventory may not be suitable for that generation of rig (30 June 2018: resulted predominantly from potential well design specifications, the 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 during the previous financial year related to the liquid mud inventory for Block Z-38 in Peru, following the liquid mud plant demobilisation.

	Note	Consolidated 2019 $	Consolidated 2018 $
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		(806,393)	264,780
Adjustments in respect of current tax of previous financial years		(12,877)	(30,739)
Deferred tax		1,979,674	2,044,767
Total tax income		1,160,404	2,278,808
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%		8,873,383	55,216,980
Add the tax effect of:			
Share-based payments expense (non-cash)		(1,099,586)	(1,252,705)
Other non-deductible items		(1,699,333)	(6,158,578)
Tax losses and temporary tax differences not previously recognised		(5,828,994)	(52,160,484)
Adjustment for current tax of previous financial years		(12,877)	(30,739)
Subtract the tax effect of:			
Difference in overseas tax rates		422,413	5,947,964
Non-assessable income		505,398	716,370
Total tax income		1,160,404	2,278,808

(b) Current Tax Asset

	Consolidated 2019 $	Consolidated 2018 $
Income tax receivable	54,303	185,737
Total current tax asset	54,303	185,737

(c) Deferred Tax Balances

Consolidated	Balance as at 1 July 2018 $	Charged (Credited) to Profit or Loss $	Charged (Credited) Directly to Equity $	Balance as at 30 June 2019 $
Temporary differences				
Exploration and evaluation expenditure	(12,092,920)	3,906,078	–	(8,186,842)
Provisions and accruals	579,781	40,931	–	620,712
Equity raising transaction costs	8,301	(8,075)	–	226
Unrealised foreign currency gains	(22,116,622)	(2,024,384)	–	(24,141,006)
Farm-out expenditures	178,739	72,097	–	250,836
Other	10,873	(6,973)	–	3,900
Total temporary differences	(33,431,848)	1,979,674	–	(31,452,174)
Unused tax losses				
Tax losses	1,058,550	(819,270)	–	239,280
Total unused tax losses	1,058,550	(819,270)	–	239,280
Net deferred tax liabilities	(32,373,298)	1,160,404	–	(31,212,894)
Presented in the consolidated statement of financial position as follows:				
Deferred tax liabilities	(32,373,298)			(31,212,894)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 6. Income Tax *(continued)*
(c) Deferred Tax Balances *(continued)*

	Consolidated 2019 $	Consolidated 2018 $
Deferred tax liabilities expected to be settled within 12 months	**(15,933,064)**	(5,529,155)
Deferred tax liabilities expected to be settled after more than 12 months	**(15,279,830)**	(26,844,143)
Deferred tax liabilities	**(31,212,894)**	(32,373,298)

(d) 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:

	2019 $	2018 $
Unrecognised temporary tax differences relating to deferred tax assets at a tax rate of 34%	**34,668,912**	31,983,685
Tax losses: Brazilian operating losses at a tax rate of 34%	**44,872,132**	39,524,231
Tax losses: Peruvian operating losses at a tax rate of 32%	**11,782,401**	8,923,638
Potential tax income	**91,323,445**	80,431,554

(e) Unrecognised Taxable Temporary Differences

	2019 $	2018 $
Temporary tax differences relating to deferred tax liabilities	**(6,088,166)**	(5,106,132)
Offset by deferred tax assets relating to operating losses	**6,088,166**	5,106,132
Total deferred tax liabilities (unrecognised)	**–**	–

PRRT

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

The Group estimates that it has incurred compounded carried forward undeducted PRRT expenditure in excess of accounting carrying values as at 30 June 2019 of $145,898,630 (2018: $129,696,596). 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 $40,851,616 (2018: $36,315,047).

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 Australian projects within the Group or to other third parties on acquisitions of interests in the Group's Australian offshore permits.

	Consolidated 2019 $	Consolidated 2018 $
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	158,100	157,590
Total remuneration for audit and other assurance services	158,100	157,590
(ii) Other services		
Australian tax advice	–	22,500
Due diligence services	11,813	330,727
Taxation services	61,888	346,702
Other non-audit services	709	59,116
Total remuneration of PricewaterhouseCoopers Australia	232,510	916,635
(b) Related Practices of PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	130,888	153,105
Due diligence services	–	2,496
Other non-audit services	11,226	5,594
Total remuneration for audit and other assurance services of related practices of PricewaterhouseCoopers Australia	142,114	161,195
(ii) Other services		
Taxation services	18,179	221,813
Total remuneration of related practices of PricewaterhouseCoopers Australia	160,293	383,008
Total remuneration of external auditors	392,803	1,299,643

Note 8. Dividends

There were no ordinary dividends declared or paid during the financial year by the Group (2018: $Nil).

	2019 $	2018 $
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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

	Consolidated 2019 $	Consolidated 2018 $
Note 9. Earnings Per Share		
Loss for the financial year used to calculate basic and diluted earnings per ordinary share:	**(28,417,537)**	(181,777,789)
(a) Basic loss per ordinary share	**(0.1156)**	(0.7403)
(b) Diluted loss per ordinary share*	**(0.1156)**	(0.7403)
* 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:	**245,854,993**	245,560,596
Weighted average number of potential ordinary shares:	**7,461,809**	5,842,566
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per ordinary share (excluding anti-dilutive share options outstanding):	**253,316,802**	251,403,162
Weighted average number of anti-dilutive share options:	**9,121,960**	7,075,268

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	2019 $	2018 $
Cash at banks and on hand (refer note (a) below)	**310,426,425**	325,113,355
Short-term bank deposits (refer note (b) below)	**15,764,706**	8,459,598
Total cash and cash equivalents	**326,191,131**	333,572,953

(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, 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 2019 $	Consolidated 2018 $
Note 11. Receivables		
Current		
Other receivables	1,880,833	1,152,572
Total current receivables	1,880,833	1,152,572

(a) Financial Risk Management

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

Note 12. Inventories

	2019 $	2018 $
Current		
Casing and other drilling inventory	2,124,577	–
Total current inventories	2,124,577	–
Non-current		
Casing and other drilling inventory	31,495,438	37,696,266
Total non-current inventories	31,495,438	37,696,266

Note 13. Security Deposits

	2019 $	2018 $
Current		
KEI Peru Pty Ltd, Sucursal del Peru (refer note (a)(i) below)	88,407	–
Karoon Energy Ltd (refer note (c) below)	425,881	–
Karoon Petróleo & Gas Ltda, KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note (d) below)	21,596	18,955
Total current security deposits	535,884	18,955
Non-current		
Karoon Energy Ltd (refer note (a)(ii) below)	5,190,361	7,684,573
Karoon Petróleo & Gas Ltda (refer note (b) below)	2,303,797	2,169,021
Karoon Energy Ltd (refer note (c) below)	5,253	430,695
KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note (d) below)	13,653	12,954
Total non-current security deposits	7,513,064	10,297,243

(a) Performance Guarantees

(i) Performance guarantee (via a letter of credit) provided to Perupetro SA (the Peruvian oil and gas regulator) for Area 73 by the Group (refer Note 24) for work commitments and an obligation to submit reports. 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 and relevant reports submitted to Perupetro SA.

(ii) Performance guarantee (via a letter of credit) provided to Perupetro SA for Block Z-38 by the Group (refer Note 24) for its share of 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

	Note	Consolidated 2019 $	Consolidated 2018 $
Note 14. Other Assets			
Current			
Prepayments		1,161,836	782,828
Total current other assets		1,161,836	782,828
Note 15. Plant and Equipment			
Plant and equipment			
At cost		4,535,505	5,191,476
Accumulated depreciation		(3,741,867)	(4,388,962)
Total plant and equipment		793,638	802,514
Reconciliation			
The reconciliation of the carrying amount for plant and equipment is set out below:			
Balance at beginning of financial year		802,514	1,139,163
Additions	22(c)	325,802	216,372
Disposals		(4,434)	(144,527)
Net foreign currency difference on translation of financial statements of foreign subsidiaries		33,598	(37,100)
Depreciation expense	5	(363,842)	(371,394)
Carrying amount at end of financial year		793,638	802,514
Note 16. Intangible Assets			
Computer software			
At cost		2,693,711	3,077,235
Accumulated amortisation		(2,158,056)	(2,295,721)
Total intangibles		535,655	781,514
Reconciliation			
The reconciliation of the carrying amounts for computer software is set out below:			
Balance at beginning of financial year		781,514	1,167,575
Additions	22(c)	39,102	81,468
Net foreign currency difference on translation of financial statements of foreign subsidiaries		44,154	(108,089)
Amortisation expense	5	(329,115)	(359,440)
Carrying amount at end of financial year		535,655	781,514

	Note	Consolidated 2019 $	2018 $
Note 17. Exploration and Evaluation Expenditure Carried Forward			
Geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs		208,803,023	209,629,983
Reconciliation			
The reconciliation of exploration and evaluation expenditure carried forward is set out below:			
Balance at beginning of financial year		209,629,983	371,029,112
Additions	22(c)	11,411,205	19,175,698
Exploration and evaluation expenditure written-off (refer note (a) below)	5	(13,226,427)	(5,892,079)
Exploration and evaluation expenditure impaired (refer note (b) below)	5	(1,640,939)	(151,503,114)
Recoupment of exploration and evaluation expenditure on Block Z-38 farm-out		(5,591,334)	–
Net foreign currency difference on translation of financial statements of foreign subsidiaries		8,220,535	(23,179,634)
Total exploration and evaluation expenditure carried forward		208,803,023	209,629,983
Intangible		208,803,023	209,629,983

(a) The write-off during the financial year relates to exploration and evaluation expenditure carried forward associated with designated WA-482-P acreage relinquished by the joint operation as part of the successful renewal application submitted to NOPTA, prior to expiry of the permit's previous exploration term (30 June 2018: demobilisation of liquid mud plant for Block Z-38 as more cost effective alternatives were considered whilst the Block was under force majeure).

(b) As part of the review of the Group's non-current assets as at 30 June 2019, exploration and evaluation expenditure carried forward has been impaired for:

(i) exploration permit EPP46 as active and significant exploration and evaluation operations in relation to the permit are no longer continuing at the present time; and

(ii) continuing exploration and evaluation expenditure incurred for WA-314-P and Block S-M-1101 was impaired during the financial year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

	Note	Consolidated 2019 $	Consolidated 2018 $
Note 18. Trade and Other Payables			
Current (unsecured)			
Trade payables		**3,169,116**	2,011,915
Sundry payables and accruals		**3,954,191**	4,029,890
Cash-settled share-based payments	28(d)	**225,456**	290,796
Finance lease liability		**35,545**	96,388
Total current trade and other payables		**7,384,308**	6,428,989
Non-current (unsecured)			
Cash-settled share-based payments	28(d)	**546,766**	253,889
Finance lease liability		**–**	25,655
Total non-current trade and other payables		**546,766**	279,544

(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 2019 $	Consolidated 2018 $
Note 19. Provisions		
Current		
Provision for long service leave (refer note (a) below)	**586,165**	283,500
Total current provisions	**586,165**	283,500
Non-current		
Provision for long service leave (refer note (a) below)	**120,340**	329,520
Total non-current provisions	**120,340**	329,520

(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 2019 Number	Consolidated 2018 Number	Consolidated 2019 $	Consolidated 2018 $
Note 20. Contributed Equity and Reserves Within Equity				
(a) Contributed Equity				
Ordinary shares, fully paid	**246,216,477**	245,721,153	**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.

(b) Movement in Ordinary Shares

Date	Details	Note	Number of Ordinary Shares	Issue Price Per Ordinary Share	$
1 July 2017	Opening balance in previous financial year		245,217,605		802,295,334
	Performance rights conversion	27(c)	503,548	–	–
30 June 2018	Balance at end of previous financial year		245,721,153		802,295,334
	Performance rights conversion	27(c)	**495,324**	**–**	**–**
30 June 2019	Balance at end of financial year		**246,216,477**		**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 and long-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 KMP 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

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 2019 %	2018 %
Parent Company:				
Karoon Energy Ltd	Australia	Australia		
Unlisted subsidiaries of Karoon Energy 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 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 Pty Ltd:				
KEI Peru 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 3 offshore exploration blocks: Block S-M-1037, Block S-M-1101, and Block S-M-1537; and
- Peru – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in offshore exploration Block Z-38 and Area 73.

'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.

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 2019					
Segment revenue (interest income from unrelated entities)	2,101,618	211,693	1,492	–	2,314,803
Other income	17,509,652	10,723	(17,192)	–	17,503,183
Business development and other project costs	–	(5,046,194)	(166,453)	(1,916)	(5,214,563)
Depreciation and amortisation expense	(137,347)	(417,592)	(138,018)	–	(692,957)
Employee benefits expense (net)^	(8,128,970)	(2,517,676)	(453,824)	–	(11,100,470)
Exploration and evaluation expenditure expensed, impaired or written-off	(13,832,435)	(5,013,944)	(158,959)	(53,564)	(19,058,902)
Finance costs	(17,002)	(62,183)	(100,937)	–	(180,122)
Write-down of inventory to net realisable value	–	–	(6,213,639)	–	(6,213,639)
Property costs	(814,601)	(403,474)	(104,033)	–	(1,322,108)
Administration and other operating expenses	(2,690,183)	(1,854,917)	(1,068,066)	–	(5,613,166)
Loss before income tax	(6,009,268)	(15,093,564)	(8,419,629)	(55,480)	(29,577,941)
Tax income	1,160,404	–	–	–	1,160,404
Loss for financial year	(4,848,864)	(15,093,564)	(8,419,629)	(55,480)	(28,417,537)
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)

^ Includes share-based payments expense of $3,115,040 (Australia) and $881,332 (Brazil) during the financial year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 22. Segment Information *(continued)*

(b) Operating Segments *(continued)*

Segment Assets	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
As at 30 June 2019					
Segment asset information					
Cash and cash equivalents	**320,978,875**	**305,319**	**4,906,937**	**–**	**326,191,131**
Exploration and evaluation expenditure carried forward	**28,754,351**	**112,600,173**	**67,448,499**	**–**	**208,803,023**
Security deposits	**431,133**	**2,321,309**	**5,296,506**	**–**	**8,048,948**
Inventories	**–**	**13,611,876**	**20,008,139**	**–**	**33,620,015**
Other	**1,180,318**	**1,305,663**	**1,940,284**	**–**	**4,426,265**
Segment assets	**351,344,677**	**130,144,340**	**99,600,365**	**–**	**581,089,382**
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

Segment Liabilities	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
As at 30 June 2019					
Segment liability information					
Trade and other payables	**2,956,909**	**3,844,560**	**1,129,605**	**–**	**7,931,074**
Deferred tax liabilities	**31,212,894**	**–**	**–**	**–**	**31,212,894**
Provisions	**706,505**	**–**	**–**	**–**	**706,505**
Segment liabilities	**34,876,308**	**3,844,560**	**1,129,605**	**–**	**39,850,473**
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

(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 2019					
Plant and equipment	**23,949**	**255,067**	**46,786**	**–**	**325,802**
Intangible assets	**14,290**	**23,743**	**1,069**	**–**	**39,102**
Exploration and evaluation expenditure carried forward	**748,616**	**4,551,542**	**6,111,047**	**–**	**11,411,205**
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

Note 23. Joint Operations

The Group has an equity interest in the following joint operations as at 30 June 2019 as follows:

Petroleum Tenement	Business Activities Carried on in	Unincorporated Equity Interest (%) 2019	2018	Principal Activities	Operator of Joint Operation
WA-482-P	Northern Carnarvon Basin, Australia	50	50	Exploration and evaluation	Santos WA Northwest Pty Ltd
Block Z-38	Tumbes Basin, Peru	40^	40^	Exploration and evaluation	KEI (Peru Z38) Pty Ltd, Sucursal del Peru

^ The Group's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are still to be completed. During the previous financial year, Karoon funded 100% of Block Z-38's exploration expenditure.

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 2019 $	2018 $
Cash and cash equivalents	64,915	52,529
Receivables (current)	470,356	1,106
Exploration and evaluation expenditure carried forward (non-current)	141,354,524	105,733,673
Trade and other payables (current)	(26,085)	(25,746)
Share of net assets employed in joint operations	141,863,710	105,761,562
Interest income from unrelated entities	346	1,500
Other income	15,796	2,465
Exploration and evaluation expenditure expensed, impaired or written-off	(13,226,427)	(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 guaranteeing KEI (Peru Z38) Pty Ltd, Sucursal del Peru's performance under the joint operating agreement covering Block Z-38 in Peru.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

	Consolidated	
	2019 $	2018 $
Note 24. Contingent Liabilities and Contingent Assets		
(a) Contingent Liabilities		
The Group has contingent liabilities as at 30 June 2019 that may become payable in respect of:		
(i) Performance guarantee (via a letter of credit) provided to Perupetro SA for Area 73 by the Group (refer Note 13) for work commitments and an obligation to submit reports. 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 and relevant reports submitted to Perupetro SA.	**88,407**	–
(ii) Performance guarantee (via a letter of credit) provided to Perupetro SA for Block Z-38 by the Group for its share of 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.	**5,190,361**	7,684,573
(iii) The Group has provided the ANP 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.	**2,303,797**	2,169,021
(iv) 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).	**431,134**	430,695
(v) 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.	**35,249**	31,909

(vi) 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 2019, as it is dependent upon uncertain future events.

(vii) Brazilian Local Content

The Concession Contracts for Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1537 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 up to 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 2019, nor the financial effect of any potential fine by the ANP.

(viii) 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.

(ix) 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 2019 (30 June 2018: $Nil).

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:

	Consolidated 2019 $	Consolidated 2018 $
Drilling operations		
Not later than one year	182,968	1,460,063
Later than one year but not later than five years	–	139,617
Total capital expenditure commitments	182,968	1,599,680

(b) Operating Lease Rental Commitments

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

	Consolidated 2019 $	Consolidated 2018 $
Not later than one year	884,590	999,845
Later than one year but not later than five years	982,322	612,499
Total operating lease rental commitments	1,866,912	1,612,344

The Group leases various offices under non-cancellable operating leases expiring within 1 to 5 years. The leases have varying terms, escalation clauses and, for some, renewal rights. On renewal, the terms of the leases are renegotiated.

(c) Exploration Expenditure Commitments

The Group has guaranteed 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 WA-482-P, EPP46, Block S-M-1537 and Block Z-38 (30 June 2018: WA-314-P, WA-482-P, EPP46, Block S-M-1537 and Block Z-38) not provided for in the consolidated financial statements and payable.

	Consolidated 2019 $	Consolidated 2018 $
Not later than one year	79,668,351	166,301
Later than one year but not later than five years	1,375,000	101,246,335
Later than five years	2,303,797	2,169,021
Total guaranteed exploration expenditure commitments	83,347,148	103,581,657

In addition to the guaranteed exploration expenditure commitments shown above, the Group has non-guaranteed government work commitments in relation to these exploration tenements due later than one year but not later than five years of $225,716,234 (30 June 2018: $275,361,548). These commitments will become firm commitments if the Group elects to retain the tenements by proceeding into the unguaranteed work periods.

Exploration expenditure commitments, including farm-in obligations, in respect of joint operations are set out below:

	Consolidated 2019 $	Consolidated 2018 $
Not later than one year	51,363,848	166,301
Later than one year but not later than five years	109,591,234	189,522,796
Total joint operation guaranteed exploration expenditure commitments	160,955,082	189,689,097

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 completed and are calculated 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, or by relinquishing exploration tenements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

	Consolidated 2019 $	Consolidated 2018 $
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		
Loss for financial year	(28,417,537)	(181,777,789)
Add (subtract)		
Non-cash items included in loss for financial year:		
Depreciation of plant and equipment and amortisation of computer software	692,957	730,834
Share-based payments expense	3,665,286	4,175,684
Loss on disposal of inventory	–	1,157,407
Net foreign currency gains	(17,540,743)	(12,076,432)
Items classified as investing/ financing activities:		
Net loss on disposal of non-current assets	4,434	144,527
Exploration and evaluation expenditure impaired or written-off	14,867,366	157,395,193
Net foreign currency gains (losses)	53,956	(917,146)
Write-down of inventory to net realisable value	6,213,639	6,679,549
Change in operating assets and liabilities:		
(Increase) decrease in assets		
Receivables – current	(222,722)	333,300
Current tax asset	142,976	162,205
Other assets	(460,271)	118,421
Increase (decrease) in liabilities		
Trade and other payables – current	(181,788)	655,833
Trade and other payables – non-current	285,307	62,681
Provisions – current	302,665	36,853
Provisions – non-current	(209,180)	38,196
Deferred tax liabilities	(1,160,404)	(2,212,486)
Net cash flows used in operating activities	(21,964,059)	(25,293,170)

(b) Total Liabilities from Financing Activities

	Balance as at 1 July 2018	Cash Flow: Payments for Finance Lease Liability	Non-cash Change: Foreign Currency Translation Reserve Movement	Balance as at 30 June 2019
Finance lease liability (current and non-current)	122,043	(94,081)	7,583	35,545
Total liabilities from financing activities	122,043	(94,081)	7,583	35,545

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) 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 did not grant any ESOP options (2018: 1,148,344) 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	
	2019 Number	2019 Weighted Average Exercise Price	2018 Number	2018 Weighted Average Exercise Price
Balance at beginning of financial year	7,623,938	$2.11	7,266,932	$3.02
Granted during financial year	4,367,289	$1.40	3,177,319	$1.74
Exercised during financial year	–	–	–	–
Cancelled during financial year	–	–	–	–
Expired during financial year	–	–	–	–
Forfeited during financial year	(1,995,706)	$3.04	(2,820,313)	$4.06
Balance at end of financial year	9,995,521	$1.61	7,623,938	$2.11
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 $0.24 (2018: $0.36).

ESOP options outstanding as at 30 June 2019 had a range of exercise prices from $1.40 to $1.82 (30 June 2018: range of exercise prices from $1.73 to $3.04) with a weighted average remaining contractual life of 801 days (30 June 2018: 787 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

Note 27. Share-based Payments *(continued)*

(a) ESOP *(continued)*

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

Grant Date	Date of Expiry	Exercise Price Per ESOP Option	Number
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**
21 September 2018	30 June 2022	$1.40	**3,297,603**
31 December 2018	30 June 2022	$1.40	**1,069,686**
Total ESOP options			**9,995,521**

(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:

	2019	2018
Weighted average exercise price	**$1.40**	$1.74
Weighted average life of share options	**1,353 days**	1,343 days
Weighted average share price	**$1.08**	$1.33
Expected share price volatility	**45%**	54%
Risk free interest rate	**2.06%**	2.05%
Weighted average share option value	**$0.24**	$0.36

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) 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 Nil performance rights (2018: 662,816) 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.

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 2019 Number	2018 Number
Balance at beginning of financial year	6,500,013	4,470,794
Granted during financial year	3,433,178	3,434,635
Vested and converted during financial year	(495,324)	(503,548)
Cancelled during financial year	–	–
Cash-settled during financial year	–	(112,512)
Forfeited during financial year	(1,675,730)	(789,356)
Balance at end of financial year	7,762,137	6,500,013

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

There were 1,360,907 (2018: 503,548) performance rights that vested during the financial year, of which 495,324 (2018: 503,548) were converted into fully paid ordinary shares during the financial year.

The weighted average fair value of performance rights granted during the financial year was $1.08 (2018: $1.31). Fair values of performance rights were based on the Company's closing share price at grant date.

Performance rights outstanding as at 30 June 2019 had a weighted average remaining contractual life of 606 days (30 June 2018: 700 days).

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

Grant Date	Date of Expiry	Number
30 November 2016	30 June 2019	479,485
2 December 2016	30 June 2019	129,088
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	506,311
9 November 2017	30 June 2020	169,587
14 November 2017	30 June 2020	17,583
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
21 September 2018	30 June 2021	1,728,190
21 September 2018	30 June 2021	560,595
31 December 2018	30 June 2022	864,095
31 December 2018	30 June 2022	280,298
Total performance rights		7,762,137

(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 2019 $	2018 $
Share options issued under ESOP	1,205,750	1,048,956
Performance rights issued under PRP	2,459,536	3,126,728
Share-based payments expense (non-cash)	3,665,286	4,175,684
Share-based payments expense (cash-settled)	331,086	234,205
Total share-based payments expense	3,996,372	4,409,889

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

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 (2018: 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 KMP

Directors and other KMP remuneration is summarised as follows:

	Consolidated	
	2019 $	2018 $
Short-term employee benefits	**3,485,328**	3,598,808
Post-employment benefits	**191,909**	201,923
Long-term employee benefits (non-cash)	**54,932**	39,517
Share-based payments expense	**1,635,635**	1,621,116
Total KMP remuneration	**5,367,804**	5,461,364

Detailed remuneration disclosures for the Directors and other KMP are provided in Sections 5 of the audited Remuneration Report on pages 45 and 46.

In addition to the above, the Group is committed to pay the Executive Directors and other KMP up to $3,270,965 (2018: $3,208,556) 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 KMP 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 KMP interests subsisting as at 30 June 2019. Total termination payments equal to the Executive Directors and other KMP average base salary, in accordance with Section 200B of the *Corporations Act 2001,* is $2,544,357.

(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 $343,961 (2018: $321,395). The balance outstanding included in current trade and other payables is $29,623 (2018: $28,486). 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 effectively 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 $235,487 (2018: $252,311), which includes social security and indemnity fund contributions of $36,588 (2018: $38,702). Ms Barbosa has been an employee of the Company since 2011, and has a comprehensive understanding of the Brazilian legal and regulatory framework.

Ms Marina Sayao, the wife of Mr Tim Hosking (a KMP), 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 $106,166 (2018: $115,488). 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 financial year, Mr Mark Smith, an Executive Director, had an interest in Quantiseal Pty Ltd which provided geophysical fault seal analysis for the Group's Santos Basin assets. The Risk and Governance Committee and then Karoon Board approved the transaction during the financial year, prior to it being entered into, being on arm's length terms. The value of this transaction during the financial year in the Group was $64,000 (2018: $Nil).

In addition, Mr Mark Smith has an interest in BNN which provides geological and engineering expertise and services to Liberty Petroleum Corporation. Where BNN business involves any activity connected to the Group, Mr Smith maintains an arm's length relationship to BNN. Mr Mark Smith is also excluded from any Board of Director discussions and decisions regarding BNN and/or Liberty Petroleum Corporation. Liberty Petroleum Corporation is entitled to: (a) certain milestone cash bonuses and an over-riding royalty in the event of production on the Group's exploration permit WA-482-P; and (b) an over-riding royalty in the event of production on the Group's exploration permit WA-314-P. BNN has a 1/3 share of Liberty Petroleum Corporation's over-riding royalty, if a discovery is made for exploration permits WA-482-P or WA-314-P and developed.

(d) Related Party Payables

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 $225,456 (2018: $290,796) and in non-current trade and other payables $546,766 (2018: $253,889).

Note 29. Parent Company Financial Information

(a) Summary Financial Information

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

	Company 2019 $	Company 2018 $
Statement of financial position		
Current assets	322,408,896	331,451,574
Non-current assets	157,864,767	158,749,443
Total assets	480,273,663	490,201,017
Current liabilities	1,764,703	1,984,757
Non-current liabilities	27,906,878	24,905,701
Total liabilities	29,671,581	26,890,458
Net assets	450,602,082	463,310,559
Contributed equity	802,295,334	802,295,334
Accumulated losses	(403,068,837)	(386,695,074)
Share-based payments reserve	51,375,585	47,710,299
Total equity	450,602,082	463,310,559
Loss for financial year	(16,373,763)	(199,974,180)
Total comprehensive loss for financial year	(16,373,763)	(199,974,180)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 *(CONTINUED)*

	Company	
	2019 $	2018 $
Note 29. Parent Company Financial Information *(continued)*		
(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).	**431,134**	430,695
(ii) Performance guarantee (via a letter of credit) was provided to Perupetro SA for Block Z-38 by the Parent Company for its share of 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.	**5,190,361**	7,684,573
(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 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.

Note 30. Subsequent Events

This Annual Report was authorised for issue by the Board of Directors on 24 September 2019. The Board of Directors has the power to amend and reissue the consolidated financial statements and notes.

Since 30 June 2019, the following material event has occurred:

(a) Baúna Sale and Purchase Agreement

On 25 July 2019, a wholly owned subsidiary of Karoon Energy Ltd (Karoon Petróleo & Gás Ltda) signed a binding SPA to acquire from Petrobras a 100% operating interest in Concession BM-S-40, that includes the producing Baúna light oil field located in the Santos Basin, offshore Brazil, for a headline consideration of US$665 million. On the same date, a deposit of US$49.9 million was paid to Petrobras. The transaction is subject to Brazilian regulatory approval, which is expected during the first half of calendar year 2020.

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

DIRECTORS' DECLARATION

The Directors' declare that:

(a) in the Directors' opinion, the consolidated financial statements and notes, set out on pages 57 to 100, are in accordance with the *Corporations Act 2001*, including:

- (i) complying with relevant Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (ii) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

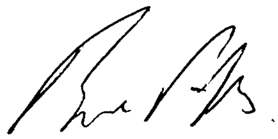
(b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

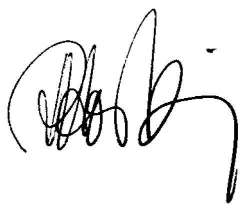
The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

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

On behalf of the Directors:



Mr Bruce Phillips
Independent Non-Executive Chairman



Mr Robert Hosking
Managing Director

25 September 2019

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report

To the members of Karoon Energy Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Karoon Energy 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 2019 and of its financial performance for the financial 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 financial position as at 30 June 2019
- 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 consolidated statement of profit or loss and other comprehensive income 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 (including Independence Standards)* (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 $5.88 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 did not have revenue from producing assets as at 30 June 2019, meaning profit and revenue based thresholds were less relevant.
- We chose 1% based on our professional judgement, noting 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.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

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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***
Liquidity to fund future exploration expenditure *(Refer to note 25)* As at June 30 2019, 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 $83.3 million as at 30 June 2019 of which $79.7 million are due during the financial year ending 30 June 2020. In addition, non-guaranteed work commitments totalled $225.7 million at financial year end. These commitments are not due during the financial year ending 30 June 2020. Subsequent to year end the Group has entered into a binding Sale and Purchase Agreement (SPA) with Petrobras for the acquisition of the Baúna light oil field. The Group requires additional funding in order to complete the acquisition. The Group has put in place a number of initiatives to complete the acquisition, however, should these be unsuccessful Petrobras would retain the cash deposit of US$49.9 million which was paid subsequent to year end. The Group holds cash and cash equivalents of approximately $326.2 million and has no committed external debt arrangements as at 30 June 2019. The Group has no cash-generating assets in operation at financial year end.	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 operation cash outflows included in the Group's assessment; • Compared the key underlying data and assumptions in the Group's cash flow forecast to internal reporting and historical cash outflows; • Assessed written correspondence from external legal counsel in respect of the Group's future obligations should the Baúna transaction not be successfully completed; and • Obtained written representations from management and the Board of Directors regarding their plans for future action and the feasibility of these plans.

Key audit matter	*How our audit addressed the key audit matter*
Our assessment of the Group's determination that there are sufficient funds available to allow Group to continue as a going concern was a key audit matter.	
Valuation of capitalised exploration and evaluation assets *(Refer to note 17)* As at 30 June 2019, the Group has capitalised exploration and evaluation expenditures of $208.8 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 $14.9 million was recorded in the consolidated statement of profit or loss and other comprehensive income to reflect a write off and an impairment charge recorded against the capitalised exploration and evaluation expenditure associated with permits WA-482-P, EPP46, WA-314-P and Block S-M-1101. 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: • Evaluated the Group's assessment for 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 WA-482-P, EPP46, WA-314-P and Block S-M-1101 respectively against historical capitalised costs.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

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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 2019, 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 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 on the other information that we obtained prior to the date of this auditor's report, 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 the *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 31 to 54 of the Directors' Report for the financial year ended 30 June 2019.

In our opinion, the Remuneration Report of Karoon Energy Ltd for the financial year ended 30 June 2019 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 2019

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 2019.

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	2,328	1,005,357
1,001 to 5,000	2,545	7,043,793
5,001 to 10,000	1,044	7,934,574
10,001 to 100,000	1,281	37,594,248
More than 100,000	189	193,818,883
Total	7,387	247,396,855

There were 1,154 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	10.65
Wellington Management Group, LLP and its related bodies corporate	15,548,905	6.29
Total	41,907,261	16.94

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	42,715,587	17.27
2	J P Morgan Nominees Australia Pty Limited	21,734,750	8.79
3	Talbot Group Holdings Pty Ltd <Talbot Equities A/C>	15,317,043	6.19
4	Citicorp Nominees Pty Limited	15,099,206	6.10
5	Talbot Group Investments Pty Ltd	11,000,313	4.45
6	Ropat Nominees Pty Ltd	9,210,022	3.72
7	Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	4,744,139	1.92
8	BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient Drp>	4,648,010	1.88
9	Nero Resource Fund Pty Ltd <Nero Resource Fund A/C>	4,313,498	1.74
10	Mr Kenneth Rudy Kamon	4,300,000	1.74
11	CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>	3,713,488	1.50
12	NGE Capital Limited	3,675,498	1.49
13	National Nominees Limited	3,547,691	1.43
14	BNP Paribas Noms Pty Ltd <DRP>	1,424,194	0.58
15	Zero Nominees Pty Ltd	1,280,000	0.52
16	Mr Steven Mark Sinclair	1,271,273	0.51
17	Mrs Mara Spong	1,127,888	0.46
18	Mrs Pamela Julian Sargood	1,080,974	0.44
19	IERS (Australia) Pty Ltd <Smith Family Investment A/C>	1,071,500	0.43
20	Inconsultare Pty Ltd <Morrison Family S/F A/C>	1,050,000	0.42
Total		152,325,074	61.58

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 2016 Employee Share Option Plan	42	7,544,608
Performance rights issued pursuant to Karoon Gas Australia 2016 Performance Rights Plan	42	3,514,325
Total	84	11,058,933

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.

On 30 November 2018 the Company changed its name from Karoon Gas Australia Ltd to Karoon Energy Ltd.

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-1537	Santos, Brazil	100
Block Z-38	Tumbes, Peru	40^^

Liberty Petroleum Corporation and Phoenix Oil and Gas Limited are entitled to an over-riding royalty in the event of production.

^ Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and an over-riding royalty in the event of production. Phoenix Oil and Gas Limited is entitled to an over-riding royalty in the event of production.

^^ 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.
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.
bopd	Barrels of oil per day.
Company or Parent Company	Karoon Energy 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.
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.
ESP	Electrical submersible pump (downhole equipment).
exploration	The process of identifying, discovering and testing prospective hydrocarbon regions and structures, mainly by interpreting regional and specific geochemical, geological, geophysical survey data and drilling.
farm-in and farm-out	A commercial agreement in which an incoming joint operation participant (the 'farmee') earns an interest in an exploration tenement by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the exploration tenement (the 'farmor') pays a reduced contribution. The interest received by a farmee is a farm-in while the interest transferred by the farmor is a farm-out.
FBT	Fringe Benefits Tax in Australia.
FEED	Front End Engineering and Design.
FID	Final Investment Decision.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area although it may refer to both the surface and underground productive formation.
financial year	Financial year ended 30 June 2019.
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.

Term	Definition
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 Energy Ltd and its subsidiaries.
km	Kilometres.
KMP	Key management personnel.
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.
PD	Development Plan.
performance rights	Performance rights issued under the PRP.
permit	A hydrocarbon tenement, lease, licence, concession or block.
Petrobras	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 2018.
PRP	Karoon Gas Australia 2016 Performance Rights Plan.
prospect	A geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.
prospective resource	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.

GLOSSARY OF TERMS *(CONTINUED)*

Term	Definition
REAL	Brazilian currency.
reserves	Quantities of economically recoverable hydrocarbons estimated to be present within a trap.
reservoir	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
rig	The equipment needed for drilling a well. It includes the onshore and offshore vehicles, mobile platforms or vessel on which the equipment is stored.
risk	Prospect risk or geologic risk is the assessed chance that the drilling of the prospect will be successful in finding significant volumes of hydrocarbons. The risk is calculated by multiplying the chance of success of each of the petroleum system elements involved in the prospect.
seismic survey	A type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near vertical plane back to the surface from subsurface boundaries. This data is typically used to determine the depths and form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
sq km	Square kilometres.
SPA	Sale and purchase agreement.
STI	Short-term incentive.
tcf	Trillion cubic feet (1,000,000,000,000 cubic feet).
TEA	Technical Evaluation Agreement.
TRIR	Total Recordable Incident Rate.
TSR	Total shareholder return.
Tullow	Tullow Peru Limited Sucursal del Peru 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 Bruce Phillips – Independent Non-Executive Chairman

Mr Robert Hosking – Managing Director

Mr Mark Smith – Executive Director

Mr Peter Turnbull – Independent Non-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)

Mr Geoff Atkins

Mr Peter Turnbull

Nomination Committee Members

Mr Geoff Atkins (Chairman)

Mr Bruce Phillips

Mr Clark Davey

Mr Peter Turnbull

Ms Luciana Rachid

Remuneration Committee Members

Mr Peter Turnbull (Chairman)

Mr Bruce Phillips

Mr Geoff Atkins

Mr Clark Davey

Risk and Governance Committee Members

Mr Peter Turnbull (Chairman)

Mr Clark Davey

Ms Luciana Rachid

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Share Registrar

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GPO Box 2975
Melbourne VIC 3001
Australia

Telephone	1300 850 505 (within Australia) + 61 3 9415 4000 (outside Australia)
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
Energy