ANNUAL REPORT 2013

Karoon
Gas Australia Ltd

CONTENTS

2012-2013 HIGHLIGHTS SUMMARY

Australia

Browse Basin

- Discoveries were made at the Boreas-1 and Zephyros-1 exploration wells, confirming the continuation of high quality gas reservoirs in the greater Poseidon structure.
- Subsequent to financial year end, Proteus-1 exploration well discovered gas and condensate, adding to the greater Poseidon resource.
- Continued second phase Browse Basin drilling campaign. The joint venture operation with ConocoPhillips exercised one well option taking the campaign to six firm wells, while retaining the option for one additional well.
- Kraken 3D marine seismic survey acquisition over the Elvie lead in WA-314-P was completed during August 2013.

North Carnarvon Basin

- Entered a farm-in agreement to acquire 100% of exploration permit WA-482-P.
- Licensing and reprocessing 7,251 kilometres of 2D seismic and 4,355 square kilometres of 3D seismic data, largely satisfying first year work commitments.
- Completed 2,386 square kilometre Chrysalids 3D marine seismic acquisition during July 2013.

Brazil

Santos Basin

- Oil discoveries in two of three exploration wells drilled. Satisfied minimum work commitments.
- Farm-out of 35% of the five wholly owned Blocks in the Santos Basin for USD40 million consideration and USD210 million in well carries for three exploration wells.
- Kangaroo-1 exploration well discovered 40 degree gravity API oil. Karoon's revised contingent 1C, 2C and 3C resource estimate 11, 135, 487 mmbbls of oil respectively.
- Bilby-1 exploration well discovered 28 degree gravity API oil.
- Emu-1 exploration well exhibited oil shows, however, the reservoir was water bearing.

Peru

Tumbes Basin

- Regulatory approval received for Environmental Impact Assessment study for a drilling campaign of up to ten exploration wells and ten appraisal wells.
- Drilling preparations continued, long lead items delivered, drilling expected mid-calendar 2014.
- Prospects have been defined in preparation for a minimum two well drilling campaign. Marina and Bonito prospects prioritised as initial targets, with total pre-drill potential gross unrisked mean prospective resource of 877 mmbbls of oil.

Maranon Basin

- Environmental Impact Assessment study is underway for the acquisition of a 300 kilometre 2D seismic survey.
- Social and community liaison work ongoing.

CHAIRMAN'S REPORT

Dear Shareholder

The 2013 financial year was a defining period in Karoon's history. We again demonstrated the strength of our team's capabilities with significant oil discoveries in the Santos Basin. The planned drilling campaigns in the Santos and Tumbes Basins progressed while the Browse Basin exploration drilling campaign continued. We also completed the acquisition of an additional early stage and highly prospective oil and gas exploration permit in the North Carnarvon Basin, Australia.

The financial year saw Karoon's exploration strategy continue to deliver with discoveries in Brazil and Australia. The highlight of the year was the exploration success in the Santos Basin, where we made oil discoveries in two of the three exploration wells drilled. The Kangaroo and Bilby discoveries are a clear endorsement of our team's ability to identify early stage highly prospective exploration potential.

The Santos Basin exploration drilling campaign was Karoon's first operated offshore drilling campaign. The campaign was completed on time, on budget and without significant incident. This demonstrated Karoon's ability as a competent offshore operator.

Karoon completed two noteworthy transactions during the financial year. The first was a farm-out deal in the Santos Basin with Pacific Rubiales, where Karoon retained a 65% equity interest in its Blocks. This transaction was a reflection of the quality of the acreage and our team's capabilities. The second transaction was the acquisition of North Carnarvon Basin permit WA-482-P, which brings an additional early stage highly prospective exploration opportunity into the portfolio for a very small capital commitment. The permit sits in a proven petroleum system and preliminary work has identified a potential gross unrisked mean prospective resource of 2.8 billion boe.

The Browse Basin second phase exploration drilling campaign continued to deliver success through the year with further discoveries at Boreas-1 and Zephyros-1, as well as the Proteus-1 discovery subsequent to year end. These discoveries confirm the continuation of the high quality gas reservoir in the greater Poseidon structure. Following the second phase exploration drilling campaign, we will have a better understanding of the size and quality of the greater Poseidon resource, which will allow us to evaluate potential commercialisation options.

Looking ahead, the 2014 financial year is set to be another important year for Karoon with a considerable pipeline of exploration and appraisal activity planned in the next 12 to 24 months across 4 basins in 3 countries.

The next exploration well to be drilled in the Browse Basin will be Grace-1 in WA-314-P, the fourth well in the current six well campaign. The second phase drilling campaign in the Santos Basin is expected to start drilling during the first half of calendar 2014 and the Tumbes Basin exploration drilling campaign is expected during mid-2014.

While the Tumbes Basin, offshore Peru, is considered a frontier location, this will be a highly prospective exploration campaign in a proven petroleum system. The first 2 wells will test close to 40% of the total 1.8 billion bbls of oil (potential net unrisked mean prospective resource).

Farm-out negotiations in the Browse, Santos, and Tumbes Basins are continuing. Karoon remains committed to the farm-out programs currently underway and has 20 interested parties involved in the process across all 3 programs. Karoon remains confident in securing further farm-outs prior to commencing further exploration and appraisal drilling campaigns.

Following the completion of the planned drilling, it is expected Karoon will be in a position to consider potential development options for specific assets within its global portfolio.

Subsequent to the end of the financial year, Karoon made the prudent decision to raise a gross total of $175 million from an institutional investor placement and via a Share Placement Plan to retail investors. This capital raising was a necessary measure to provide Karoon with the financial flexibility to achieve the best possible outcome of current farm-out negotiations. The additional balance sheet strength will support Karoon's position for rig contract negotiations and the purchase of long lead items necessary for entering into new drilling campaigns. This allows Karoon to progress its planning and commence its drilling campaigns on schedule and facilitates continued drilling activity in the Browse and Santos Basins, as well as providing support for new drilling in Peru.

The Board was pleased with the overwhelming support from the institutional investment community from both existing and new shareholders, and good support from existing retail shareholders.

Karoon's success has been a function of the quality of its operational teams, which is also paramount to its future success. We continue to ensure our people are appropriately incentivised through share-based (short-term and long-term) remuneration schemes. The Board believes by setting personal, operational and market related performance goals and issuing share-based incentives, it is aligning the interests of employees and shareholders.

On behalf of the Directors and management of Karoon, I would like to thank you for your continued support. We remain committed to our core strategy of early stage exploration and look forward to continued exploration and appraisal success and are excited about the future prospects of transitioning into a global production company.

Mr Robert Hosking
Executive Chairman

13 September 2013

KAROON LOOKS FOR HIGH EQUITY INTEREST OPPORTUNITIES WITH LARGE POTENTIAL TARGETS IN PROVEN PETROLEUM SYSTEMS.

2012-2013 OPERATIONS

For the Financial Year Ended 30 June 2013

Australia

Browse Basin Permits WA-314-P, WA-315-P and WA-398-P

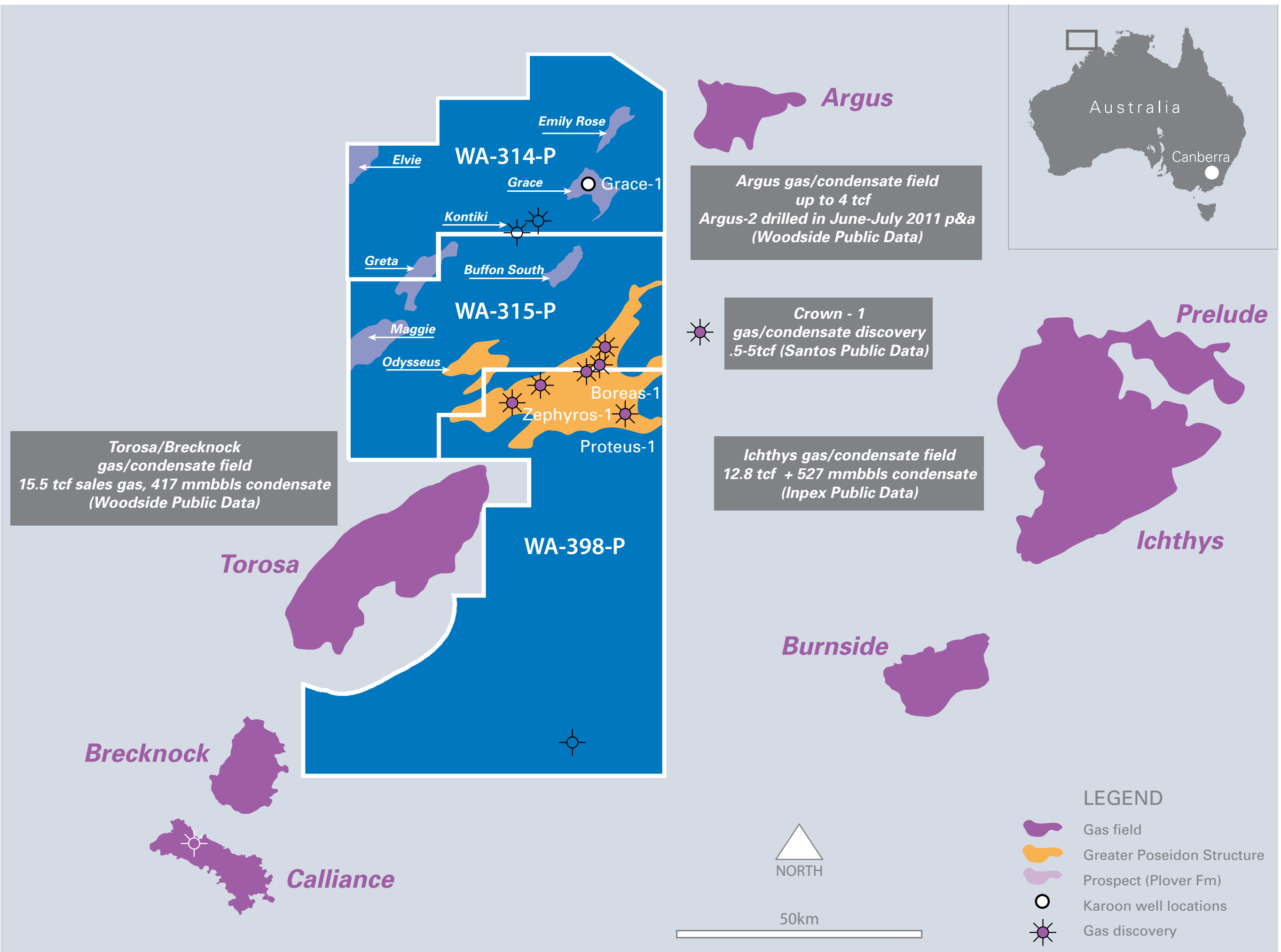
Karoon acquired a 100% interest in exploration permits WA-314-P and WA-315-P in the Browse Basin during 2005. Consistent with the Company's corporate strategy, Karoon signed agreements during 2006 to farm-out a 60% interest to ConocoPhillips to retain a 40% interest. The Karoon/ConocoPhillips joint venture operation ('joint venture operation') added exploration permit WA-398-P during 2007. The permits are located 350 kilometres offshore from the north-western Australian coast and have a combined gross area of 7,828 square kilometres.

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

The second phase Browse Basin exploration drilling campaign commenced during April 2012. The drilling campaign is expected to continue for a period of up to 2 years. The campaign has been designed to more precisely define the size and quality of the contingent gas resource contained in the greater Poseidon structure. At the completion of the second phase Browse campaign, Karoon anticipates the greater Poseidon resource will be better understood and consideration of potential commercialisation options will progress, including more detailed project design and planning.

To date, results have confirmed the continuation of high quality gas reservoirs in the Boreas-1, Zephyros-1 and, subsequent to year end, Proteus-1 well locations.

Following Woodside Petroleum Limited's sale of a 14.7% stake in its Browse project to the Mitsubishi and Mitsui joint venture during early 2012, there were several other significant transactions that continue to highlight value in undeveloped resources in the Browse Basin. During August 2012, Shell announced it would acquire Chevron's 17.5% stake in its Browse project via a reported USD2 billion asset swap deal. BHP also announced during December 2012 the sale of its estimated 11-13% stake in its Browse project to Chinese National Petroleum Corporation ('PetroChina') for a reported USD1.63 billion.



KAROON SEEKS TO APPLY ITS COMMERCIAL AND GEOTECHNICAL SKILLS TO IDENTIFY AND SECURE ENTRY INTO EARLY STAGE, HIGHLY PROSPECTIVE EXPLORATION ACREAGE. KAROON THEN CREATES VALUE THROUGH THE WORK-UP OF THE ACREAGE LOOKING TO LEVERAGE ITS EQUITY INTEREST TO EXPLORE AND APPRAISE WITH THE ULTIMATE GOAL OF COMMERCIALISATION.

Australia (continued)

Browse Basin Permits WA-314-P, WA-315-P and WA-398-P (continued)

Most notable for Karoon was ConocoPhillips' farm-out of a 20% interest in WA-315-P and WA-398-P to PetroChina. This welcomes a new, well capitalised strategic partner into the joint venture operation. Importantly, this transaction increased PetroChina's exposure to the Browse Basin, a basin set to become a new significant source of global LNG supply later this decade.

Drilling

During September 2011, ConocoPhillips contracted the 'Transocean Legend' semi-submersible drilling rig for the second phase Browse campaign. Following the exercise of a well option during April 2013, the contract is for 6 firm wells, with an option for 1 additional well.

The second phase Browse campaign commenced with the spudding of the Boreas-1 exploration well on 5 April 2012. The exploration well is located approximately four kilometres south of Poseidon-1, in WA-315-P, on a large tilted fault block, which is part of the north-east trending structural high of the greater Poseidon structure. The objective was to test the presence, extent and quality of reservoirs within the Boreas fault block. The well was completed during September 2012 to a total depth of 5,210 metres and tested during October 2012.

During drill stem testing, the Boreas-1 well flowed gas to the surface from a 70 metre reservoir section at an equipment constrained stabilised gas flow rate of 30.2 mmscf/d through a 40/64 inch choke at a well head pressure of 3,300 psia. A condensate/gas ratio of 18 barrels per mmscf was also measured at the surface, along with a 16% CO^2 content taken from the gas flow on a volume basis. This condensate/gas ratio was almost double the rate tested at the Kronos-1 exploration well.

Based on an analysis of the well test data, Karoon believes future production wells drilled adjacent to the Boreas-1 location have the potential to flow at commercial rates in excess of 100 mmscf/d.

The second exploration well, Zephyros-1, was drilled in WA-398-P on the flank of a large tilted fault block, approximately 8 kilometres south-west of the Kronos-1 discovery location. The objective of the Zephyros-1 well was to test the extent, presence and quality of plover formation reservoirs within the Zephyros fault block. The well spudded on 12 November 2012 and was drilled to a total depth of 5,372 metres during March 2013. 108 metres of core was cut and recovered to surface, providing a high quality data set for further reservoir characterisation. The Zephyros-1 well penetrated gas bearing Plover formation sands similar to that seen at Kronos-1. Wireline logging established good quality gas bearing sands in the primary target Plover formation and pressure data from the gas column interval indicates the potential for a deep gas-water contact similar to that interpreted at the Kronos-1 discovery.

The joint venture operation decided not to perform a production test due to similarities to the Kronos-1 well result, with the core and wireline data set providing a sufficient data set for ongoing field evaluation work. Numerous reservoir fluid and pressure samples allowed the joint venture operation to further assess the greater Poseidon resource size and gas composition while also providing information for use in estimating well production rates of any future development wells.

The Zephyros-1 discovery was deemed significant because of the lower than expected gas-water contact. This potentially lowers the geological risk around the Odysseus and Ulysses prospects, possibly extending the greater Poseidon resource to the west.

The third exploration well, Proteus-1, spudded on 25 March 2013. This well is located in WA-398-P on a large tilted fault block approximately 14 kilometres south-east of the Poseidon-1 gas discovery location. During May 2013 and again during July 2013, drilling difficulties were encountered at 4,740 metres and 4,937 metres respectively which resulted in side-tracking the well. The well was successfully drilled to a total depth of 5,250 metres on 26 August 2013.

On 30 August 2013 Karoon announced a discovery at Proteus-1. Petrophysical log interpretation, formation pressure gradients and gas samples recovered to surface confirm the presence of moveable condensate bearing gas in multiple good quality Jurassic reservoir intervals. An 87 metre gross interval with high net pay was penetrated. The joint venture operation is conducting a production test with results expected imminently.

No significant safety incidents occurred during the financial year.

Seismic Acquisition

Following the successful completion of the Chrysalids 3D seismic survey in the North Carnarvon Basin WA-482-P exploration permit, Karoon contracted the CGGVeritas vessel the 'Geo Caspian' to conduct the 318 square kilometre Kraken marine 3D seismic data acquisition over the Elvie lead in exploration permit WA-314-P. The Kraken survey was completed on 17 August 2013. Processing and initial interpretation for both surveys is now underway and preliminary results are likely to be received towards the end of calendar year 2013.

Equity Interests

Equity interests of the participants in WA-315-P and WA-398-P are:

Karoon Gas Browse Basin Pty Ltd	40%
ConocoPhillips (Browse Basin) Pty Ltd (Operator)	40%
Chinese National Petroleum Corporation	20%

Equity interests of the participants in WA-314-P are:

Karoon Gas Browse Basin Pty Ltd	90%
ConocoPhillips (Browse Basin) Pty Ltd (Operator)	10%

Australia

North Carnarvon Basin Permit WA-482-P

During September 2012, Karoon entered into a farm-in agreement to acquire 100% of exploration permit WA-482-P in the North Carnarvon Basin. The permit is located 300 kilometres offshore from the north-western Australian Coast and covers an area of 13,630 square kilometres.

Karoon has a right to earn a transfer of 100% of the title from Liberty Petroleum by completing, at its own cost, the work commitment program for the first two years. Karoon has been appointed as the agent of Liberty Petroleum to carry out the exploration work program and Karoon has an option under the farm-in agreement to withdraw at the end of the second permit year or to continue on and drill the third permit year exploration well.

The WA-482-P exploration permit is currently in the first year of a three year primary term. Karoon has largely satisfied the first permit year commitment of licensing and reprocessing existing 7,251 kilometres of 2D seismic data and 4,355 square kilometres of 3D seismic data.

Based on the existing seismic and Karoon's geological studies, the Company believes the exploration permit to be highly prospective for oil as well as gas. Karoon is working to accelerate the exploration work on this permit, including the preparation of environmental referral documents for submission to the relevant regulatory authorities for approval.

Consistent with its corporate strategy, Karoon expects to farm-out part of its 100% equity interest in WA-482-P, prior to committing to any exploration drilling.

Seismic Acquisition

The second permit year commitment requires Karoon to acquire and process a 2,010 square kilometre 3D seismic survey.

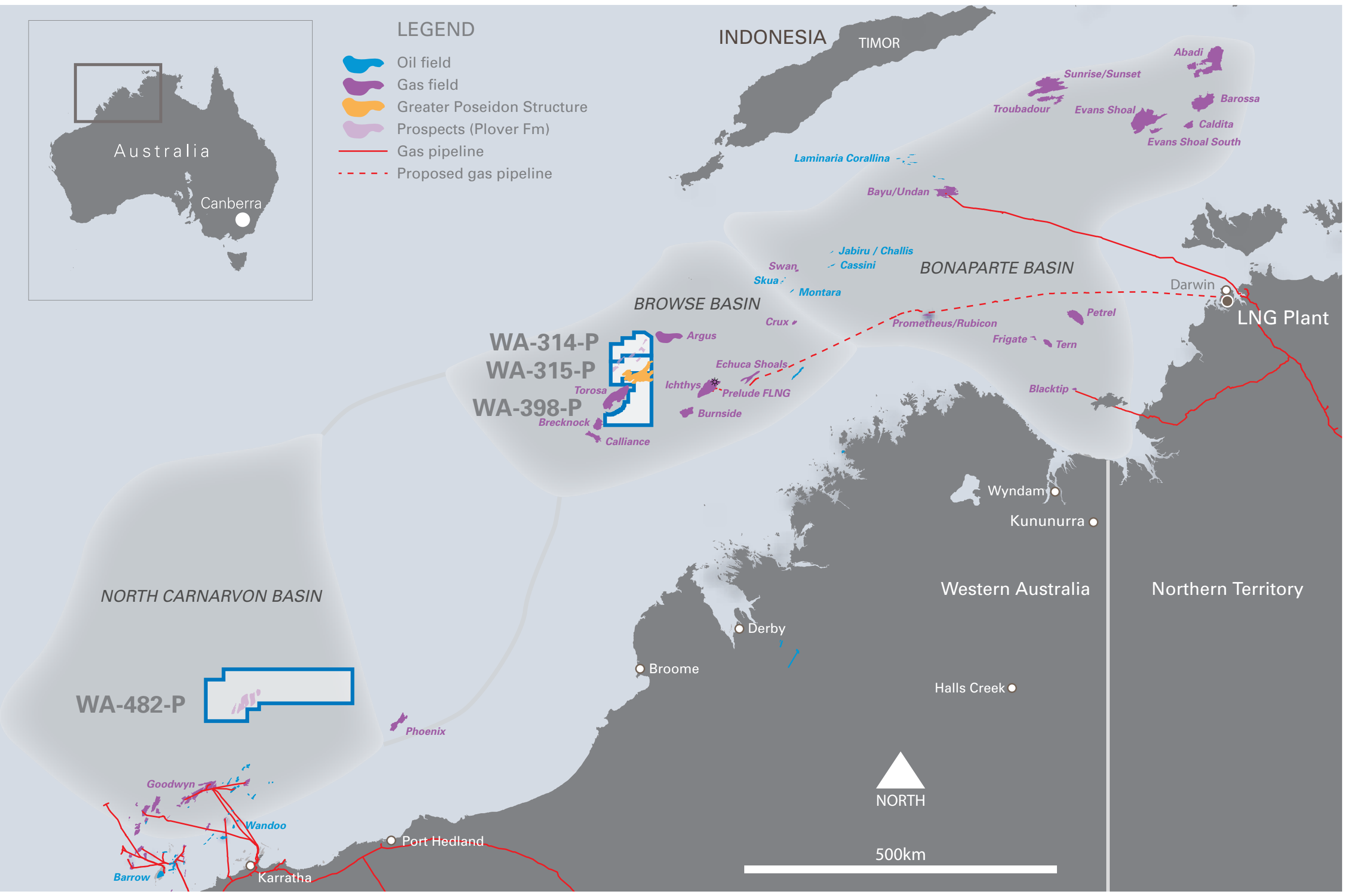
During June 2013, Karoon commenced the acquisition of the Chrysalids marine 3D seismic survey in WA-482-P using the CGGVeritas vessel the 'Geo Caspian'. The survey covered a total area of 2,386 square kilometres and was completed on 31 July 2013, with processing and initial interpretation expected to take a further four months. Preliminary results are likely to be received towards the end of calendar year 2013. This survey aims to delineate leads identified on 2D seismic and will append to other prospects identified on existing 2D and 3D seismic data, which are currently being reprocessed. The seismic evaluation work will satisfy the second permit year commitment and prepare Karoon for a drilling decision required before the third permit year commences.

Equity Interests

Equity interest of the participant in WA-482-P is:

Karoon Gas (FPSO) Pty Ltd	100%*

* Subject to completion of first and second permit year work program commitments and obtaining regulatory approval. Following completion of the second year of the permit term, Karoon has withdrawal rights under the farm-in agreement before the third permit year well commitment is due. If Karoon elects to acquire the permit, such assignment will be conditional on regulatory approval. Liberty Petroleum is entitled to certain milestone cash bonuses and a royalty in the event of production.



Brazil

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

During March 2008, Karoon was awarded 100% participation in five offshore exploration blocks in the Santos Basin, located approximately 112 kilometres off the coast of the State of Santa Catarina, Brazil. The blocks, S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 (the 'Blocks') cover a total of 865 square kilometres, with an average water depth of approximately 400 metres.

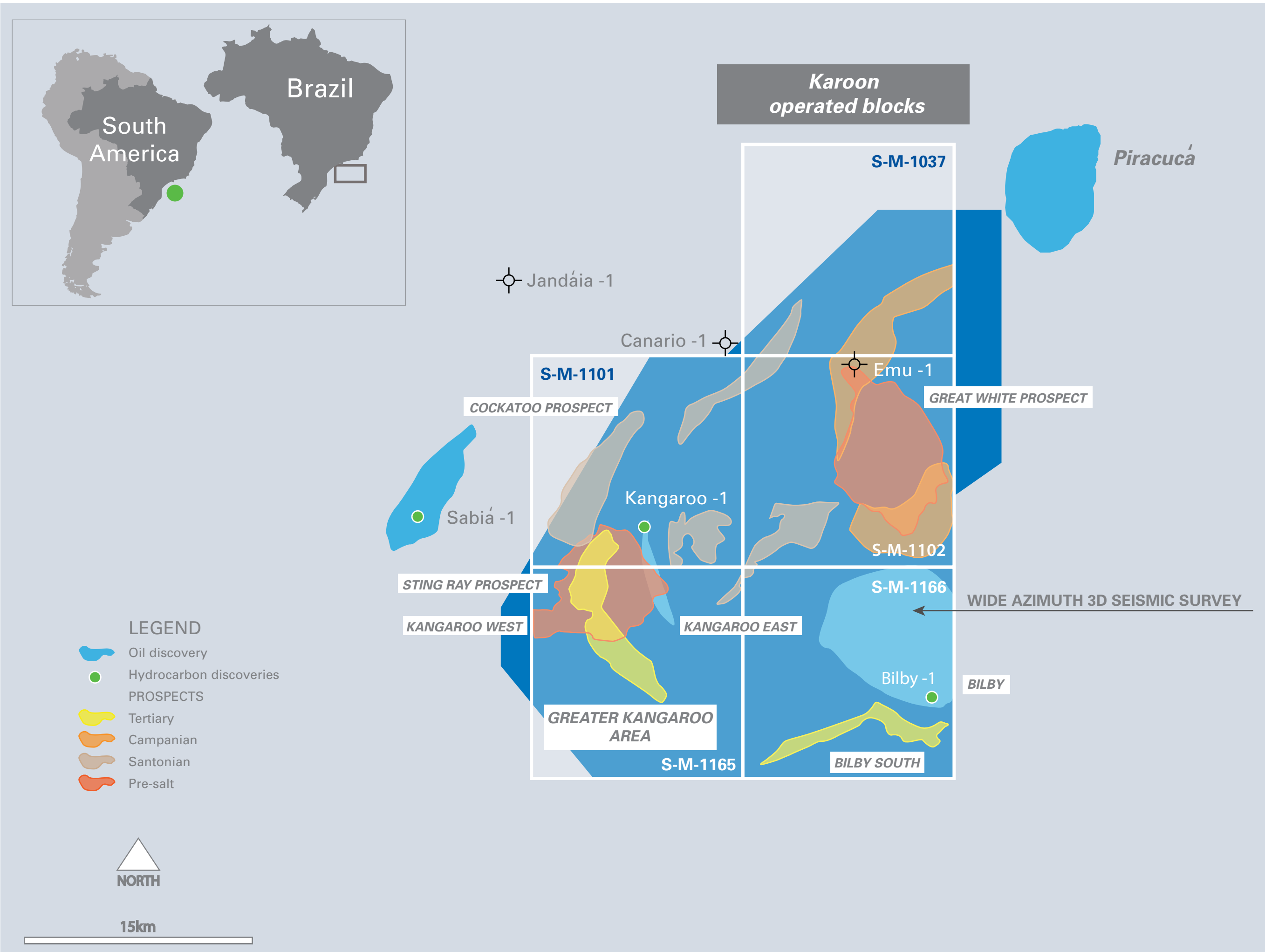
During September 2012, Karoon entered into farm-out agreements with Pacific Rubiales for the farm-out of a 35% interest in the Blocks. In consideration for acquiring its interest, Pacific Rubiales paid USD40 million in cash and carried USD70 million in well costs for each of the 3 wells (Kangaroo-1, Emu-1 and Bilby-1) in the Santos Basin drilling campaign, for a total of USD210 million in well carries. After meeting the first USD70 million in costs for each of the three wells, Pacific Rubiales funds 35% of all well costs thereafter.

Pacific Rubiales 35% working interest in the Blocks is subject to the completion of farm-in commitments and regulatory approval of the Agencia Nacional do Petróleo ('ANP').

Consistent with its corporate strategy, Karoon utilised its geotechnical capabilities to create value through the work-up of the Blocks (including acquisition of the first ever wide azimuth 3D seismic survey in Brazil) prior to exploration drilling. Karoon successfully managed its equity interest to largely fund the exploration campaign drilling costs, while retaining a 65% equity interest in the Blocks.

Drilling

During August 2011, Karoon contracted the 'Blackford Dolphin' semi-submersible drilling rig for a three well exploration drilling campaign in the Santos Basin to satisfy second term minimum work commitments.



The successful Santos Basin exploration campaign was a significant milestone for Karoon. This was Karoon's first operated offshore drilling campaign and thanks to exceptional local operational management, the campaign was completed on budget, on time and without significant safety incidents or operating issues.

Kangaroo-1

The first well in the three well exploration drilling campaign, Kangaroo-1, spudded on 28 December 2012. On 25 January 2013, Karoon announced the discovery of light oil in the Eocene and Maastrichtian intervals, two of the Northern Santos and Campos basin's main oil producing intervals.

Kangaroo-1 was drilled to a total depth of 3,049 metres, intersecting an oil column in the Eocene reservoir section at a depth of 1,947 metres, approximately 600 metres down-dip from the trap crest. The Kangaroo-1 discovery was confirmed by the recovery of 40 degree gravity API oil samples, sidewall cores and the acquisition of a full suite of wireline petrophysical data.

Recent laboratory analysis of core and reservoir fluid data, and reinterpretation of well data, indicates that the oil-water contact now extends into the Maastrichtian aged rocks resulting in a larger than first estimated gross oil bearing column of 76 metres. There is currently a potential 650 metre gross column to the crest of the trap. Due to the larger than first estimated oil column, better than previously estimated permeability and an increased net-to-gross ratio, Karoon's contingent resource estimates for the Kangaroo discovery were upgraded in line with the table below.

Contingent Resource Category	Revised Contingent Resource estimate (mmbbls of oil)*
1C	11
2C	135
3C	487

* Contingent resource assessments are estimated in accordance with SPE-PRMS standards.

Further drilling during calendar year 2014 is expected to provide greater certainty around the size of the contingent resource.

The Kangaroo prospect straddles the S-M-1101 and S-M-1165 boundaries and the drilling of Kangaroo-1 satisfies the minimum work commitments for both blocks.

Emu-1

The second well in the exploration campaign was located on the Emu prospect that spans S-M-1102 and S-M-1037. Emu-1 was drilled during February and March 2013 to a total depth of 4,365 metres, satisfying work commitments for both blocks.

The well encountered good quality reservoir intervals, some with oil and gas shows in the Campanian sandstones between 3,296 metres and 3,358 metres. Wireline data, however, showed the reservoirs were mostly water bearing. The oil shows suggest there is up-dip potential at Emu and this has substantially upgraded the up-dip potential at the nearby Echidna prospect.

Bilby-1

The third well in the exploration campaign, Bilby-1, located in block S-M-1166 was spudded during April 2013. On 6 May 2013, Karoon announced its second oil discovery from the three well exploration campaign.

Bilby-1 reached a total depth of 4,416 metres and intersected an oil column in the Eocene and Maastrichtian reservoir sections. The Bilby-1 oil discovery was confirmed by the recovery of 28 degree gravity API oil samples, sidewall cores and the acquisition of a full suite of wireline petrophysical data. A gross oil column of 560 metres has been calculated from pressure data, with a proven 320 metre column of oil measured between oil sampling points. 70 metres of net reservoir sand was measured within the 560 metre gross oil column.

Below the oil, additional good quality reservoir sands were intersected, which are interpreted to rise above the oil-water contact at the crest of the structure, as the well intersected the reservoir 150 metres down-dip from the trap crest.

Primary well data analysis remains outstanding and further evaluation work is ongoing.

The post-salt prospects impacted positively by the first drilling campaign are Kangaroo West, Echidna and Bilby South. Other post-salt prospects within the Blocks include Platypus and Cockatoo. The pre-salt prospects, Stingray and Great White, still require an additional long offset seismic survey and remain longer dated targets.

Forward Program

The discoveries at Kangaroo-1 and Bilby-1, plus the oil shows in Emu-1, allow three separate areas to be retained around each well prior to appraisal and allow further exploration to be conducted.

Karoon is working toward an appraisal and exploration drilling campaign consisting of a minimum of 2 firm wells with a number of contingent well options. The new drilling campaign will be aimed at further defining and adding to existing resources in the lead up to any potential commercialisation decision.

Karoon has initiated contractor negotiations, long lead item procurement, pre-drilling location assessment and regulatory approval application documentation.

Following the successful exploration campaign and subject to follow-on appraisal and exploration, Karoon will be in a position to consider development scenarios, either on a standalone basis or as part of a larger integrated production hub.

Brazil (continued)

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

Equity Interests

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

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

* Pacific Rubiales' 35% interest remains subject to all ANP regulatory approvals being received and the completion of applicable farm-in obligations.

Santos Basin Block S-M-1352

Karoon entered into an agreement with Petrobras to acquire a 20% interest in Block S-M-1352 during August 2010. Petrobras is currently in discussions with the ANP regarding the ongoing status of Block S-M-1352. Karoon's resulting 20% interest is subject to the outcome of those discussions. Karoon is not a party to the ongoing discussions between Petrobras and the ANP.

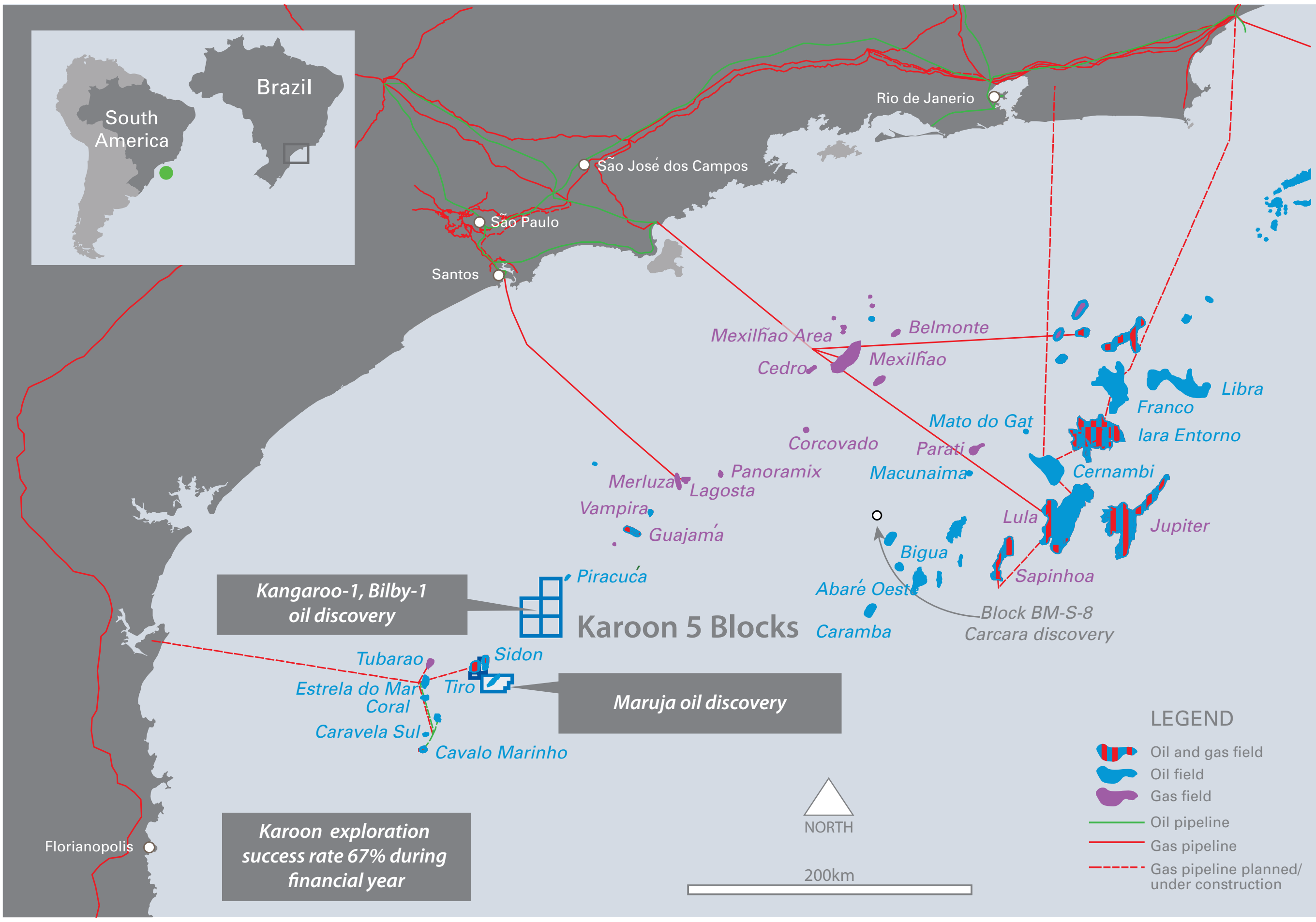
During the financial year, Karoon continued its assessment of the results from the Maruja-1 and Maruja-2 wells. The operator, Petrobras, is currently continuing its technical and commercial assessment of the Maruja discovery while working with the ANP on the future of the field.

Equity Interests

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

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

* Karoon's 20% interest is subject to ongoing discussions between Petrobras and the ANP.



Peru

Tumbes Basin Block Z-38

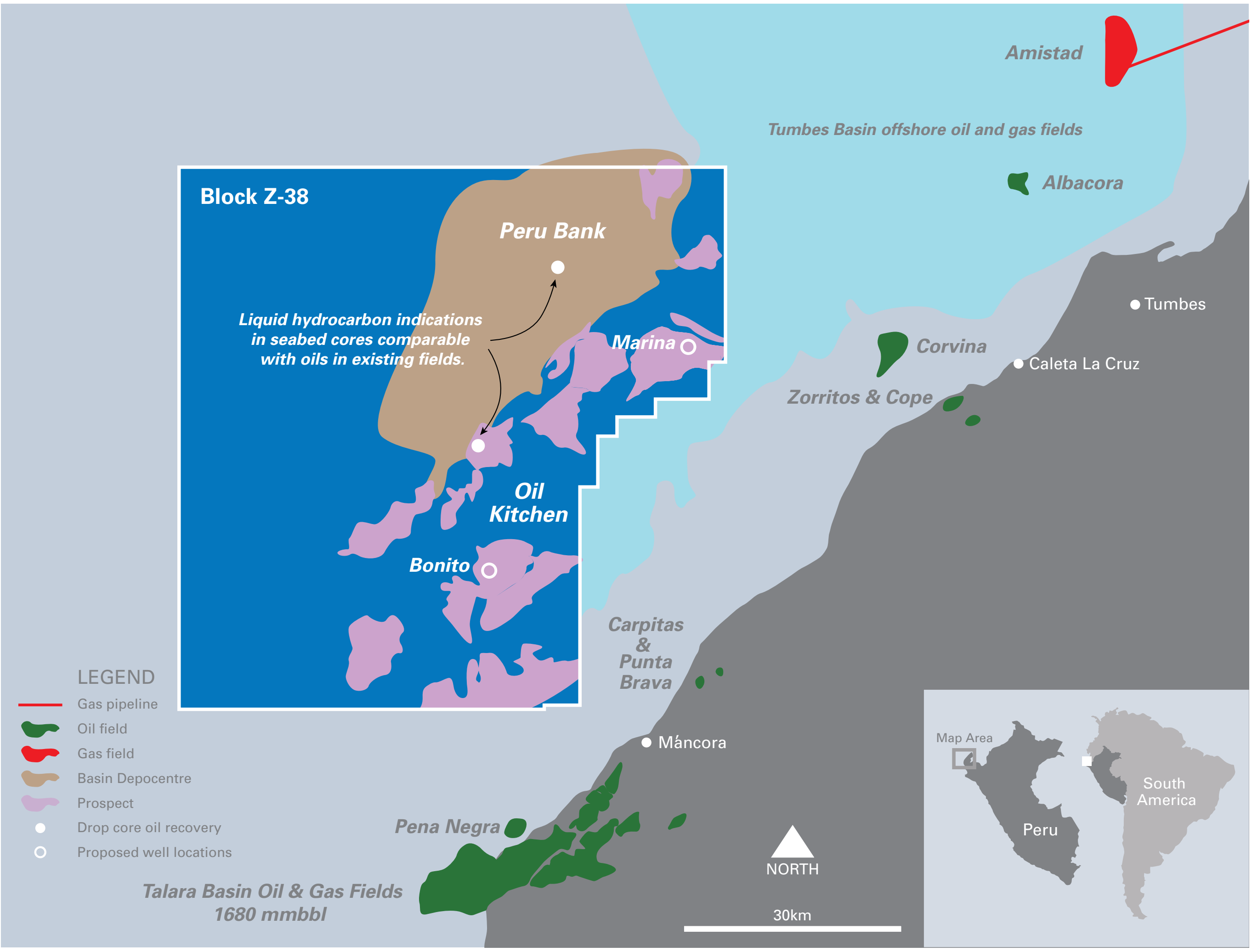
During January 2008, Karoon signed a farm-in agreement to acquire a 20% participating interest in Block Z-38, a 4,750 square kilometre offshore block, located in the Tumbes Basin, 10 kilometres off the north-west coast of Peru. Karoon was approved as Operator during October 2009 and has subsequently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

The Tumbes Basin is located north of and adjacent to the Talara Basin, a prolific oil and gas basin discovered in the late 1800's, which has produced over 1.6 billion barrels of oil to date. Historically, there has been very little exploration in the offshore portion of the Talara or Tumbes Basins, in particular in water depths over 120 metres. Karoon's Block Z-38 lies adjacent to BPZ Energy's Z-1 block where BPZ Energy farmed-out a 49% interest to Pacific Rubiales for USD362 million during April 2012.

Seismic Interpretation

Karoon acquired 1,500 square kilometres of 3D seismic data over Block Z-38 during calendar year 2010 and planning is underway for a minimum 2 well exploration drilling campaign, to satisfy the third and fourth period work commitments and farm-in obligations.

Results from interpretation of the previously acquired 3D seismic have outlined the presence of 16 oil and gas prospects and leads. Combining the 3D seismic work with drop core results and offset well information from surrounding fields has resulted in the development of a geological model that is supportive of a range of potentially large oil and gas prospects. The model suggests all the required petroleum system elements are in place. The 16 oil and gas prospects and leads are estimated to have a potential net unrisked mean prospective resource of 1.8 billion barrels of oil.



Peru (continued)

Tumbes Basin Block Z-38 (continued)

Farm-out

Consistent with its corporate strategy, the farm-out process for Block Z-38 is underway and is expected to be completed ahead of the Tumbes Basin exploration drilling campaign. Karoon intends to farm-out a 30-35% equity interest. To date, a number of high quality international oil and gas companies have been involved in the farm-out process, consisting of major and national oil companies as well as independent oil companies.

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

Forward Program

On 19 June 2013, Karoon achieved a major milestone in the proposed Tumbes Basin drilling campaign. Regulatory approval for the Environmental Impact Assessment study for up to 10 exploration wells and up to 10 appraisal wells was received. Long lead items have now been delivered and tendering for drilling rigs is expected shortly.

Interpretation of 3D seismic data indicates a wide variety of play types in Block Z-38. Several prospects have now been mapped which contain multiple target zones. Drilling is expected to commence midway through calendar year 2014, with 2 firm exploration commitment wells.

Karoon will be utilising its existing South American drilling team, who have already commenced drilling preparations.

The prospects vary significantly in size, with the 3 largest each having a potential gross unrisked mean prospective resource in excess of 350 mmbbls of oil plus significant volumes of gas. The prospect evaluation is now complete with the Marina prospect in the north and Bonito prospect in the south being prioritised with a pre-drill potential gross unrisked mean prospective resource of 877 mmbbls of oil.

The Marina prospect is situated in the north-east part of Block Z-38 and has a potential gross unrisked mean prospective resource of 392 mmbbls of oil in the Miocene Tumbes formation interval and 124 mmbbls of oil potential gross unrisked mean prospective resource in the upper and lower Zorritos formation. These targets can likely be drilled with a 4,200 metre well.

The Bonito prospect has a Zorritos formation target in a faulted four-way dip closed structure in the south-west part of Block Z-38. The Bonito prospect has a potential gross unrisked mean prospective resource of 361 mmbbls of oil. A 3,550 metre exploration well is planned for the Bonito prospect.

Equity Interests

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

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

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

Maranon Basin Block 144

During April 2009, Karoon was awarded Block 144, located within the onshore Maranon Basin, on the eastern side of the Andes mountain range. During the financial year, Karoon continued its geotechnical, social, Environmental Impact Assessment study works and planning for a seismic acquisition program in the Block. Currently, Block 144 is in force majeure and exploration work will resume once this is lifted.

Block 144 is still in the early stages of Karoon's asset lifecycle, where Karoon is making a relatively small capital contribution for the pre-drill geophysical work prior to any future farm-out and subsequent exploration drilling.

Geophysical interpretation using reprocessed 2D seismic data has identified the presence of multiple four-way dip closed structures in the Block. Several leads and prospects have been recognised, with potential gross unrisked mean prospective resources ranging in size from 50 mmbbls to 120 mmbbls of oil.

Karoon is in the second term work commitment period where it is required to acquire 300 kilometres of 2D seismic and conduct geological studies. Karoon is continuing work on the Environmental Impact Assessment study application for the acquisition of the seismic. The areas of interest include the southern area (the Patria prospect), the north-east (the Ungumayo prospect) and the north-west (Limonyacu area).

Block 144 is crossed by a navigable river and an underutilised oil export pipeline from the Maranon Basin to the Pacific Ocean, which should reduce the amount of capital expenditure required for any future potential development on success of any exploration drilling. The Block is located south of Block 64 where Occidental Petroleum Corporation and Talisman discovered light oil (36 degree gravity API) at the Situche Central well showing the potential for good quality reservoirs.

Equity Interest

Equity interest of the participant in Block 144 is:

KEI (Peru 112) Pty Ltd, Sucursal del Peru	100%

Strategy, Strengths and Specific Risks

Strategy

- Focus on underexplored early stage exploration acreage located within proven basins with working petroleum systems.
- Target large scale opportunities with the potential to deliver world class assets.
- Acquire significant equity interests in exploration acreage through farm-in arrangements, bid rounds or strategic asset swaps.
- Manage significant equity interests to fund exploration and appraisal campaigns.
- Leverage-off extensive technical and petroleum industry expertise.
- Use of leading edge exploration and analysis technology.
- Develop additional strategic value adding alliances with leading oil and gas companies.
- Continue to retain and recruit highly qualified and experienced personnel.

Strengths

- Extensive petroleum industry and management expertise.
- Significant drilling opportunities in proven and prospective petroleum systems.
- Diversified portfolio of drilling prospects.
- Proven track record of managing equity interests to fund exploration and appraisal work programs.
- Application of state-of-the-art seismic techniques.
- Ability to create and develop strategic partnerships with key players in the petroleum industry.

Specific Risks

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

For the Financial Year Ended 30 June 2013

Philosophy

Karoon is committed to the equitable and sustainable development of the communities in the regions where it operates. It achieves this through the engagement of the local people, support of worthwhile social and environmental initiatives, and maintenance of the highest standards of health and safety for its employees and contractors. Karoon recognises its role in supporting communities and takes great pride in creating opportunities to develop stronger educational, health and economic practices for the benefit of current and future generations.

Karoon remains dedicated to continued investment in its social and environmental responsibilities alongside its exploration campaigns. Karoon is particularly proud of the significant contribution it has made in Peru, the cornerstone of its social and environmental program portfolio. Karoon identified Peru as the operational location where investment in social and environmental programs presented the best chance to make a significant and positive contribution.

During the financial year, Karoon expanded its network and programs to reach more people and provide more opportunities for people living and working in the regions in which it operates.

Health and Safety of Workforce

The nature of the oil and gas industry presents significant health and safety challenges. The health and safety of Karoon's workforce is paramount and necessary for the long-term success and sustainability of its business.

Karoon is committed to high standards of operational best practice to ensure the health and safety of its workforce through continued implementation of the Karoon Health, Safety and Environment Policy and Management System. Employee training is central to achieving this goal. Employees and contractors are required to fulfil their requisite training programs.

During the financial year, a total of 69 individual safety drills were conducted across all of Karoon's operating locations and operational levels. Karoon used an external consultant to train staff and manage 3 crisis management seminars including: process education, individual task training, crisis management drills and feedback exercises.

Health, Safety and Environmental Record

During the financial year, Karoon operated a 3 well offshore exploration drilling campaign in Brazil. While operations were subject to the standard health, safety and environment ('HSE') requirements, in accordance with the Karoon HSE Management System, there were several additional project specific HSE plans and procedures developed to further prioritise the health and safety of the Karoon workforce.

The implementation of these has ensured that incidents have been kept to a minimum with zero fatalities and a Total Recordable Incident Rate of 0.93 per 200,000 man hours.

Each incident was recorded and mitigating action, such as specific training, was undertaken to prevent future occurrences. Karoon will strive to achieve its continuing objective of zero incidents in the future by improving and reinforcing the HSE Management System, in conjunction with ongoing training where appropriate.

No environmental incidents were recorded throughout the Brazilian drilling campaign, which is an excellent result and a credit to all those involved in the campaign.

In respect to Karoon's non-operated acreage strategy, specifically the Browse Basin, Karoon has taken the position to be an active participant in the joint venture operation activities as opposed to passive involvement. This gives Karoon a better understanding of the value, risks and technical outcomes associated with each project, providing greater knowledge, ability and technical base to proactively manage Karoon's interests should conflicts arise or key decisions be required for its joint venture operations.

Respect for Communities

Karoon is committed to its social and environmental responsibilities to local communities in the regions where it operates. Karoon is very proud of its track record and level of commitment.

Karoon contributes donations and sponsorships to charitable and local community organisations.

As stated previously, Peru was identified as the cornerstone for Karoon's social and environmental program portfolio. Karoon's programs focused on empowering both individuals and whole communities by creating opportunities for improved health care, education, training and business.

In recognition of Karoon's achievements in Peru, it received a Private Enterprise Recognition Award for Educational Investment Excellence from the Ministry of Education, Tumbes, Peru.

Karoon has facilitated frequent and transparent dialogue with local communities in both of its operated Blocks in Peru through a well-planned communications strategy. This has included direct participation with communities and local authorities through a Karoon initiative, the Citizen Participation Plan ('CPP'), allowing Karoon to outline its planned exploration activities, while at the same time identifying the best opportunities to support those communities.

As a result, Karoon's social and environmental programs have been developed alongside its exploration programs.

An example of the success of Karoon's CPP is the assistance provided to the local fisherman of the Tumbes coast. From 2010 to 2012, Karoon helped over 2,000 Artisanal fishermen obtain fishing licenses, along with improving their safety through training and the provision of radar identification kits for 658 local fishing vessels. Facilitating this licensing and safety program provided opportunities, including government benefits that would otherwise have been unavailable to the fishermen or their families.

Karoon's healthcare initiatives in Block 144 included establishing basic first aid availability and training in 15 communities, the provision of furnishing and nutritional support to an aged care facility which supports local townships and supplying speech therapy equipment and materials to an Association for the Disabled in another township.

Education programs provided materials for over 700 students and essential computer training for teachers at 6 primary and secondary schools within the Block 144 area. Land titling programs for 6 communities in the area received funding to formally define the geographic boundaries for 6 communities, enabling official registration and qualifying them to be eligible for governmental assistance and employment programs.

While the initial projects were designed to have immediate impact, Karoon is shifting its focus to longer-term projects with enduring benefits to local communities. These long-term projects are targeted at university scholarship and micro-business programs.
Karoon has developed a merit based University Scholarship Program designed to assist up to 16 students from low socio-economic backgrounds. Nine scholarships have already been awarded in the Tumbes region.

Karoon also established a program training women in local handicraft micro-businesses in the Tumbes region. Karoon identified the need to create a sustainable second income for families with a low socio-economic background and has provided assistance for the training of 200 women. The aim is to empower the women to operate independently, resulting in a sustainable and strong business initiative designed to have an enduring and positive impact on the local community. Once these micro-businesses are operating sustainably, Karoon will assess the need for ongoing involvement, and provide further assistance only where necessary.

Environmental Stewardship

Karoon demonstrated continued commitment to environmental sustainability through the development of a major environmental project during the financial year. The project was aimed at protecting the mangrove ecosystem, increasing the awareness and protection of the Magnificent Frigatebird (Fregatta magnificens) or Man of War in the mangroves of the Bird Islands of Puerto Pizarro, Peru and transferring knowledge to the local population to improve the quality of tourism services in the Tumbes Basin. The mangroves are in close proximity to Karoon's Block Z-38.

This has had a positive impact on the birds and their mangrove habitat, as well as tourism in the area. The investment includes the installation of video camera equipment with webcasting, tour guide training courses, improvements to the Tourist Interpretation Centre in Puerto Pizarro and the provision of environmental education lectures in Puerto Pizarro and at schools in the Tumbes region. Students from Tumbes University interested in researching the Magnificent Frigatebird can also apply for support through Karoon´s mentoring program.

Karoon's goal is to increase the number of visitors, especially bird watchers, to the region to generate greater employment in tourism and diversifying from traditional employment in the region. Thus assisting in the development of the town of Puerto Pizarro while protecting important local wildlife and their habitat.

Looking Forward

As Karoon prepares for another exciting year, it is looking forward to creating more opportunities for people and communities living in the regions where it operates and that can provide the greatest social contribution, to live and work in a healthy, safe and prosperous environment.

Specifically for Peru, the current CPP will remain a continued and strengthening focus ahead of the planned exploration drilling campaign. As part of the communications strategy, Karoon will be incorporating the use of educational workshops, site tours for local representatives, establishing a Community Relations Office, publishing a quarterly newsletter and sponsoring the Peru Petro SA (the Peruvian Petroleum Agency) to visit communities and conduct educational workshops regarding drilling exploration and production. Karoon will continue to invest beyond its mandatory requirement.

In addition to the community consultation, it is expected the Peru drilling campaign will provide employment opportunities for up to 120 local people through the logistics company Cosmos. This employment will be provided through an extensive community consultation program initiated by Karoon, including the establishment of the Community Liaison Office in Zorritos.

Karoon will also continue to educate its workforce to ensure its employees and contractors are aware and respectful of cultures.

DIRECTORS' REPORT

The Board of Directors submits its Directors' Report on Karoon Gas Australia Ltd and its subsidiaries (the 'Group') for the financial year ended 30 June 2013 (the 'financial year').

Board of Directors

Under the Company's Constitution, the minimum number of Directors that may comprise the Board of Directors is currently three and the maximum number of Directors is 10. Directors are elected and re-elected at annual general meetings of the Company.

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

Mr Robert M. Hosking, 66

Executive Chairman

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 17 years and was the founding director/shareholder of Nexus Energy Limited.

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

Mr Mark A. Smith, 57
Dip. App. Geol, Bsc. (Geology)

Executive Director and Exploration Director

Appointed 20 November 2003.

Mark has more than 30 years experience as a geologist and exploration manager in petroleum exploration and development in Australia, South East Asia and North America. The bulk of this experience was gained while working with BHP Petroleum. Mark has been directly involved with 11 economic oil and gas discoveries.

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

Mr Geoff Atkins, 65
FIE Aust. RMIT Dip. Civ Eng.

Independent Non-Executive Director

Appointed 22 February 2005.

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

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

Chairman of the Nomination Committee.
Chairman of the Remuneration Committee.
Member of the Audit Committee.

Mr Clark Davey, 57
B. Commerce, FTIA, MAICD

Independent Non-Executive Director

Appointed 1 October 2010.

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

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

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

Mr Stephen Power, 53
B. Juris LLB

Non-Executive Director

Appointed 28 June 2005.

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

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

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

Mr Jose Coutinho Barbosa, 73
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 Petróbras 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.

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

Mr Scott Hosking
B. Commerce

Company Secretary

Appointed on 10 March 2006.

Scott has a significant international financial and commercial management background and has been involved with several commercial ventures over the past 16 years with experience in international trade, finance and corporate management. He has previously held support positions to Company Secretaries of Australian listed companies, worked as part of the finance and management teams of private international resource and industrial enterprises and was involved in the listing of Karoon Gas Australia Ltd.

Meetings

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

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	A	B	A	B	A	B	A	B
Mr Robert Hosking	8	7	-	-	-	-	-	-
Mr Mark Smith	8	8	-	-	-	-	-	-
Mr Geoff Atkins	8	8	8	8	2	2	-	-
Mr Clark Davey	8	8	8	8	2	2	-	-
Mr Stephen Power	8	8	8	8	2	2	-	-
Mr Jose Coutinho Barbosa	8	8	-	-	-	-	-	-

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

Directors' Interests in the Company's Shares and Options

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

Director	Ordinary Shares, Fully Paid	Unlisted Other Share Options	Unlisted Performance Rights
Mr Robert Hosking	12,374,462	2,325,000	-
Mr Mark Smith	2,892,037	2,325,000	-
Mr Geoff Atkins	696,784	500,000	-
Mr Clark Davey	23,144	500,000	-
Mr Stephen Power	502,142	500,000	-
Mr Jose Coutinho Barbosa	-	500,000	-

Principal Activities

The principal activity of the Company 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 income tax expense of $10,930,403 (2012: $3,287,382). The loss for the financial year included employee benefits expense (net), which recognised share-based payments expense of $5,117,620. The loss for the financial year also included exploration and evaluation expenditure expensed, in accordance with the Group's accounting policy, of $1,035,122 from reviewing new exploration ventures (predominantly in Australia and Brazil) and Brazilian, Peruvian and Australian farm-out costs of $905,631.

Partially offsetting the loss for the financial year was interest income of $7,782,174 earned on interest bearing cash assets and security deposits and net foreign currency gains of $3,024,994. The net foreign currency gains were almost entirely attributable to the appreciation in the United States dollar against the Australian dollar (from AUD1:USD1.0191 as at 30 June 2012 to AUD1:USD0.9275 as at 30 June 2013) on cash assets and security deposits held in United States dollars. A reduction of interest bearing cash and cash equivalents and security deposits compared to the previous financial year, together with lower interest rates overall resulted in reduced interest income earned during the financial year.

Financial Position

At the end of June 2013, the Group had a cash and cash equivalents balance of $204,519,641 (2012: $227,802,316) and no debt. Included in this balance were short-term bank deposits of $93,297,136 (2012: $129,525,115) and the Group's share of joint venture operation cash balances of $2,648,027 (2012: $4,455,817).

The Group's working capital, being current assets less current liabilities, decreased from $276,593,251 as at 30 June 2012 to $181,192,483 as at 30 June 2013 predominantly as a result of expenditure on exploration and evaluation assets.

Financial Position (continued)

During the financial year, total assets increased from $612,081,847 to $945,943,931, total liabilities increased from $11,481,926 to $346,103,034 and total equity decreased by $759,024 to $599,840,897. The major changes in the consolidated statement of financial position were largely due to the following:

- exploration and evaluation expenditure;
- long lead inventory items purchased for Brazil and Peru;
- the effect of the conditional assignment of the 35% interest in each of the Group's Santos Basin exploration Blocks (refer Notes 14, 20 and 21 of the consolidated financial statements);
- partially offset by the positive movement in the foreign currency translation reserve as a result of the appreciation of both the Brazilian REAL and the United States dollar against the Australian dollar from AUD1: REAL2.0644 and AUD1:USD1.0191 as at 30 June 2012 to AUD1:REAL2.0392 and AUD1:USD0.9275 as at 30 June 2013, respectively.

Exploration and evaluation expenditure of $359,051,091 (2012: $44,659,227) was incurred during the financial year, with major expenditure in the following operating segments:

- Australia, the Group completed a total of two exploration wells in the Browse Basin, Boreas-1 and Zephyros-1, and at the end of June 2013 was drilling the Proteus-1 exploration well, along with 3D seismic interpretation, at a total cost of $121,853,680;
- Brazil, the Group completed a total of three exploration wells in the Santos Basin Brazil, Kangaroo-1, Emu-1 and Bilby-1, along with 3D seismic interpretation, at a total cost of $232,070,729; and
- Peru, the Group undertook preparatory work and planning for the anticipated two well exploration drilling campaign, including environmental impact assessment studies, along with 3D seismic interpretation, at a total cost of $5,126,682.

The contributed equity of the Company was unchanged during the financial year at $664,894,335.

The market capitalisation of the Company was $1.127 billion as at 30 June 2013 (30 June 2012: $892.3 million), based on the financial year end closing market price of $5.09 per fully paid ordinary share and 221,420,769 fully paid ordinary shares on issue.

Review of Operations

Information on the operations of the Group is set out in the 2012-2013 Operations on pages 6 to 15 of this Annual Report.

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

The 2012-2013 Operations sets out information on the business strategies and prospects for future financial years, and refers to likely developments in operations and the expected results of those operations in future financial years. Information in the 2012-2013 Operations is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Group. Details that could give rise to likely material detriment to Karoon, for example, information that is confidential, commercially sensitive or could give a third party a commercial advantage has not been included. Other than the matters included in this Directors' Report or elsewhere in the Annual Report, information about other likely developments in the Group's operations and the expected results of those operations have not been included.

Dividends

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

Options and Performance Rights

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

Type of Option	Grant Date	Date Of Expiry	Exercise Price Per Option	Number of Options
Other share options	23 November 2009	12 November 2013	$14.07	1,000,000
ESOP options	23 November 2009	12 November 2013	$14.07	530,000
ESOP options	9 December 2009	18 November 2013	$11.50	1,500,000
ESOP options	3 September 2010	31 October 2014	$9.77	705,000
ESOP options	12 January 2011	31 October 2014	$9.77	300,000
Other share options	18 November 2010	18 November 2014	$9.48	500,000
ESOP options	18 November 2010	18 November 2014	$9.77	100,000
ESOP options	10 November 2011	31 October 2015	$7.30	750,000
ESOP options	10 October 2011	31 October 2015	$7.30	1,310,000
Other share options	10 November 2011	1 May 2014	$8.92	850,000
Other share options	10 November 2011	1 May 2015	$9.95	1,200,000
Other share options	10 November 2011	1 May 2016	$10.98	2,600,000
ESOP options	30 November 2012	29 November 2016	$6.85	1,150,364
ESOP options	14 January 2013	29 November 2016	$6.85	74,334
Other share options	30 November 2012	29 November 2016	$6.85	200,000
				12,769,698

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

Type	Grant Date	Date of Expiry	Exercise Price Per Performance Right	Number of Performance Rights
Performance rights	30 November 2012	29 November 2015	$ -	242,775
Performance rights	14 January 2013	29 November 2015	$ -	13,593
				256,368

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

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

Information relating to the Company's PRP, ESOP and other share options, including details of performance rights and options granted, exercised, cancelled, forfeited and expired during the financial year and performance rights and options outstanding at the end of the financial year, is set out in Note 30 of the consolidated financial statements.

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

Indemnification of Directors and Officers

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

As approved by shareholders at the 2009 Annual General Meeting, the Company will continue to pay Director insurance premiums for a period of ten years following termination of their directorships of the Company and will provide each Director with access, upon ceasing for any reason to be a Director of the Company and for a period of ten years following cessation, to any Company records which are either prepared or provided to the Director during the time period they were a Director of the Company.

Proceedings on Behalf of the Company

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

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

Corporate Governance

In recognising the need for the highest standards of corporate governance and accountability, the Directors support the ASX Corporate Governance Council Principles and Recommendations. The Company's Statement of Corporate Governance is set out on pages 95 to 106 of this Annual Report.

Environmental Regulation

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

- *Environment Protection and Biodiversity Conservation Act 1999 (Cth);*
- *Environmental Protection (Sea Dumping) Act 1981 (Cth);*
- *Offshore Petroleum and Greenhouse Gas Storage Act 2006 (Cth);*
- *Petroleum (Submerged Lands) Act 1982 (WA);*
- *Protection of the Sea (Prevention of Pollution from Ships) Act 1983 (Cth);*
- *The Aboriginal and Torres Strait Islander Heritage and Protection Act 1994 (Cth);*
- *The Brazilian Federal Constitution (Brazil);*
- *The Brazilian Petroleum Law (Law No. 9,478, of August 6, 1997) (Brazil);*
- *The Brazilian Civil Code (Law No. 10,406, of January 19, 2002) (Brazil);*
- *The Brazilian Corporations Law (Law No. 6,404, of December 15, 1976) (Brazil);*
- *The Brazilian Bid Law (Law No. 8,666, of June 21, 1993) (Brazil);*
- *The Brazilian Federal Environmental Law (Law No. 6,938, of August 31, 1981) (Brazil);*
- *The Brazilian Law of Environmental Practise (Law No. 9,605, of February 12, 1998) (Brazil);*
- *National – Ministry of Energy and Mines – Supreme Decree No. 042-2005-EM – Unique Comprised Text of the Organic Law of Hydrocarbons (which text of the law was approved by Law No. 26221) (Peru);*
- *National – Congress of the Republic – Law No. 28611 – General Environmental Law (Peru);*
- *National – Ministry of Energy and Mines – Supreme Decree No. 015-2006-EM – Regulations for Environmental Protection in Hydrocarbon Activities (Peru);*
- *National – Ministry of Energy and Mines – Supreme Decree No. 043-2007-EM – Safety Rules for Hydrocarbon Activities (Peru);*
- *National – Ministry of Energy and Mines – Supreme Decree No. 032-2004-EM – Rules of Hydrocarbon Exploration and Exploitation Activities (Peru); and*
- *National – Ministry of Energy and Mines – Supreme Decree No. 052-93-EM – Safety Rules for Hydrocarbon Storage (Peru).*

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

Carbon Pricing and Reporting Requirements

The carbon pricing mechanism, established under the *Clean Energy Act 2011 (Cth)*, commenced on 1 July 2012. Under the carbon pricing mechanism, liable entities have to pay a price for every tonne of carbon pollution, or the equivalent amount of certain other greenhouse gas, that is emitted. Due to the level of operated carbon dioxide emissions being below the mandated threshold levels, the Company is not a liable entity and therefore has no direct obligations under the carbon pricing mechanism.

In addition to the carbon pricing mechanism, greenhouse gas emissions, energy consumption and energy production reporting obligations arise under the *National Greenhouse and Energy Reporting Act 2007 (Cth)* ('NGER Act'). The Group was not required to register and report greenhouse gas emissions, energy consumption or energy production under the NGER Act for this financial year, as it did not meet any of the relevant thresholds from activities conducted within Australia for the relevant period. However, the Company's global carbon footprint during the financial year was 81,406 tonnes, split between non-operated operations in Australia and operated activities in Brazil along with administration emissions from offices and Company vehicles.

The Company continues to assess cost effective, reliable and environmentally efficient methods of dealing with its future greenhouse gas emissions and energy consumption.

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

During the financial year, the Company operated three exploration wells in the Santos Basin Brazil. The total greenhouse gas emissions from these operations was 26,550 tonnes. Greenhouse gas emissions from Karoon's administrative function totalled 225 tonnes.

Non-Audit Services

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

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

The Board of Directors has considered the position and, in accordance with written advice received from the Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for external auditors imposed by the *Corporations Act 2001*. The Board of Directors is satisfied that the provision of non-audit services by the external auditor did not compromise the external auditor independence requirements of the *Corporations Act 2001* for the following reasons:

(a) all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the external auditor; and

(b) none of the services undermine the general principles relating to external auditor independence as set out in *APES 110 'Code of Ethics for Professional Accountants*', including reviewing or auditing the external auditor's own work, acting in a management or a decision making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and reward.

External Auditor's Independence Declaration

A copy of the external Auditor's Independence Declaration for the financial year, as required under Section 307C of the *Corporations Act 2001*, is set out on page 42 of this Annual Report.

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

Remuneration Report (Audited)

The Directors are pleased to provide the Company's Remuneration Report, which sets out remuneration information for Karoon Gas Australia Ltd Executive Directors, Non-Executive Directors and other key management personnel of the Group and Company. The Remuneration Report forms part of this Directors' Report.

The information provided in the Remuneration Report has been audited by the external auditor as required by Section 308(3C) of the *Corporations Act 2001*.

The Directors and executives disclosed in the Remuneration Report during the financial year are as follows:

Name	Position
Directors	
Mr Robert Hosking	Executive Chairman and Chief Executive Officer
Mr Mark Smith	Executive Director and Exploration Director
Mr Geoff Atkins	Independent Non-Executive Director
Mr Clark Davey	Independent Non-Executive Director
Mr Stephen Power	Non-Executive Director
Mr Jose Coutinho Barbosa	Non-Executive Director
Other key management personnel (Group)	
Mr Scott Hosking	Company Secretary and Chief Financial Officer (Group)
Mr Tim Hosking	South American General Manager and Chief Executive Officer Brazil
Mr Lino Barro	Engineering Manager
Mr Edward Munks	Chief Operating Officer

Remuneration Report (Audited) (continued)

All of the above persons were also Directors or other executives during the previous financial year.

The Remuneration Report is set out under the following main headings:

A. Remuneration policy and objectives (used to determine the nature and amount of remuneration).

B. Details of remuneration.

C. Service agreements.

D. Share-based remuneration.

E. Additional information.

Where appropriate, information which is included in other parts of the consolidated financial statements is included in this Directors' Report by reference.

A. Remuneration Policy and Objectives

The Board of Directors, aided by the Remuneration Committee, annually reviews remuneration of its Directors, senior executives and employees.

The Board of Directors has established a Remuneration Committee that provides overview and recommendations on recruitment, retention and termination policies and procedures for senior executives and the remuneration framework for Directors. The objective of the Remuneration Committee is to ensure that remuneration is competitive, fair and aligned with industry market practice.

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

- the Group's recruitment, retention and termination policies and procedures for senior executives;
- senior executive and Director remuneration;
- the remuneration framework, including superannuation arrangements, performance conditions and the operation of share-based remuneration schemes.

The Statement of Corporate Governance provides further information on the role of the Remuneration Committee.

A performance evaluation process has also been created to monitor the performance of the Board and senior executives.

Share Trading Policy

The trading of ordinary shares issued to Directors, officers and other key management personnel under any of the Company's share-based remuneration schemes is subject to, and conditional upon, compliance with the Company's Share Trading Policy.

Under the Company's Share Trading Policy, an individual may not limit his or her exposure to risk in relation to securities (including unlisted options and performance rights). Directors and executives are prohibited from entering into any hedging arrangements over unvested options or performance rights under the Company's share-based remuneration schemes.

Executive Remuneration Framework (Excluding Executive Directors)

Karoon aims to align the interests of executives with those of shareholders by remunerating executives through performance and equity-based incentive schemes in addition to their fixed remuneration.

Objective

The objective of the Group's remuneration framework is to ensure the following key criteria are achieved:

- remuneration is reasonable and competitive in order to attract and retain talented and motivated employees and executives to Karoon;
- there is a clear relationship between responsibility, performance, results delivered and remuneration;
- it is acceptable to shareholders;
- to facilitate capital management; and
- transparency.

Key Elements

The key elements of the remuneration framework are:

(a) alignment to shareholders' interests:

- attract and retain high calibre executives capable of managing the Group's diverse international operations;
- focus on sustained growth in shareholder value; and

(b) alignment to executives' and employees' interests:

- reward capability and experience;
- reflect competitive reward for contribution to growth in shareholder wealth;
- provide a clear structure for earning rewards; and
- provide recognition of contribution.

Given the Group is still in the exploration and evaluation phase of activities, the Board believes linkage of the share-based remuneration framework to Company share price performance rather than its earnings and/or sales revenue is seen as the most sensible method of incentivising executives and employees. The use of various share-based incentives is designed to align the performance and interests of executives and employees with the interests of the Company in the short and long-term.

Consequently, remuneration of senior executives is allocated in the following manner:

- fixed base salary, superannuation and non-monetary benefits, 50-70% p.a.;

- short-term incentive based on individual and Company-wide performance measures under the Karoon Gas Australia 2012 Performance Rights Plan ('PRP'), 15-25% p.a.;
- long-term incentive based on pre-determined performance conditions under the Karoon Gas Australia 2012 Employee Share Option Plan, 15-25% p.a.; and
- the formula above does not take into consideration provision for long service leave.

Remuneration and other terms of employment for executives are formalised in employment agreements. Section C ('Service Agreements') in this Remuneration Report outlines the remuneration and other key terms of employment specifically for the other key management personnel.

The Remuneration Committee reviews senior executive remuneration annually and makes its recommendations to the Board. When assessing individual fixed base salary, the Remuneration Committee assesses past performance and overall responsibilities of each senior executive. The Company obtains market-based comparisons through internal reviews of peer remuneration from public data and through an industry-wide survey of salary levels.

Along with its own investigation of market levels of remuneration, including an internal assessment of relative market capitalisation, salary levels of peer companies and participation in an industry-wide salary and benefits survey, the Company appointed Ernst & Young as an adviser to provide remuneration services. Ernst & Young was engaged by and reported to, the Chairman of the Remuneration Committee. Ernst & Young provided market data for executive remuneration benchmarking. During the financial year, no remuneration recommendations, as defined by the *Corporations Act 2001*, were provided by Ernst & Young.

Fixed Base Salary

The cash salary of executives is determined from a review of peer companies and an industry-wide survey of salary levels, as well as reflecting core performance requirements and expectations. In addition, the Group considers the following:

- scope of the individual's role;
- length of service of the individual with Karoon;
- individual's level of skill, experience and qualifications;
- their location of employment;
- labour market conditions; and
- size and complexity of the Group's business.

Performance-Based Remuneration

(a) Short-Term Incentive ('STI')

Directors and employees have the opportunity to earn an annual short-term incentive, provided personal performance and Company-wide measures are achieved. This STI will be payable in performance rights, to be issued under the PRP.

The PRP was approved by shareholders at the 2012 Annual General Meeting of the Company.

The purpose of the PRP is to:

- attract and retain quality eligible employees;
- motivate eligible employees by enabling them to share in any growth in the value of the Company and encouraging them to achieve personal and business targets, improve the performance of the Company and, in turn, its returns to shareholders;
- advance the interests of all shareholders by motivating the eligible employees and encouraging growth;
- provide a mechanism for eligible employees to share the rewards of the success of the Company through the issuance of performance rights; and
- facilitate capital management by enabling the Company to preserve cash reserves for expenditure on principal activities.

The issue of performance rights rather than cash is considered appropriate by the Company because the Company is still in the exploration and evaluation phase of activities and is not currently generating earnings and/or sales revenue. Performance rights are granted for no consideration.

Vesting of performance rights is conditional on the achievement of the following performance measures, over the relevant one year performance period, and provided the employee remains employed by the Company for an additional year:

- personal performance as assessed during the annual performance review period. The Group conducts annual performance reviews, measured against an individual's job description and role within the Group as assessed by senior management and the Remuneration Committee where appropriate (weighting 50% p.a.); and
- Company-wide operational objectives, as reviewed annually by the Remuneration Committee by reviewing the Company's operational work plans for the upcoming financial year and assessing the relevant individual's involvement. For example, for the financial year ending 30 June 2014 the predominant work plan involves the commencement of drilling campaigns. Operational success could be measured by successful target selection, adherence to time and cost budgeting, compliant health, safety and environment record and/or efficient operations (weighting 50% p.a.).

Participation in the PRP is at the discretion of the Board (on the recommendation of the Remuneration Committee and/or senior executives) and no employee has a contractual right to receive a STI.

The quantum of performance rights is based on the pre-determined percentage of total salary that is allocated to the STI portion divided by the Company's share price in the three month period leading up to the first day of the performance period, nominally 1 July annually. The portion of total salary to be allocated to the STI will be determined at the commencement of the performance period.

Remuneration Report (Audited) (continued)

A. Remuneration Policy and Objectives (continued)

STI vesting is based on a one year performance period followed by a one year retention period, after such time each performance right may be converted to one fully paid ordinary share of the Company. In each case, the Remuneration Committee will be responsible for assessing whether the performance measures have been achieved.

The rules, terms and conditions of the PRP were set out in the notice of meeting for the 2012 Annual General Meeting.

(b) Long-Term Incentive ('LTI')

The Company currently has two ESOP plans in place, the Karoon Gas Australia 2009 Employee Share Option Plan that was approved by shareholders at the 2009 Annual General Meeting and the Karoon Gas Australia 2012 Employee Share Option Plan that was approved by shareholders at the 2012 Annual General Meeting.

All ESOP options issued during the financial year were issued under the Karoon Gas Australia 2012 Employee Share Option Plan. However, there are unexercised ESOP options outstanding that were issued in previous financial years under the Karoon Gas Australia 2009 Employee Share Option Plan.

The purpose of the recently approved Karoon Gas Australia Employee 2012 Share Option Plan is to:

- attract and retain quality eligible employees;
- motivate eligible employees by enabling them to share in any growth in the value of the Company and encouraging them to improve the longer term performance of the Company and, in turn, its returns to shareholders;
- advance the interests of all shareholders by motivating the eligible employees and encouraging growth;
- provide a mechanism for eligible employees to share the rewards of the success of the Company through the issuance of options; and
- facilitate capital management by enabling the Company to preserve cash reserves for expenditure on principal activities.

Participation in the Karoon Gas Australia 2012 Employee Share Option Plan is at the discretion of the Board (on the recommendation of the Remuneration Committee and/or senior executives) and no employee has a contractual right to receive a LTI.

Issues under the Karoon Gas Australia 2012 Employee Share Option Plan provide unlisted options to employees with the intent of rewarding long-term performance and superior shareholder returns. Under the Karoon Gas Australia 2012 Employee Share Option Plan, employees may be granted options that only vest if the pre-determined performance measures are achieved, provided the employee remains employed by the Company.

In all new issues under the Karoon Gas Australia 2012 Employee Share Option Plan, it is intended that vesting of any LTI be subject to the Company's total shareholder return ('TSR') exceeding the relative TSR of companies (weighted by company size) in the S&P ASX 200 Energy Index over a three year period. Vesting will occur in proportion to the Company's performance measures, as follows:

TSR Rank	Proportion of Unlisted Options to Vest
Less than 50th percentile	0%
At 50th percentile	50%
Between 50th and 75th percentile	50% plus 2% for each additional percentile ranking above 50th percentile
At or above 75th percentile	100%

Options are granted for no consideration. Once vested, the options will be exercisable for a period of up to two years. The exercise prices of ESOP options issued are based on the volume weighted average price of the Company's ordinary shares traded on the ASX during the 90 days of trading days before the ESOP options were offered plus a premium to the market price.

The rules, terms and conditions of the Karoon Gas Australia 2012 Employee Share Option Plan were set out in the notice of meeting for the 2012 Annual General Meeting.

Non-Monetary Benefits

Executives are entitled to health insurance, motor vehicle allowances and certain memberships depending on their respective employment agreements.

Superannuation

The Australian executives of the Company receive a superannuation contribution as required by the Australian Federal Government, which was 9.0% p.a. (2014: 9.25% p.a.) of cash remuneration, up to a cap of $16,470 (2014: $17,775) per executive. Individuals may also choose to sacrifice part of their salary to increase payments towards superannuation. It is at their discretion to seek individual financial advice concerning each of their own personal superannuation funds.

The Australian executives of the Company do not receive any other retirement benefits.

Social Security and Indemnity Fund Contributions

The Group is required to contribute 27% of Brazilian executive total cash compensation as social security to fund Government pensions paid in retirement. A further 8% of their cash remuneration is required to be contributed to a Federal Severance Indemnity Fund ('FGTS'). Under certain circumstances, such as unfair dismissal, retirement or severe diseases, Brazilian executives may withdraw the indemnity fund contributions made by the Group. 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.

Termination Payments

Termination payments, if any, for executives, are agreed by the Remuneration Committee in advance of employment and are stated in the relevant employment agreements.

Upon retirement, executives are paid employee benefit entitlements accrued to the date of retirement.

Executive Director Remuneration Framework

Executive Directors Mr Robert Hosking and Mr Mark Smith each receive an annual base salary, non-monetary benefits and participation in share-based remuneration schemes.

Annually, the Remuneration Committee reviews Executive Director remuneration and makes recommendations to the Board. When assessing remuneration, the Remuneration Committee takes into account various issues, which in the Company's opinion, result in a high level of responsibility and commensurate risk being attached to the position of an Executive Director of the Company. The issues considered include the:

- market capitalisation of the Company and the scope and value of its activities;
- Company's geographical footprint, including South America;
- size and level of the day-to-day operations of the Company;
- complexity and importance of the strategic decisions facing the Company; and
- level of responsibility attaching to the office of an Executive Director.

Along with its own investigation of market levels of remuneration, including an internal assessment of relative market capitalisation, salary levels of peer companies and participation in an industry-wide salary and benefits survey, the Company appointed Ernst & Young as an adviser to provide remuneration services. Ernst & Young was engaged by and reported to, the Chairman of the Remuneration Committee. Ernst & Young provided TSR calculations to determine the extent of vesting of the Bonus Options based on performance against the TSR performance condition. During the financial year, no remuneration recommendations, as defined by the *Corporations Act 2001*, were provided by Ernst & Young.

Section C ('Service Agreements') in this Remuneration Report outlines the remuneration and other key terms of employment for the Executive Directors.

Annual Base Salary

Annual base salary (including superannuation contribution) was assessed during 2011 on a market comparison of peer companies of similar market capitalisation to Karoon Gas Australia Ltd. During 2013, the appropriateness of their packages were reviewed again and considered to be set at appropriate levels considering recent operational success, Company size and relative peer performance.

In accordance with the employment agreement set out during 2011, the annual base salary of each Executive Director has been adjusted to $600,000 as of 1 July 2013.

Superannuation contributions are paid in accordance with Australian superannuation guarantee legislation, which was 9.0% p.a. (2014: 9.25% p.a.) of cash remuneration, up to a cap of $16,470 (2014: $17,775) per Executive Director.

Share-based Remuneration

The Company considers that the issue of unlisted other share options an essential part of Executive Director remuneration because the:

- issue of options to Executive Directors creates an inherent alignment of interests between the Board and shareholders generally at no financial cost to the Company;
- Group is not yet in the development or production phase of activities and all expenses incurred are currently predominantly funded from the proceeds of Company ordinary share issues. Any cash component of Executive Directors' remuneration will, therefore, involve the issue of equity which has, in the past, been carried out at prices which are below the market price of the Company's ordinary shares at the time; and
- issue of options at an exercise price which is set at a premium to the market price at the time of setting the price, means a smaller dilutive effect of such an issue on other shareholders.

Current share-based remuneration for each Executive Director is considered by the Remuneration Committee to be appropriate considering there are pre-determined performance conditions (for Bonus Options and 'Company Milestone' options) set to reward outperformance of peer companies of like size, along with inherent alignment of interests between Executive Directors and shareholders through the use of ascending premiums when originally pricing the unlisted options.

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

The current three year share-based remuneration package of Executive Directors was approved by shareholders at the 2011 Annual General Meeting of the Company.

Each of the Executive Directors' share-based remuneration was divided into three components:

- base options, not subject to performance conditions;
- Bonus Options, subject to pre-determined performance conditions; and
- a single long-term component, subject to a 'Company Milestone' performance condition.

Remuneration Report (Audited) (continued)

A. Remuneration Policy and Objectives (continued)

Base Options

Each of the Executive Directors were issued a total of 600,000 unlisted other share options, for no consideration. The 600,000 unlisted other share options were issued in three 200,000 option tranches vesting in each of the financial years ending 2012, 2013 and 2014, at exercise prices of $8.92, $9.95 and $10.98 respectively. These exercise prices reflected a 30%, 45% and 60% premium to the share price at the pricing determination date, respectively.

Bonus Options (excluding 'Company Milestone' Options)

Each of the Executive Directors were also issued with 1,300,000 unlisted other share options, for no consideration, that are subject to pre-determined performance conditions before vesting, as summarised below:

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

The 1,300,000 unlisted other share options were issued in option tranches of 300,000 options, 400,000 options and 600,000 options vesting (subject to the above pre-determined performance conditions) in each of the financial years ending 2012, 2013 and 2014, at exercise prices of $8.92, $9.95 and $10.98 respectively. These exercise prices reflected a 30%, 45% and 60% premium to the share price at the pricing determination date, respectively.

During the performance period from 1 May 2011 to 1 May 2012, the Company outperformed the S&P ASX 200 Energy Index and a zero incident safety record was maintained. However, the Company TSR did not increase by 10% or more over the performance period. Out of the 300,000 unlisted other share options, subject to pre-determined performance conditions assessed to 1 May 2012, 225,000 unlisted other share options vested and 75,000 other share options were forfeited for each Executive Director.

During the performance period from 1 May 2012 to 1 May 2013, a zero incident safety record was maintained and based on the exact performance period dates the Company did not outperform the S&P ASX 200 Energy Index and the Company TSR did not increase by 10% or more.

In the case where a particular performance condition was out of the control of the Executive Director and not achieved, the Remuneration Committee may nevertheless allow the Bonus Options to vest and be exercised.

It was considered that there were special circumstances applicable to the performance period from 1 May 2012 to 1 May 2013, which caused the Remuneration Committee to consider it inappropriate to apply the performance measures as outlined above. These special circumstances included:

- the achievements of the Company within the performance period, which included two discoveries in the first offshore drilling campaign conducted in Brazil and was completed on time and on budget, without significant operating issues. In addition, there was the achievement of the delivery of favourable farm-out conditions for the Santos Basin Blocks, Brazil during September 2012; and
- a short-term dip in market valuations for similar companies to Karoon and the significant increase in Karoon's relative share price performance if the testing date was moved one month forward or backwards.

Out of the Bonus Options, comprising 400,000 unlisted other share options, subject to pre-determined performance conditions assessed from 1 May 2012 to 1 May 2013, the Remuneration Committee agreed unanimously that the 400,000 unlisted other share options be vested for each Executive Director.

'Company Milestone' Options

A third Bonus Option component of 500,000 unlisted other share options with an exercise price of $10.98, at a 60% premium to the share price at the pricing determination date, vesting in the financial year ending 2014 was issued to each Executive Director, for no consideration, subject to satisfaction of a single performance condition, the 'Company Milestone', being the outperformance of the S&P ASX 200 Energy Index by 50% or more over the period beginning 1 May 2011 and ending 1 May 2014.

In the case where a particular performance condition was out of the control of the Executive Director and not achieved, the Remuneration Committee may nevertheless allow the 'Company Milestone' options to vest and be exercised.

Non-Executive Director Remuneration Framework

Fees and payments to Non-Executive Directors reflect the demands which are placed on, and the responsibilities of, the Directors. The Company reviews Director remuneration annually and assesses the change to the Company's activities and overall responsibilities of each Non-Executive Director. Non-Executive Directors' fees are reviewed annually by the Remuneration Committee. To assist the Remuneration Committee, the Company obtains both market-based comparisons through publicly available information about peer Non-Executive Director fees and a review of the S&P ASX 200 Non-Executive Director remuneration levels.

Along with its own investigation of market levels of remuneration, including an internal assessment of relative market capitalisation and salary levels of peer companies, the Company appointed Ernst & Young as an adviser to provide remuneration services. Ernst & Young was engaged by and reported to, the Chairman of the Remuneration Committee. Ernst & Young provided market data for Non-Executive Director fee benchmarking. During the financial year, no remuneration recommendations, as defined by the *Corporations Act 2001*, were provided by Ernst & Young.

Non-Executive Directors do not ordinarily receive performance-related remuneration. However, to promote an inherent alignment of interests between Non-Executive Directors and shareholders, Non-Executive Directors have in the past been issued with unlisted other share options and are also encouraged to purchase ordinary shares in the Company on-market. Options issued to Non-Executive Directors are approved, on a case-by-case basis, by shareholders at relevant general meetings.

Non-Executive Directors' Fees

Non-Executive Directors' fees were last reviewed during May 2013. Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. As approved by shareholders at the 2012 Annual General Meeting, the maximum aggregate amount, including superannuation contribution, that may be paid to Non-Executive Directors of the Company as remuneration for their services is $900,000 during any financial year.

Non-Executive Directors are provided the following fees (excluding superannuation contribution):

	From 1 July 2013	From 1 July 2012
Base Fee:		
Non-Executive Directors	$100,000	$100,000
Committee Member Fees:		
Audit Committee		
Chairman	$20,000	
Member	$15,000	$10,000
Nomination Committee		
Chairman	$15,000	
Member	$12,000	$10,000
Remuneration Committee		
Chairman	$15,000	
Member	$12,000	$10,000

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

Retirement Allowance for Directors

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

Voting and Comments at the Company's 2012 Annual General Meeting

The Company received more than 91% of "Yes" votes on its Remuneration Report for the previous financial year. The Company did not receive any specific feedback at the Company's 2012 Annual General Meeting but did receive specific feedback during the financial year on its remuneration practices.

Relationship between the Remuneration Policy and Company Performance

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

The tables below set out summary information about the Group's earnings, net assets and movements in shareholder wealth to 30 June 2013:

Financial Year Ended	30 June 2009 $	30 June 2010 $	30 June 2011 $	30 June 2012 $	30 June 2013 $
Revenue	4,868,541	6,459,623	14,225,048	13,601,653	**7,782,174**
(Loss) profit before income tax	4,452,766	(14,665,017)	(23,304,914)	(3,287,382)	**(10,930,403)**
(Loss) profit for financial year	4,452,766	(14,893,839)	(23,304,914)	(3,287,382)	**(10,930,403)**
Net assets at end of financial year	334,658,839	361,703,571	617,867,324	600,599,921	**599,840,897**

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

Remuneration Report (Audited) (continued)

B. Details of Remuneration

Details of the remuneration of the Directors and other key management personnel of the Group (as identified in accordance with the *Corporations Act 2001* and *AASB 124 'Related Party Disclosures*' as those who had authority and responsibility for planning, directing and controlling the Group and/or Company activities) for the financial year and previous financial year are set out in the following tables.

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

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

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

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

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

Financial Year Ended 30 June 2012	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 Provision $	Options* $	Remuneration Consisting of Options** %	Total Remuneration $
Executive Directors								
Mr Robert Hosking	458,716	43,874	41,284	-	1,300	1,085,457	66.6	1,630,631
Mr Mark Smith	458,716	24,790	41,284	-	19,385	1,085,457	66.6	1,629,632
Non-Executive Directors								
Mr Geoff Atkins	130,000	891	11,700	-	-	399,635	73.7	542,226
Mr Clark Davey	130,000	891	11,700	-	-	457,915	76.3	600,506
Mr Stephen Power	130,000	-	11,700	-	-	399,635	73.8	541,335
Mr Jose Coutinho Barbosa *(appointed 31 August 2011)*	83,333	-	-	-	-	-	-	83,333
Total Directors' remuneration	**1,390,765**	**70,446**	**117,668**	**-**	**20,685**	**3,428,099**		**5,027,663**
Other key management personnel (Group)								
Mr Scott Hosking	290,000	15,767	26,100	-	19,277	80,049	18.6	431,193
Mr Tim Hosking	313,087	5,547	-	104,404	-	80,049	15.9	503,087
Mr Lino Barro	297,966	-	26,817	-	12,992	329,649	49.4	667,424
Mr Edward Munks	459,175	2,393	36,000	-	922	331,946	40.0	830,436
Total other key management personnel remuneration (Group)	**1,360,228**	**23,707**	**88,917**	**104,404**	**33,191**	**821,693**		**2,432,140**
Total key management personnel remuneration (Group)	**2,750,993**	**94,153**	**206,585**	**104,404**	**53,876**	**4,249,792**		**7,459,803**

* Remuneration in the form of options includes negative amounts for options forfeited during the previous financial year.

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

Remuneration Report (Audited) (continued)

B. Details of Remuneration (continued)

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

	Fixed Remuneration		Not Related to Performance Conditions*		Related to Performance Conditions: STI (Performance Rights)		LTI**		Other Share Options		Remuneration Consisting of Options***
Name	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Executive Directors											
Mr Robert Hosking	36.4%	33.4%	46.6%	42.6%	-	-	-	-	17.0%	24.0%	63.6%
Mr Mark Smith	36.2%	33.4%	46.8%	42.6%	-	-	-	-	17.0%	24.0%	63.8%
Non-Executive Directors											
Mr Geoff Atkins	51.0%	26.3%	49.0%	73.7%	-	-	-	-	-	-	49.0%
Mr Clark Davey	23.8%	23.7%	76.2%	76.3%	-	-	-	-	-	-	76.2%
Mr Stephen Power	51.0%	26.2%	49.0%	73.8%	-	-	-	-	-	-	49.0%
Mr Jose Coutinho Barbosa	66.6%	100.0%	-	-	-	-	-	-	33.4%	-	33.4%
Other key management personnel (Group)											
Mr Scott Hosking	70.2%	81.4%	20.4%	18.6%	5.2%	-	4.2%	-	-	-	24.6%
Mr Tim Hosking	70.7%	84.1%	20.2%	15.9%	5.1%	-	4.0%	-	-	-	24.2%
Mr Lino Barro	71.3%	50.6%	20.2%	49.4%	4.7%	-	3.8%	-	-	-	24.0%
Mr Edward Munks	61.1%	60.0%	31.5%	40.0%	4.1%	-	3.3%	-	-	-	34.8%

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

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

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

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

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

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

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

Other share options (Bonus Options and 'Company Milestone' options) issued during the previous financial year to Executive Directors, in addition to continued employment with the Company, are subject to meeting pre-determined performance conditions.

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

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

Further information on options and performance rights is set out in Note 30 of the consolidated financial statements.

Amounts disclosed for remuneration of Directors and other key management personnel exclude insurance premiums paid by the Company in respect of directors' and officers' liability insurance contracts, as the contracts do not specify premiums paid in respect of individual Directors and officers. Information relating to insurance contracts is set out in this Directors' Report.

Remuneration Report (Audited) (continued)

C. Service Agreements

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

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

Name	Term	Expiry	Notice/ Termination Period	Termination Payments	Related Entity	Share Option Eligible	Performance Rights Eligible	Base Salary (Including Post Employment Benefit Entitlements) Amount
Executive Directors								
Mr Robert Hosking	From 1 May 2011, ongoing	Ongoing	In writing 6 months	Change of control: one year	Ropat Nominees Pty Ltd; Hosking Superannuation Fund	Yes	Yes	$600,000
Mr Mark Smith	From 1 May 2011, ongoing	Ongoing	In writing 6 months	Change of control: one year	IERS (Australia) Pty Ltd; Bonnie Doon Superannuation Fund	Yes	Yes	$600,000
Other key management personnel (Group)								
Mr Scott Hosking	Ongoing	Ongoing	In writing 3 months	Change of control: one year		Yes	Yes	$417,775
Mr Tim Hosking	From 1 December 2010, ongoing	Ongoing	In writing 1 month	Change of control: one year		Yes	Yes	$465,350
Mr Lino Barro	Ongoing	Ongoing	In writing 3 months	Change of control: one year	Barro Superannuation Fund	Yes	Yes	$373,818
Mr Edward Munks	From 1 January 2011, ongoing	Ongoing	In writing 6 months	Change of control: one year		Yes	Yes	$517,775

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

D. Share-based Remuneration

The Company currently has three share-based payment plans, these were approved by shareholders during the 2009 and 2012 Annual General Meetings (see Section A – Remuneration Policy and Objectives on page 26).

The Company also grants other share options to Directors. Options issued to Directors are approved, on a case-by-case basis, by shareholders at relevant general meetings.

During the financial year 578,294 options and 82,462 performance rights over unissued ordinary shares of the Company were issued to the above Directors and other key management personnel.

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

Grant Date	Date Vested and Exercisable	Expiry Date	Exercise Price Per Option or Performance Right	Fair Value Per Option or Performance Right at Grant Date	Vested %	Performance Condition Achieved
ESOP options						
3 September 2010	31 October 2012	31 October 2014	$9.77	$1.92	100	Not applicable*
12 January 2011	31 October 2012	31 October 2014	$9.77	$2.03	100	Not applicable*
10 November 2011	31 October 2013	31 October 2015	$7.30	$1.44	-	Not applicable*
10 October 2011	31 October 2013	31 October 2015	$7.30	$1.65	-	Not applicable*
30 November 2012	29 November 2015	29 November 2016	$6.85	$1.29	-	To be determined
Other share options						
23 November 2009	12 November 2012	12 November 2013	$14.07	$2.40	100	Not applicable**
18 November 2010	18 November 2013	18 November 2014	$9.48	$2.75	-	Not applicable**
10 November 2011	1 May 2013	1 May 2015	$9.95	$1.07	-	Remuneration Committee Discretion for Bonus Options
10 November 2011	1 May 2014	1 May 2016	$10.98	$1.30	-	To be determined for Bonus Options and 'Company Milestone' options
30 November 2012	29 November 2015	29 November 2016	$6.85	$1.29	-	To be determined***
Performance rights						
30 November 2012	29 November 2014	29 November 2015	$ -	$4.90	-	To be determined

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

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

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

Remuneration Report (Audited) (continued)

D. Share-based Remuneration (continued)

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

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

The exercise price of other share options, issued during the financial year, is based on the weighted average price at which the Company's ordinary shares traded on the ASX during the 90 days of trading days before the options were offered plus a premium to the market price.

Under the PRP, eligible employees are given performance rights to be issued and allotted ordinary shares in the Company, to be issued as fully paid for no consideration provided certain conditions have been met. When vested, each performance right is convertible into one ordinary share of the Company.

Options and performance rights granted carry no dividend or voting rights.

The option exercise prices are subject to adjustment in certain circumstances as per ASX Listing Rule 6.22.2.

If there is a change of control of the Company:

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

Further information on options and performance rights is set out in Note 30 of the consolidated financial statements.

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

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

Name	Number of Options and Performance Rights Granted During Financial Year	Value of Options and Performance Rights at Grant Date*	Number of Options and Performance Rights Vested During Financial Year	Value of Options and Performance Rights Forfeited**
Executive Directors				
Mr Robert Hosking				
– Other share options	-	-	600,000	$ -
Mr Mark Smith				
– Other share options	-	-	600,000	$ -
Non-Executive Directors				
Mr Geoff Atkins				
– Other share options	-	-	500,000	$ -
Mr Clark Davey				
– Other share options	-	-	-	$ -
Mr Stephen Power				
– Other share options	-	-	500,000	$ -
Mr Jose Coutinho Barbosa				
– Other share options	200,000	$258,000	-	$ -
Other key management personnel (Group)				
Mr Scott Hosking				
– ESOP options	102,041	$131,633	-	$ -
– Performance rights	22,124	$108,408	-	$ -
Mr Tim Hosking				
– ESOP options	100,000	$129,000	-	$ -
– Performance rights	22,124	$108,408	-	$ -
Mr Lino Barro				
– ESOP options	74,212	$95,733	100,000	$ -
– Performance rights	16,090	$78,841	-	$ -
Mr Edward Munks				
– ESOP options	102,041	$131,633	200,000	$ -
– Performance rights	22,124	$108,408	-	$ -
Total key management personnel (Group)				
– Options	**578,294**	**$745,999**	**2,500,000**	**$ -**
– Performance rights	**82,462**	**$404,065**	**-**	**$ -**

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

** The value, calculated in accordance with AASB 2, of options or performance rights forfeited during the financial year reducing their remuneration.

No options or performance rights over unissued ordinary shares in the Company, held by any Director or other key management personnel, lapsed during the financial year.

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

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

Remuneration Report (Audited) (continued)

E. Additional Information

Details of Remuneration – Options and Performance Rights

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

Name	Financial Year End Granted	Vested %	Forfeited %	Financial Years in Which Options or Performance Rights May Vest	Maximum Total Value of Grant Yet to Vest
Executive Directors					
Mr Robert Hosking					
– Other share options	30 June 2012	100	-	-	-
– Other share options	30 June 2012	-	-	30 June 2014	$569,972
Mr Mark Smith					
– Other share options	30 June 2012	100	-	-	-
– Other share options	30 June 2012	-	-	30 June 2014	$569,972
Non-Executive Directors					
Mr Geoff Atkins					
– Other share options	30 June 2010	100	-	-	-
Mr Clark Davey					
– Other share options	30 June 2011	-	-	30 June 2014	$176,788
Mr Stephen Power					
– Other share options	30 June 2010	100	-	-	-
Mr Jose Coutinho Barbosa					
– Other share options	30 June 2013	-	-	30 June 2016	$207,787
Other key management personnel (Group)					
Mr Scott Hosking					
– ESOP options	30 June 2012	-	-	30 June 2014	$42,156
– ESOP options	30 June 2013	-	-	30 June 2016	$106,014
– Performance rights	30 June 2013	-	-	30 June 2015	$76,745
Mr Tim Hosking					
– ESOP options	30 June 2012	-	-	30 June 2014	$42,156
– ESOP options	30 June 2013	-	-	30 June 2016	$103,894
– Performance rights	30 June 2013	-	-	30 June 2015	$76,745
Mr Lino Barro					
– ESOP options	30 June 2011	100	-	-	-
– ESOP options	30 June 2012	-	-	30 June 2014	$23,565
– ESOP options	30 June 2013	-	-	30 June 2016	$77,102
– Performance rights	30 June 2013	-	-	30 June 2015	$55,814
Mr Edward Munks					
– ESOP options	30 June 2011	100	-	-	-
– ESOP options	30 June 2012	-	-	30 June 2014	$56,207
– ESOP options	30 June 2013	-	-	30 June 2016	$106,014
– Performance rights	30 June 2013	-	-	30 June 2015	$76,745

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

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

Loans to Directors and Other Key Management Personnel

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

Other Transactions with Directors and Other Key Management Personnel

Refer to Note 32 of the consolidated financial statements for other transactions with Directors and other key management personnel during the financial year.

Matters Arising Subsequent to the End of the Financial Year

Other than the matters disclosed in Note 34 of the consolidated financial statements, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

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

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

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

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

On behalf of the Directors:

Mr Robert Hosking
Executive Chairman

13 September 2013

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Karoon Gas Australia Ltd for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Charles Christie
Partner
PricewaterhouseCoopers

13 September 2013

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CONSOLIDATED FINANCIAL STATEMENTS

For the Financial Year Ended 30 June 2013

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Financial Year Ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Revenue	4	7,782,174	13,601,653
Other income	4	3,024,994	4,396,073
Total revenue and other income		10,807,168	17,997,726
Computer support		(982,172)	(982,706)
Consulting fees		(413,937)	(552,451)
Depreciation and amortisation expense	5	(1,010,099)	(948,676)
Employee benefits expense (net)		(11,061,666)	(11,460,468)
Exploration and evaluation expenditure expensed	5	(1,035,122)	(1,219,720)
Farm-out costs		(905,631)	(340,321)
Finance costs	5	(158,941)	(256,321)
Insurance expense		(1,386,224)	(1,396,641)
Legal fees		(363,861)	(214,205)
Property costs		(1,155,771)	(1,058,828)
Share registry and listing fees		(193,187)	(210,357)
Telephone and communication expenses		(430,856)	(274,987)
Travel and accommodation expenses		(1,132,766)	(1,199,922)
Brazilian initial public offering expenses		-	(88,474)
Other expenses		(1,507,338)	(1,081,031)
Total expenses		(21,737,571)	(21,285,108)
Loss before income tax		(10,930,403)	(3,287,382)
Income tax expense	6	-	-
Loss for financial year attributable to equity holders of the Company		(10,930,403)	(3,287,382)
Other comprehensive income (loss), 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		5,053,759	(19,949,491)
Other comprehensive income (loss) for financial year, net of income tax		5,053,759	(19,949,491)
Total comprehensive loss for financial year attributable to equity holders of the Company, net of income tax		(5,876,644)	(23,236,873)
Loss per share attributable to equity holders of the Company:			
Basic loss per ordinary share	9	(0.0494)	(0.0148)
Diluted loss per ordinary share	9	(0.0494)	(0.0148)

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 2013

	Note	Consolidated 2013 $	2012 $
Current assets			
Cash and cash equivalents	10	204,519,641	227,802,316
Receivables	11	4,893,287	3,362,813
Inventories	12	28,793,537	13,051,792
Security deposits	13	15,908,100	35,090,209
Current tax asset	6	1,029,238	503,416
Assets classified as held for sale	14	267,219,136	-
Other assets	15	4,621,975	8,058,487
Total current assets		526,984,914	287,869,033
Non-current assets			
Plant and equipment	16	1,981,339	2,036,567
Intangible assets	17	418,610	679,426
Exploration and evaluation expenditure carried forward	18	408,319,787	313,884,275
Security deposits	13	8,239,281	7,470,369
Other assets	15	-	142,177
Total non-current assets		418,959,017	324,212,814
Total assets		945,943,931	612,081,847
Current liabilities			
Trade and other payables	19	76,804,541	11,275,782
Financial liability	20	15,204,315	-
Other liabilities	21	253,783,575	-
Total current liabilities		345,792,431	11,275,782
Non-current liabilities			
Provisions	22	310,603	206,144
Total non-current liabilities		310,603	206,144
Total liabilities		346,103,034	11,481,926
Net assets		599,840,897	600,599,921
Equity			
Contributed equity	23	664,894,335	664,894,335
Accumulated losses		(72,233,139)	(61,302,736)
Share-based payments reserve		29,435,672	24,318,052
Foreign currency translation reserve		(22,255,971)	(27,309,730)
Total equity		599,840,897	600,599,921

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 2013

	Consolidated				
	Contributed Equity $	Accumulated Losses $	Share-based Payments Reserve $	Foreign Currency Translation Reserve $	Total Equity $
Balance as at 1 July 2011	664,894,335	(58,015,354)	18,348,582	(7,360,239)	617,867,324
Loss for previous financial year	-	(3,287,382)	-	-	(3,287,382)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(19,949,491)	(19,949,491)
Total comprehensive loss for previous financial year	-	(3,287,382)	-	(19,949,491)	(23,236,873)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	-	-	-	-	-
Transaction costs arising on ordinary shares issued	-	-	-	-	-
Share-based payments expense	-	-	5,969,470	-	5,969,470
	-	-	5,969,470	-	5,969,470
Balance as at 30 June 2012	664,894,335	(61,302,736)	24,318,052	(27,309,730)	600,599,921
Loss for financial year	-	(10,930,403)	-	-	(10,930,403)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	5,053,759	5,053,759
Total comprehensive loss for financial year	-	(10,930,403)	-	5,053,759	(5,876,644)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	-	-	-	-	-
Transaction costs arising on ordinary shares issued	-	-	-	-	-
Share-based payments expense	-	-	5,117,620	-	5,117,620
	-	-	5,117,620	-	5,117,620
Balance as at 30 June 2013	664,894,335	(72,233,139)	29,435,672	(22,255,971)	599,840,897

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 2013

	Note	Consolidated 2013 $	2012 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST refunds)		154,635	3,089,442
Payments to suppliers and employees (inclusive of GST)		(14,568,741)	(14,077,730)
Payments for exploration and evaluation expenditure expensed		(1,065,517)	(1,286,879)
Interest received		6,784,151	16,074,369
Interest and other costs of finance paid		(158,941)	(256,321)
Income taxes paid		(519,594)	(560,717)
Net cash flows (used in)/provided by operating activities	29(a)	(9,374,007)	2,982,164
Cash flows from investing activities			
Purchase of plant and equipment		(626,884)	(382,725)
Purchase of computer software		(77,318)	(580,025)
Payments for exploration and evaluation expenditure capitalised		(305,528,805)	(56,631,948)
Repayment of security deposits		19,512,228	11,665,842
Advance payments (Brazilian farm-out)		254,189,054	-
Refundable share of insurance bond		14,798,836	-
Proceeds from disposal of non-current assets		-	24,545
Net cash flows used in investing activities		(17,732,889)	(45,904,311)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		-	-
Payments for transaction costs arising on ordinary shares issued		-	-
Net cash flows provided by financing activities		-	-
Net decrease in cash and cash equivalents		(27,106,896)	(42,922,147)
Cash and cash equivalents at beginning of financial year		227,802,316	266,839,144
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		3,824,221	3,885,319
Cash and cash equivalents at end of financial year	10	204,519,641	227,802,316

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

Note 1. Summary of Significant Accounting Policies

Karoon Gas Australia Ltd (the 'Company') is a public company limited by shares and is listed on the ASX. It is incorporated and domiciled in Australia. The registered office of Karoon Gas Australia Ltd and the principal place of business is Office 7A, 34-38 Lochiel Avenue, Mount Martha, VIC, 3934. The technical office is located at Level 25, 367 Collins Street, Melbourne, VIC, 3000.

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

A description of the nature of the operations and principal activities of the Group are described in the Directors' Report.

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

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (the 'AASB') and the *Corporations Act 2001*. Karoon Gas Australia Ltd is a for-profit entity for the purpose of preparing financial statements.

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

Historical Cost Convention

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

Going Concern

On the basis of the present level of operations and after consideration of the Group's ability to:

(i) sell/farm-out its interests in exploration permits/Blocks in order to fund future exploration expenditure commitments;

(ii) raise capital through the issue of new ordinary shares in the Company to meet working capital requirements and/or shortfalls in exploration expenditure commitments; and/or

(iii) manage its existing cash and future cash flows to meet its current obligations and future plans,

the Directors are of the opinion that for the next 12 month period from the date of signing the Directors' Declaration, the Group and Company will have sufficient liquidity to meet their existing commitments and accordingly present the consolidated financial statements on a going concern basis.

Significant Accounting Estimates, Assumptions and Judgements

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

Compliance with International Financial Reporting Standards

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

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

The Group has adopted all of the new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the financial year ended 30 June 2013.

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

- Amendments to *AASB 101 'Presentation of Financial Statements'* as a consequence of *AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'*.

The adoption of all of the relevant new and revised Australian Accounting Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has had no effect on the amounts reported for the current or previous financial years. However, the application of AASB 2011-9 has resulted in changes to the Group's presentation of, or disclosure in, its financial year consolidated financial statements.

AASB 2011-9 introduced new terminology for the statement of comprehensive income and income statement. Under amendments to AASB 101, the statement of comprehensive income was renamed as a statement of profit or loss and other comprehensive income. The amendment required the Group to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It did not affect the measurement of any of the items recognised in comprehensive income. The amendment has also been applied retrospectively.

Early Adoption of Australian Accounting Standards

The Group has not elected to apply any pronouncements before their operative date in the financial year beginning 1 July 2012.

(b) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Karoon Gas Australia Ltd as at 30 June 2013 and the results of all subsidiaries for the financial year then ended.

A subsidiary is any entity controlled by Karoon Gas Australia Ltd whereby it has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Interests in subsidiaries are set out in Note 24.

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

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

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

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

Where subsidiaries have entered or left the Group during the financial year, their operating results are included or excluded from the date control was obtained or until the date control ceased respectively.

(c) Segment Information

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

(d) Revenue

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

Sales Revenue

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

Note 1. Summary of Significant Accounting Policies (continued)

(d) Revenue (continued)

Dividend Revenue

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

Interest Income

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

(e) Foreign Currency Transactions and Balances

Functional and Presentation Currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary or branch operates (the 'functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income, except when they are attributable to part of the net investment in a foreign operation.

Non-monetary items measured at historical cost continue to be carried at the foreign exchange rate at the date of transaction. Foreign exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise foreign exchange differences are recognised in the consolidated statement of profit or loss and other comprehensive income.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss and other comprehensive income, with finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income on a net basis within other income or expenses.

Group Companies

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

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

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

(f) Income Taxes and Other Taxes

Current Tax

Current income tax expense 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 prior financial periods is recognised as a liability (or asset) to the extent that it is unpaid or (refundable).

Deferred Tax

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

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

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

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

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

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

Goods and Services Tax ('GST')

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

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

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

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

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

Petroleum Resource Rent Tax ('PRRT')

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

(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 venture operation cash balances) and short-term bank deposits that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(h) Receivables

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(h) Receivables (continued)

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

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories are represented by assets acquired from third parties, in the form of casing and other drilling inventory to be consumed or used in exploration and evaluation activities.

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

(j) Security Deposits

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

Security deposits are non-derivative financial assets that are not quoted in an active market. Security deposits are initially recognised at cost. Such assets are subsequently carried at amortised cost using the effective interest method. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Security deposits are derecognised when the terms and conditions attached to the relevant exploration permit agreements or operating lease rental agreements have expired or been transferred.

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

(k) Non-Current Assets Held for Sale

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

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

(l) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income as incurred.

Commencing from the time the plant and equipment is held ready for use, depreciation expense is calculated on a straight-line basis to allocate their cost amount, net of their residual values, over their estimated useful lives ranging from 2 to 10 years.

Plant and equipment residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with the net carrying amount. These gains and losses are included in the consolidated statement of profit or loss and other comprehensive income.

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

(m) Intangibles

Computer Software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Computer software costs have a finite life.

Commencing from the time the computer software is held ready for use, amortisation expense is calculated on a straight-line basis to allocate their cost amount, net of their residual values, over their estimated useful lives ranging from two to two and half years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

Computer software is tested for impairment in accordance with the accounting policy described in Note 1(o).

Goodwill

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

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

Impairment of Goodwill

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

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

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

Any impairment loss recognised for goodwill is not subsequently reversed.

(n) Exploration and Evaluation Expenditure

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

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the end of the reporting period reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Otherwise, exploration and evaluation expenditure is expensed as incurred.

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(n) Exploration and Evaluation Expenditure (continued)

When the technical feasibility and commercial viability of extracting economically recoverable reserves have been demonstrated, any related capitalised exploration and evaluation expenditure is reclassified as development expenditure in the consolidated statement of financial position. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Farm-out

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

Any cash consideration received on sale or farm-out of an area within an exploration area of interest is offset against the carrying value of the particular area involved. Where the total carrying value of an area of interest has been recouped in this manner, the balance of the proceeds is brought to account in the consolidated statement of profit or loss and other comprehensive income as a gain on disposal.

Impairment of Capitalised Exploration and Evaluation Expenditure

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the asset or cash-generating unit level (which usually is represented by an exploration permit) whenever facts and circumstances (as defined in AASB 6) suggest that the carrying amount of the asset may exceed its recoverable amount. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written-down to its recoverable amount. Impairment losses are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

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

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

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

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

(p) Trade and Other Payables

Trade and other payables are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. They are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(q) Employee Benefits

Wages, Salaries, Annual Leave and Personal Leave

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

The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Share-based Payments

Share-based remuneration benefits are provided to employees via the Company's PRP, ESOP and Directors via other share options (refer Note 30).

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

The fair value is measured at grant date. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options and performance rights that are expected to vest based on the non-market performance vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss and other comprehensive income, with a corresponding adjustment to equity. For options or performance rights that vest immediately, the value is expensed immediately.

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

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

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

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(r) Provisions (continued)

Long Service Leave

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

Restoration

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

(s) Contributed Equity

Ordinary shares are classified as equity.

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

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

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

(t) Interests in Joint Venture Operations

The proportionate interests in the assets, liabilities, revenue and expenses of a joint venture operation are incorporated in the consolidated financial statements under the appropriate headings.

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

(u) Leases

Group as a Lessee

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

(v) 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.

(w) Parent Company Financial Information

The financial information for the Parent Company, Karoon Gas Australia Ltd, disclosed in Note 33 has been prepared on the same basis as the consolidated financial statements, except as set out below:

Investments in Subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Karoon Gas Australia Ltd.

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

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

Share-based Payments

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

Tax Consolidation

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

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

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

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

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

AASB 9 'Financial Instruments' addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group is yet to assess AASB 9's full impact. However, there will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2016.

(ii) *AASB 1053 'Application of Tiers of Australian Accounting Standards' and AASB 2010-2 'Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements' (effective 1 July 2013)*

On 30 June 2010, the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Karoon Gas Australia Ltd is listed on the ASX, as such it is ineligible to adopt these two new Australian Accounting Standards. As a consequence, there will be no impact on the consolidated financial statements.

Note 1. Summary of Significant Accounting Policies (continued)

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

(iii) *AASB 10 'Consolidated Financial Statements', AASB 11 'Joint Arrangements', AASB 12 'Disclosure of Interests in Other Entities', revised AASB 127 'Separate Financial Statements', AASB 128 'Investments in Associates and Joint Ventures', AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards' and AASB 2012-10 'Amendments to Australian Accounting Standards- Transition Guidance and Other Amendments' (effective 1 January 2013)*

During August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in *AASB 127* '*Consolidated and Separate Financial Statements*', and *Interpretation 12* '*Consolidation – Special Purpose Entities*'. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group is yet to assess AASB 10's full impact but it does not expect the new standard to have any impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As disclosed in Note 26, the Group has interests in a number of joint venture operations. The Group has assessed the nature of its joint arrangements and determined them to be joint operations. As the Group already accounts for the proportionate interests in the assets, liabilities, revenue and expenses of a joint venture operation, AASB 11 is not expected to have any impact on the amounts recognised in its consolidated financial statements.

AASB 12 sets out the required disclosures for entities reporting under the above two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the consolidated financial statements but will impact the type of information disclosed in relation to the Group's joint operations.

AASB 127 is renamed 'Separate Financial Statements' and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the consolidated financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a partial disposal concept. The Group is yet to assess AASB 128's full impact but it does not expect that application of this standard by the Group will affect any of the amounts recognised in the consolidated financial statements.

The Group does not intend to adopt the relevant new standards before their operative date, which means that they would first be applied in the financial year ending 30 June 2014.

(iv) *AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13' (effective 1 January 2013)*

AASB 13 was released during September 2011. AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the consolidated financial statements or disclosed in the notes to the consolidated financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2014.

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

AASB 13 was released during June 2013. It makes certain amendments to recoverable amount disclosures so that only the recoverable amount of impaired assets is disclosed. It also introduces additional disclosures about fair value measurement when recoverable amount is based on fair value less costs of disposal. The Group is yet to assess its full impact. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2015.

(vi) *AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' (effective 1 July 2013)*

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

(vii) *AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle' (effective for annual reporting periods beginning on or after 1 January 2013)*

During June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2014.

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

Note 2. Significant Accounting Estimates, Assumptions and Judgements

Revenues and expenses and the carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In applying the Group's significant accounting policies, the Board of Directors and management evaluate estimates and judgements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group.

Significant estimates, assumptions and/or judgements made by the Board of Directors and management in the preparation of the consolidated financial statements were:

(a) Capitalised Exploration and Evaluation Expenditure

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

In addition, exploration and evaluation expenditure is carried forward on the basis that exploration and evaluation activities in the areas of interest have not at the end of the reporting period reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing. To the extent it is determined in the future this capitalised expenditure should be written off, financial results and net assets will be reduced during the financial period in which this determination is made.

Information on the reasonable existence or otherwise of economically recoverable reserves is progressively gained through geological analysis and interpretation, drilling activity and prospect evaluation during a normal exploration permit 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.

Note 2. Significant Accounting Estimates, Assumptions and Judgements (continued)

(b) Share-based Payments

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

(c) Income Tax

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax balances in the financial period in which such determination is made.

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

Note 3. Financial Risk Management

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

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

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

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

The Group had no off-statement of financial position financial assets or financial liabilities at either 30 June 2013 or 30 June 2012.

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

		Consolidated	
	Note	2013 $	2012 $
Financial assets			
Cash and cash equivalents	10	204,519,641	227,802,316
Receivables	11	4,893,287	3,362,813
Security deposits	13	24,147,381	42,560,578
Total financial assets		233,560,309	273,725,707
Financial liabilities			
Trade and other payables (refer note (a) below)		75,978,729	10,654,343
Financial liability	20	15,204,315	-
Total financial liabilities		91,183,044	10,654,343

Note:

(a) Trade and other payables above exclude amounts relating to leave liabilities, which are not considered a financial instrument. The reconciliation to the amount in the consolidated statement of financial position is as follows:

Trade and other payables	19	76,804,541	11,275,782
Less: Leave liabilities		(825,812)	(621,439)
		75,978,729	10,654,343

(a) Market Risk

(i) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the Company's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to predominantly United States dollar expenditures and cash and deposits held in United States dollars and Brazilian REALS. The Group manages foreign exchange risk at the corporate level by monitoring forecast cash flows in currencies other than Australian dollars and ensuring that adequate United States dollar and Brazilian REAL cash balances are maintained.

United States dollars are bought on the spot market in excess of immediate requirements. Where currencies are purchased in advance of requirements, these balances do not usually exceed three months requirements.

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

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

Note 3. Financial Risk Management (continued)

(a) Market Risk (continued)

(i) Foreign Exchange Risk (continued)

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

	2013				2012			
Consolidated	AUD $	USD $	REAL $	Total $	AUD $	USD $	REAL $	Total $
Financial assets								
Cash and cash equivalents	43,016,336	53,611,907	107,891,398	204,519,641	132,453,044	94,257,036	1,092,236	227,802,316
Receivables	493,137	1,452,867	2,947,283	4,893,287	1,631,469	1,017,127	714,217	3,362,813
Security deposits	375,004	7,753,680	16,018,697	24,147,381	344,385	7,018,383	35,197,810	42,560,578
Total financial assets	43,884,477	62,818,454	126,857,378	233,560,309	134,428,898	102,292,546	37,004,263	273,725,707
Financial liabilities								
Trade and other payables	695,069	34,596,941	40,686,719	75,978,729	997,393	6,220,348	3,436,602	10,654,343
Financial liability	-	-	15,204,315	15,204,315	-	-	-	-
Total financial liabilities	695,069	34,596,941	55,891,034	91,183,044	997,393	6,220,348	3,436,602	10,654,343

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	
	2013 $	2012 $	2013 $	2012 $
Change in profit (loss)				
– Improvement in AUD by 10.0%	-	-	(3,029,099)	(8,690,056)
– Decline in AUD by 10.0%	-	-	3,702,230	10,621,179
Change in financial assets				
– Improvement in AUD by 10.0%	(11,532,489)	(3,364,024)	(5,710,769)	(9,299,322)
– Decline in AUD by 10.0%	14,095,264	4,111,585	6,979,828	11,365,838
Change in financial liabilities				
– Improvement in AUD by 10.0%	5,081,003	312,418	3,145,176	565,486
– Decline in AUD by 10.0%	(6,210,115)	(381,845)	(3,844,105)	(691,150)
Change in foreign currency translation reserve				
– Improvement in AUD by 10.0%	6,451,486	3,051,606	(463,506)	43,780
– Decline in AUD by 10.0%	(7,885,149)	(3,729,740)	566,507	(53,509)

(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 2013 and 30 June 2012, there was no borrowing outstanding and there was no interest rate hedging in place.

The Group's interest rate risk arises from relevant financial assets, primarily cash and cash equivalents deposited at variable rates of interest and security deposits held in Brazil. Surplus cash is invested in short-term bank deposits due to uncertainty of the timing of major cash outflows. Whilst some of the invested cash is in United States dollars, the primary exposure is to Australian and Brazilian interest rates.

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

	Consolidated					
2013	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	3.4	108,904,589	38,516,027	57,099,025	204,519,641	204,519,641
Receivables	-	-	-	4,893,287	4,893,287	4,893,287
Security deposits	4.5	16,003,489	8,067,126	76,766	24,147,381	24,147,381
Total financial assets		124,908,078	46,583,153	62,069,078	233,560,309	233,560,309
Financial liabilities						
Trade and other payables	-	-	-	75,978,729	75,978,729	75,978,729
Financial liability	-	-	-	15,204,315	15,204,315	15,204,315
Total financial liabilities		-	-	91,183,044	91,183,044	91,183,044

	Consolidated					
2012	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	3.4	92,145,235	129,525,115	6,131,966	227,802,316	227,802,316
Receivables	-	-	-	3,362,813	3,362,813	3,362,813
Security deposits	8.9	35,193,756	7,336,088	30,734	42,560,578	42,560,578
Total financial assets		127,338,991	136,861,203	9,525,513	273,725,707	273,725,707
Financial liabilities						
Trade and other payables	-	-	-	10,654,343	10,654,343	10,654,343
Total financial liabilities		-	-	10,654,343	10,654,343	10,654,343

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	
	2013 $	2012 $
Change in profit (loss)		
– Increase of interest rate by 1.0% p.a.	1,249,081	1,273,390
– Decrease of interest rate by 1.0% p.a.	(762,689)	(295,976)
Change in financial assets		
– Increase of interest rate by 1.0% p.a.	1,249,081	1,273,390
– Decrease of interest rate by 1.0% p.a.	(762,689)	(295,976)

Note 3. Financial Risk Management (continued)

(b) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents and security deposits held with banks, financial institutions and joint venture operators, as well as credit exposures to customers, including outstanding receivables.

Credit risk is managed on a Group basis at the corporate level. To minimise credit risk, the Group has adopted a policy of only dealing with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result being the Group's exposure to bad debts is minimised. The Group does not hold collateral, nor does it securitise its receivables.

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

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

The maximum exposure to credit risk at the end of the financial year is the carrying amount of the financial assets as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements.

The Group is exposed to credit risk in relation to cash and cash equivalents and security deposits held with the HSBC Group. The maximum amount of exposure to the HSBC Group as at 30 June 2013 was $119,777,999 (2012: $77,861,023).

As at 30 June 2013, there were $Nil (30 June 2012: $Nil) financial assets past due.

(c) Liquidity Risk

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

At the end of the financial year, the Group held cash and cash equivalents at call of $166,003,614 (30 June 2012: $98,277,201) that are expected to readily generate cash inflows for managing liquidity risk.

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

The following mechanisms are utilised:

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

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

	Consolidated					
2013	Less than 6 Months $	6-12 Months $	Between 1 and 2 Years $	Between 2 and 5 Years $	Over 5 Years $	Total $
Financial liabilities						
Trade and other payables	75,978,729	-	-	-	-	75,978,729
Financial liability	-	15,204,315	-	-	-	15,204,315
Total financial liabilities	75,978,729	15,204,315	-	-	-	91,183,044

2012	$	$	$	$	$	$
Financial liabilities						
Trade and other payables	10,654,343	-	-	-	-	10,654,343
Total financial liabilities	10,654,343	-	-	-	-	10,654,343

(d) Fair Value Estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 30 June 2013 are presented in the table under Note 3(a)(ii) and can be compared to their carrying values as presented in the consolidated statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values estimated for disclosure purposes are based on information that is subject to judgement, where changes in assumptions may have a material impact on the amounts estimated.

The following summarises the significant methods and assumptions used in estimating fair values of financial assets and financial liabilities for disclosure purposes:

Cash and Cash Equivalents

The carrying amount is fair value due to the liquid nature of these assets.

Receivables

The carrying amounts of receivables are assumed to approximate their fair values due to their short-term nature.

Security Deposits

The carrying amounts of security deposits are assumed to represent their fair values based on their likely realisability profile.

Trade and Other Payables

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

Financial Liability

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

	Consolidated 2013 $	2012 $
Note 4. Revenue		
Interest income from unrelated entities	7,782,174	13,601,653
Total revenue	7,782,174	13,601,653
Net foreign currency gains	3,024,994	4,388,118
Net gain on disposal of plant and equipment	-	7,955
Total other income	3,024,994	4,396,073

	Note	Consolidated 2013 $	2012 $
Note 5. Expenses			
Loss before income tax includes the following specific expenses:			
Depreciation and amortisation expense:			
– depreciation of plant and equipment	16	666,883	559,759
– amortisation of computer software	17	343,216	388,917
Total depreciation and amortisation expense		1,010,099	948,676
Exploration and evaluation expenditure expensed		1,035,122	1,219,720
Total exploration and evaluation expenditure expensed		1,035,122	1,219,720
Finance costs:			
– bank charges		158,941	256,321
Total finance costs		158,941	256,321
Share-based payments expense	30(e)	5,117,620	5,969,470
Rental expense on operating leases – minimum lease payments		875,624	802,170
Net loss on disposal of plant and equipment		4,160	-
Net loss on disposal of subsidiaries (included in 'Other expenses')		-	427

Note 6. Income Tax

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

	2013 $	2012 $
Tax expense comprises:		
Current income tax	-	-
Deferred income tax	-	-
Total income tax expense	-	-

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

	2013 $	2012 $
Prima facie tax payable on loss before income tax, calculated at the Australian tax rate of 30% (2012: 30%)	(3,279,121)	(986,215)
Add (subtract) tax effect of:		
Share-based payments expense	1,535,286	1,790,841
Other non-deductible items	1,780,311	1,550,780
Tax losses and temporary tax differences not recognised	(36,476)	(2,355,406)
Total income tax expense	-	-

(b) 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:

	2013 $	2012 $
– Unrecognised temporary tax differences relating to deferred tax assets	1,796,072	1,155,116
– Tax losses:		
– Australian operating losses at a rate of 30%	8,342,027	10,206,442
– Brazilian operating losses at a rate of 34%	762,971	367,777
Potential tax benefit	10,901,070	11,729,335

	Consolidated 2013 $	2012 $
(c) Current Tax Asset		
Income tax refund receivable	1,029,238	503,416
Total current tax asset	1,029,238	503,416
(d) Deferred Tax Liabilities		
Temporary tax differences relating to deferred tax liabilities	(114,430,785)	(75,605,449)
Offset by deferred tax assets relating to operating losses	114,430,785	75,605,449
Total deferred tax liabilities	-	-

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 2013 of $94,900,578 (2012: $89,948,514). 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 $26,572,162 (2012: $25,185,584).

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 utilised against assessable receipts in future financial years. Interests in undeducted PRRT expenditure can be transferred between projects within the Group or to other third parties on acquisitions of interests in the Group's Australian offshore permits.

Note 7. Remuneration of External Auditors

	Consolidated 2013 $	2012 $
Remuneration received or due and receivable by the external auditor of Karoon Gas Australia Ltd for:		
(a) PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	150,000	121,500
Total remuneration for audit and other assurance services	150,000	121,500
(ii) Other services (refer Note (a) below)		
International tax and accounting advice	30,000	-
International tax advice	-	3,000
Total remuneration of PricewaterhouseCoopers Australia	180,000	124,500
(b) Related practices of PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	85,620	51,053
Total remuneration for audit and other assurance services of related practices	85,620	51,053
Total remuneration external auditors	265,620	175,553

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

	Consolidated 2013 $	Consolidated 2012 $

Note 8. Dividends

There were no ordinary dividends declared or paid during the financial year by the Group (2012: $Nil).

Dividend franking account

	2013 $	2012 $
Balance of franking account at end of financial year	-	-

Note 9. Earnings Per Share

	2013 $	2012 $
Loss for financial year used to calculate basic and diluted loss per ordinary share:	(10,930,403)	(3,287,382)
(a) Basic loss per ordinary share	(0.0494)	(0.0148)
(b) Diluted loss per ordinary share*	(0.0494)	(0.0148)

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

	2013	2012
Weighted average number of ordinary shares on issue during the financial year used in calculating basic loss per ordinary share:	221,420,769	221,420,769
Weighted average number of potential ordinary shares:	149,029	-
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted loss per ordinary share (excluding anti-dilutive options outstanding):	221,569,798	221,420,769
Weighted average number of anti-dilutive options:	11,518,443	9,731,486

Potential ordinary shares

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

Note 10. Cash and Cash Equivalents

	2013 $	2012 $
Cash at banks and on hand	111,222,505	98,277,201
Short-term bank deposits	93,297,136	129,525,115
Total cash and cash equivalents	204,519,641	227,802,316

(a) Cash at Banks and On Hand

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

(b) Short-Term Bank Deposits

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

(c) Financial Risk Management

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

	Consolidated 2013 $	2012 $

Note 11. Receivables

Current		
Other receivables	4,893,287	3,362,813
Total current receivables	4,893,287	3,362,813

(a) Financial Risk Management

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

Note 12. Inventories

Current		
Casing and other drilling inventory, at cost	28,793,537	13,051,792
Total current inventories	28,793,537	13,051,792

Note 13. Security Deposits

Current		
Karoon Petróleo & Gas Ltda (refer Note (a) below)	11,867,812	35,058,685
Karoon Gas Australia Ltd (refer Note (c) below)	-	4,279
Karoon Petróleo & Gas Ltda, KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer Note (d) below)	4,040,288	27,245
Total current security deposits	15,908,100	35,090,209

Non-current		
Karoon Gas Australia Ltd (refer Note (b) below)	7,696,604	6,995,982
Karoon Gas Australia Ltd, Karoon Petróleo & Gas Ltda (refer Note (c) below)	507,414	474,387
KEI (Peru Z38) Pty Ltd, Sucursal del Peru and KEI (Peru 112) Pty Ltd, Sucursal del Peru (refer Note (d) below)	35,263	-
Total non-current security deposits	8,239,281	7,470,369

(a) Performance Bonds

The Group has provided Agencia Nacional do Petróleo (the Brazilian Petroleum Agency) insurance bonds (30 June 2012: insurance bonds) (refer Note 27) to carry out minimum work programs in relation to the Group's exploration permits in the Santos Basin, Brazil (30 June 2013: Block S-M-1166; 30 June 2012: Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166). The insurance bonds were part funded to 50% of the value of the total bonds provided to Agencia Nacional do Petróleo by establishment of an escrow account. The funds deposited in escrow are invested on term deposit and quarterly interest earned is released from escrow after the end of each quarter. The principal funds held in escrow are released as work is undertaken to satisfy the work programs.

(b) Performance Guarantees

Performance guarantees (via letters of credit) were provided to Peru Petro SA for Block Z-38 and Block 144 by the Group (refer Note 27) for second and third period work commitments. The letters of credit are fully funded by way of payment of a security deposit, which will be released once the work commitments are met.

(c) Bank Guarantees

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

(d) Bonds

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

(e) Financial Risk Management

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

	Note	Consolidated 2013 $	2012 $

Note 14. Assets Classified as Held for Sale

Current	Note	2013 $	2012 $
Exploration and evaluation expenditure carried forward held for sale (refer Note (a) below)	18	267,219,136	-
Total current assets classified as held for sale		267,219,136	-

(a) As described in Note 21, the Group executed agreements to dispose of a 35% interest in the Group's Santos Basin exploration Blocks, S-M-1101, S-M-1102, S-M-1037, S-M-1165 and S-M-1166. Exploration and evaluation expenditure carried forward relating to these interests has, therefore, been reclassified as held for sale.

Note 15. Other Assets

Current	2013 $	2012 $
Prepayments	4,621,975	8,058,487
Total current other assets	4,621,975	8,058,487

Non-current	2013 $	2012 $
Prepayments	-	142,177
Total non-current other assets	-	142,177

Note 16. Plant and Equipment

Plant and equipment	2013 $	2012 $
At cost	4,043,440	3,546,780
Accumulated depreciation	(2,062,101)	(1,510,213)
Total plant and equipment, at net book value	1,981,339	2,036,567

Reconciliation

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

	Note	2013 $	2012 $
Balance at beginning of financial year		2,036,567	2,216,532
Additions	25	598,352	382,725
Disposals		(4,160)	(16,591)
Net foreign currency difference on translation of financial statements of foreign subsidiaries		17,463	13,660
Depreciation expense	5	(666,883)	(559,759)
Net carrying amount at end of financial year		1,981,339	2,036,567

Note 17. Intangible Assets

Computer software	2013 $	2012 $
At cost	1,801,895	1,724,577
Accumulated amortisation	(1,383,285)	(1,045,151)
Total intangibles, at net book value	418,610	679,426

Reconciliation

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

	Note	2013 $	2012 $
Balance at beginning of financial year		679,426	480,041
Additions	25	78,419	580,025
Net foreign currency difference on translation of financial statements of foreign subsidiaries		3,981	8,277
Amortisation expense	5	(343,216)	(388,917)
Net carrying amount at end of financial year		418,610	679,426

	Note	Consolidated 2013 $	2012 $

Note 18. Exploration and Evaluation Expenditure Carried Forward

Deferred geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs		408,319,787	313,884,275

Reconciliation

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

	Note	2013 $	2012 $
Balance at beginning of financial year		313,884,275	276,465,002
Additions	25	359,051,091	44,659,227
Transfer to current assets held for sale	14	(267,219,136)	-
Net foreign currency difference on translation of financial statements of foreign subsidiaries		2,603,557	(7,239,954)
Total exploration and evaluation expenditure carried forward (refer Note (a) below)		408,319,787	313,884,275
Tangible		-	-
Intangible		408,319,787	313,884,275
Total exploration and evaluation expenditure carried forward		408,319,787	313,884,275

(a) Exploration and evaluation expenditure carried forward relates to areas of interest in the exploration and evaluation phase for exploration permits WA-314-P, WA-315-P, WA-398-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144 (30 June 2012: WA-314-P, WA-315-P, WA-398-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144).

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

	Consolidated 2013 $	2012 $

Note 19. Trade and Other Payables

Current (unsecured)

	2013 $	2012 $
Trade payables	46,903,631	3,945,978
Sundry payables and accrued expenditure	29,900,910	7,329,804
Total current trade and other payables	76,804,541	11,275,782

(a) Financial Risk Management

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

Note 20. Financial Liability

Current (unsecured)

	2013 $	2012 $
Refundable insurance bond – PRE	15,204,315	-
Total current financial liability	15,204,315	-

(a) Financial Risk Management

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

	Consolidated 2013 $	Consolidated 2012 $
Note 21. Other Liabilities		
Current (unsecured)		
Advances and interest payable – PRE (refer Note (a) below)	253,783,575	-
Total current other liabilities	253,783,575	-

(a) During the financial year, Karoon Petróleo & Gas Ltda, a wholly owned subsidiary of the Company, executed agreements (the 'Agreements') with Pacific Brasil Exploração e Produção de Óleo e Gás Ltda ('PRE'), for PRE to acquire a 35% interest in each of the Group's Santos Basin exploration Blocks S-M-1101, S-M-1102, S-M-1037, S-M-1165 and S-M-1166 (the 'Blocks').

In consideration for acquiring the interest in the Blocks, PRE paid USD40 million cash consideration in advance for the interests, submitted a share of a refundable insurance bond (security deposit) totalling USD15.3 million and carried USD70 million in well costs for three wells (Kangaroo-1, Emu-1 and Bilby-1) in the Santos Basin drilling campaign, for a cumulative total of USD210 million in well carries. After meeting the first USD70 million in well costs for each of the first three wells, PRE meets 35% of all well costs thereafter.

Karoon Petróleo & Gas Ltda's assignment of the 35% interest in the respective Blocks is conditional on obtaining regulatory approval from the Agencia Nacional do Petroleo ('ANP') within 18 months of submission of documents to ANP, with the potential of a further six month period to obtain ANP approval if other outcomes cannot be agreed between the parties.

If ANP approval is not met within the above extended timeframe, or as a result of a number of other scenarios including but not limited to misrepresentation by Karoon Petróleo & Gas Ltda or a breach of the Agreements by Karoon Petróleo & Gas Ltda, it would in certain circumstances result in the repayment of amounts advanced by Karoon Petróleo & Gas Ltda to PRE as provided in the Agreements.

In accordance with the Agreements, a cash consideration of USD40 million was received in advance as consideration for the assignment and funds were received for well carries and 35% of all well costs thereafter. As at 30 June 2013, $253,783,575 had been received and recorded as 'Other Liabilities' in the consolidated statement of financial position. As the liability is expected to be settled within 12 months, by transferring the equity interest in the Blocks, the liability has been classified as a current liability. Karoon Petróleo & Gas Ltda will not be required to pay any cash to settle the liability within the next 12 months. A financial liability will be recognised in the future if the extended timeframe lapses, or as the result of a number of other scenarios including, but not limited to, misrepresentation by Karoon Petróleo & Gas Ltda or a breach of the Agreements by Karoon Petróleo & Gas Ltda.

Financial Liability

The PRE payment of USD15.3 million in respect of a refundable insurance bond (security deposit) amount was required for its share of the minimum work program commitments. This amount, or parts thereof, will be repaid to PRE on fulfilment of the minimum work program. This amount has been classified as a current financial liability in the consolidated statement of financial position and as at 30 June 2013 totalled $15,204,315.

	Consolidated 2013 $	Consolidated 2012 $
Note 22. Provisions		
Non-current		
Provision for long service leave	310,603	206,144
Total non-current provisions	310,603	206,144

(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(r).

	Consolidated 2013 Number	Consolidated 2012 Number	Consolidated 2013 $	Consolidated 2012 $

Note 23. Contributed Equity and Reserves Within Equity

(a) Share Capital

	2013 Number	2012 Number	2013 $	2012 $
Ordinary shares, fully paid	221,420,769	221,420,769	664,894,335	664,894,335
Total contributed equity			664,894,335	664,894,335

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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

Ordinary shares participate in dividends as declared from time to time and the proceeds on winding up of the Company in proportion to the number of fully paid ordinary shares held.

(b) Movement in Ordinary Shares

Date	Details	Number of Ordinary Shares	$
1 July 2012	Opening balance in previous financial year	221,420,769	664,894,335
30 June 2013	Balance at end of financial year	221,420,769	664,894,335

(c) Capital Management

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

The Executive Chairman manages the Company's capital by monitoring future rolling cash flows and adjusting its capital structure, as required, in consultation with the Board of Directors to meet Group business objectives.

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

(d) Reserves Within Equity

(i) Share-based Payments Reserve

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

(ii) Foreign Currency Translation Reserve

The foreign currency translation reserve is used to recognise exchange differences arising from the translation of financial statements of foreign subsidiaries, as described in Note 1(e). The relevant amounts included in the foreign currency translation reserve will be recognised in the consolidated statement of profit or loss and other comprehensive income when each relevant investment in foreign subsidiary is disposed.

Note 24. Subsidiaries

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

Name	Country of Incorporation or Registration	Business Activities Carried on in	Percentage of Equity and Voting Interests Held 2013 %	2012 %
Parent Company:				
Karoon Gas Australia Ltd	Australia	Australia		
Unlisted subsidiaries of Karoon Gas Australia Ltd:				
Karoon Energy International Pty Ltd	Australia	Australia	100.0	100.0
Karoon Gas Browse Basin Pty Ltd	Australia	Australia	100.0	100.0
Karoon Gas (FPSO) Pty Ltd	Australia	Australia	100.0	100.0
Unlisted subsidiaries of Karoon Energy International Pty Ltd:				
KEI (Brazil Santos) Pty Ltd	Australia	Australia	100.0	100.0
KEI (Peru 112) Pty Ltd	Australia	Australia	100.0	100.0
KEI (Peru Z38) Pty Ltd	Australia	Australia	100.0	100.0
Jointly owned unlisted subsidiary of Karoon Energy International Pty Ltd and KEI (Brazil Santos) Pty Ltd:				
Karoon Petróleo & Gas Ltda	Brazil	Brazil	100.0	100.0
Branch of KEI (Peru 112) Pty Ltd:				
KEI (Peru 112) Pty Ltd, Sucursal del Peru	Peru	Peru	100.0	100.0
Branch of KEI (Peru Z38) Pty Ltd:				
KEI (Peru Z38) Pty Ltd, Sucursal del Peru	Peru	Peru	100.0	100.0

Note 25. Segment Information

(a) Description of Segments

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

In the previous financial year, operating segments were identified based on the Group's equity interest in each individual exploration permit and aggregated where the economic circumstances and long-term planning and operational considerations of the individual exploration permits were such that they were considered interdependent.

The operating segments now identified are based on the Group's geographical location of its operations, which has resulted in a change in both the basis of segmentation and the basis of measurement of segment profit (or loss) and segment assets.

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

- Australia – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in four offshore permit areas: WA-314-P, WA-315-P, WA-398-P and WA-482-P (30 June 2012: WA-314-P, WA-315-P and WA-398-P);
- Brazil – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in five offshore Blocks: Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165 and Block S-M-1166; and
- Peru – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in two Blocks: Block 144 (onshore) and Block Z-38 (offshore).

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

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

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

The amounts provided to the chief operating decision maker with respect to total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements. Reportable segment assets and segment liabilities are equal to consolidated total assets and total liabilities respectively. These assets and liabilities are allocated on the operations of the segment.

(b) Operating Segments

Segment Performance	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
Revenue for financial year ended 30 June 2013					
Segment revenue	-	-	-	-	-
Interest income from unrelated entities	3,625,646	4,156,501	27	-	7,782,174
Total revenue	3,625,646	4,156,501	27	-	7,782,174
Result for financial year ended 30 June 2013					
Revenue	3,625,646	4,156,501	27	-	7,782,174
Other income	4,182,887	(1,154,343)	(3,550)	-	3,024,994
Depreciation and amortisation expense	(763,440)	(185,606)	(61,053)	-	(1,010,099)
Employee benefits expense (net)	(9,065,787)	(1,634,848)	(361,031)	-	(11,061,666)
Exploration and evaluation expenditure expensed	(642,381)	(356,909)	(18,150)	(17,682)	(1,035,122)
Finance costs	(65,686)	(83,820)	(9,435)	-	(158,941)
Property costs	(693,054)	(458,587)	(4,130)	-	(1,155,771)
Administration and other operating expenses	(4,091,255)	(2,497,454)	(727,263)	-	(7,315,972)
Loss before income tax	(7,513,070)	(2,215,066)	(1,184,585)	(17,682)	(10,930,403)
Income tax expense	-	-	-	-	-
Loss for financial year	(7,513,070)	(2,215,066)	(1,184,585)	(17,682)	(10,930,403)
Revenue for financial year ended 30 June 2012					
Segment revenue	-	-	-	-	-
Interest income from unrelated entities	9,194,831	4,406,375	447	-	13,601,653
Total revenue	9,194,831	4,406,375	447	-	13,601,653
Result for financial year ended 30 June 2012					
Revenue	9,194,831	4,406,375	447	-	13,601,653
Other income	4,477,429	(109,175)	27,819	-	4,396,073
Depreciation and amortisation expense	(789,461)	(149,879)	(9,336)	-	(948,676)
Employee benefits expense (net)	(9,727,785)	(1,610,615)	(122,068)	-	(11,460,468)
Exploration and evaluation expenditure expensed	(1,192,867)	(24,360)	(419)	(2,074)	(1,219,720)
Finance costs	(131,530)	(120,257)	(4,534)	-	(256,321)
Property costs	(696,592)	(360,137)	(2,099)	-	(1,058,828)
Administration and other operating expenses	(3,217,199)	(2,705,021)	(418,875)	-	(6,341,095)
Loss before income tax	(2,083,174)	(673,069)	(529,065)	(2,074)	(3,287,382)
Income tax expense	-	-	-	-	-
Loss for financial year	(2,083,174)	(673,069)	(529,065)	(2,074)	(3,287,382)

Note 25. Segment Information (continued)

(b) Operating Segments (continued)

	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
As at 30 June 2013					
Segment asset information					
Cash and cash equivalents	95,684,371	107,926,966	908,304	-	204,519,641
Exploration and evaluation expenditure carried forward	342,171,959	31,928,443	34,219,385	-	408,319,787
Security deposits	375,004	16,018,697	7,753,680	-	24,147,381
Inventories	2,562,547	12,951,159	13,279,831	-	28,793,537
Assets classified as held for sale	-	267,219,136	-	-	267,219,136
Other	3,435,735	7,764,512	1,744,202	-	12,944,449
Segment assets	444,229,616	443,808,913	57,905,402	-	945,943,931
As at 30 June 2012					
Segment asset information					
Cash and cash equivalents	226,230,091	1,153,673	418,552	-	227,802,316
Exploration and evaluation expenditure carried forward	220,318,279	66,466,372	27,099,624	-	313,884,275
Security deposits	344,385	35,197,810	7,018,383	-	42,560,578
Inventories	932,223	12,119,569	-	-	13,051,792
Other	6,855,329	5,411,082	2,516,475	-	14,782,886
Segment assets	454,680,307	120,348,506	37,053,034	-	612,081,847
As at 30 June 2013					
Segment liability information					
Trade and other payables	29,398,499	41,184,640	6,221,402	-	76,804,541
Financial liability	-	15,204,315	-	-	15,204,315
Other liabilities	-	253,783,575	-	-	253,783,575
Provisions	310,603	-	-	-	310,603
Segment liabilities	29,709,102	310,172,530	6,221,402	-	346,103,034
As at 30 June 2012					
Segment liability information					
Trade and other payables	7,199,405	3,923,391	152,986	-	11,275,782
Provisions	206,144	-	-	-	206,144
Segment liabilities	7,405,549	3,923,391	152,986	-	11,481,926

(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 2013					
Plant and equipment	346,832	182,077	69,443	-	598,352
Intangible assets	65,482	5,058	7,879	-	78,419
Exploration and evaluation expenditure carried forward	121,853,680	232,070,729	5,126,682	-	359,051,091
Financial year ended 30 June 2012					
Plant and equipment	211,391	37,727	133,607	-	382,725
Intangible assets	211,483	368,542	-	-	580,025
Exploration and evaluation expenditure carried forward	25,283,375	16,133,669	3,242,183	-	44,659,227

Note 26. Joint Venture Operations

The Group had an interest in the following joint venture operations as at 30 June 2013 as follows:

Exploration Permit	Unincorporated Interest 2013 %	Unincorporated Interest 2012 %	Principal Activities	Operator of Joint Venture Operation
WA-314-P	**90.00**	90.00	Exploration and evaluation	ConocoPhillips
WA-315-P	**40.00**	40.00	Exploration and evaluation	ConocoPhillips
WA-398-P	**40.00**	40.00	Exploration and evaluation	ConocoPhillips
Block Z-38	**75.00#**	75.00#	Exploration and evaluation	KEI (Peru Z38) Pty Ltd, Sucursal del Peru

The Group's 75.00% Block equity interest is subject to completion of farm-in obligations.

The following amounts represented the Group's share of assets and liabilities employed in joint venture operations. The amounts are included in the consolidated financial statements, in accordance with the accounting policy described in Note 1(t), under the following classifications:

	Consolidated 2013 $	Consolidated 2012 $
Cash and cash equivalents	**2,648,027**	4,455,817
Other receivables	**798,624**	879,349
Inventories	**2,562,547**	932,223
Total current assets	**6,009,198**	6,267,389
Exploration and evaluation expenditure carried forward	**363,571,966**	245,369,544
Total non-current assets	**363,571,966**	245,369,544
Sundry payables and accrued expenditure	**19,318,097**	5,858,519
Total current liabilities	**19,318,097**	5,858,519
Share of net assets employed in joint venture operations	**350,263,067**	245,778,414

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

Contingent liabilities in respect of joint venture operations are set out in Note 27. Exploration expenditure commitments and capital commitments in respect of joint venture operations are set out in Note 28.

Parent Company guarantees have been provided to ConocoPhillips (Browse Basin) Pty Ltd ('ConocoPhillips') guaranteeing Karoon Gas Browse Basin Pty Ltd's performance under the joint venture operating agreements covering the three Browse Basin permit interests. In addition, a deed of cross charge has been entered into with ConocoPhillips and PetroChina International Investment (Australia) Pty Ltd by Karoon Gas Browse Basin Pty Ltd covering its WA-398-P and WA-315-P Browse Basin permit interests. A deed of cross charge has also been entered into with ConocoPhillips by Karoon Gas Browse Basin Pty Ltd covering its WA-314-P Browse Basin permit interest.

	Consolidated 2013 $	Consolidated 2012 $

Note 27. Contingent Liabilities and Contingent Assets

(a) Contingent Liabilities

The Group had contingent liabilities as at 30 June 2013 that may become payable in respect of:

	2013 $	2012 $
(i) The Group has provided Agencia Nacional do Petróleo (the Brazilian Petroleum Agency) insurance bonds to carry out minimum work programs in relation to the Group's exploration permits in the Santos Basin, Brazil (30 June 2013: Block S-M-1166; 30 June 2012: Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166). The Directors are of the opinion that the work programs will be satisfied. The insurance bonds have been part funded to 50% of the value of the total bonds provided to Agencia Nacional do Petróleo by establishment of an escrow account (refer Note 13). The principal funds held in escrow are released as work is undertaken to satisfy the work programs.	11,867,812	35,058,685
(ii) Performance guarantees (via letters of credit) were provided to Peru Petro SA for Block Z-38 and Block 144 by the Group for second and third period work commitment. The Directors are of the opinion that the work commitments will be satisfied for both Blocks. The letters of credit are fully funded by way of payment of security deposits (refer Note 13), which will be released once the work commitments are met.	7,696,604	6,995,982
(iii) Bank guarantees were provided in respect of operating lease rental agreements for the Group. These guarantees may give rise to liabilities in the Group if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	507,414	478,666
(iv) Cash and escrow deposits (refer Note 13) are held as bonds for the Group's compliance with its obligations to third party suppliers in respect of agreements for the guarantee of payment obligations in contracts related to drilling in Brazil and various accommodation in Brazil and Peru.	4,075,551	27,245
(v) On 23 August 2010, Karoon Petróleo & Gas Ltda executed a farm-in agreement with Petróleo Brasileiro SA ('Petrobras') to acquire a 20% interest in Block S-M-1352, which is part of the BM-S-41 Concession located in the offshore Santos Basin, Brazil.	50,044,618	47,345,583

Under the farm-in agreement, Karoon Petróleo & Gas Ltda will earn a 20% equity interest by funding a proportion of the cost of two exploration wells. Karoon Petróleo & Gas Ltda will then pay its equity share of continued work and reimburse Petrobras for sunk costs. Petrobras is in discussions with the ANP regarding the ongoing status of the BM-S-41 Concession. Karoon's resulting 20% interest is subject to the outcome of those discussions. Karoon is not a party to the ongoing discussions between Petrobras and the ANP.

The two exploration wells included drilling of the Quasi Prospect in Block S-M-1354, which were subsequently plugged and abandoned during September 2010. The second well, the Maruja-1 exploration well in Block S-M-1352, commenced drilling during September 2010 and was suspended following a completion of a production test during January 2011. Block S-M-1354 expired during November 2010 and was formally relinquished by Petrobras during January 2011. The farm-in area of S-M-1352 has been reduced to an area around the Maruja discovery. This reduction also includes the partial relinquishment of S-M-1352.

Continued work has also included the drilling of a third well, the Maruja-2 appraisal well, which was completed and abandoned during March 2011.

Under the farm-in agreement with Petrobras, the Group's share of the costs incurred on both Blocks as at 30 June 2013 was $49,029,524 (30 June 2012: $44,622,592).

An uplift fee of $1,015,094 (30 June 2012: $2,722,991) for a full license to non-exclusive seismic data is also payable upon the completion of this farm-in.

(vi) Joint venture operations

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

(b) Contingent Assets

The Group had no contingent assets as at 30 June 2013 (30 June 2012: $Nil).

	Consolidated	
	2013 $	2012 $
Note 28. Commitments		
(a) Capital Expenditure Commitments		
Contracts and/or signed Authorities for Expenditure for capital expenditure in relation to assets not provided for in the consolidated financial statements and payable:		
(i) Drilling operations		
Not later than one year	115,324,838	122,162,003
Total capital expenditure commitments	115,324,838	122,162,003
(b) Operating Lease Rental Commitments		
Non-cancellable operating lease rentals not provided for in the consolidated financial statements and payable:		
Not later than one year	1,035,856	812,654
Later than one year but not later than five years	2,142,864	2,099,374
Total operating lease rental commitments	3,178,720	2,912,028

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

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

The Group has three office leases in Brazil. One at Rua Visconde de Pirajá, 303 – 9th floor – rooms 904/912, Ipanema, Rio de Janeiro with a primary four year term that expires on 30 April 2015. Rent is payable monthly in advance. There is an option to extend for a further term, which is negotiable at the end of the lease. The second office lease is at Rua Visconde de Pirajá, 303 – 11th floor – room 1102, Ipanema, Rio de Janeiro with a primary one year term that expires on 20 August 2013. Rent is payable monthly in advance. There is an option to extend for a further term, which is negotiable at the end of the lease. The third office lease is at Av Afonso Delambert Neto, 619 sala 5 Lagoa da Conceição, Florianópolis with a primary four year term that expires on 23 January 2014. Rent is payable monthly in advance. There is an option to extend for a further term, which is negotiable at the end of the lease.

The Group has two office leases in Peru. One at Av Santa Maria 110/140, Level 5, Miraflores, Lima with a primary four year term that expires on 4 June 2017 and a 5% p.a. rental increase. Rent is payable monthly in advance. There is an option to renew for a further two years. The second office lease at Antequera 777, 101, San Isidro, Lima with a primary term that expires on 31 July 2013. Rent is payable monthly in advance. There is an option to extend for a further term of one year, on essentially the same terms and conditions, except that a market review of rent will be triggered on renewal.

Note 28. Commitments (continued)

	Consolidated 2013 $	Consolidated 2012 $

(c) Exploration Expenditure Commitments

Some subsidiaries within the Group have commitments for exploration expenditure arising from obligations to government, to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration permits WA-314-P, WA-315-P, WA-398-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144 (30 June 2012: WA-314-P, WA-315-P, WA-398-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144) not provided for in the consolidated financial statements and payable. Included in exploration expenditure commitments are $108,100,000 (30 June 2012: $66,248,229) of commitments that relate to the non-guaranteed work commitments:

	2013 $	2012 $
Not later than one year	111,750,473	343,876,544
Later than one year but not later than five years	353,611,540	198,955,083
Total exploration expenditure commitments	465,362,013	542,831,627

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

	2013 $	2012 $
Not later than one year	110,955,800	95,593,201
Later than one year but not later than five years	165,667,919	198,955,083
Total joint venture operation exploration expenditure commitments	276,623,719	294,548,284

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

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

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

Note 29. Notes to the Consolidated Statement of Cash Flows

(a) Reconciliation of Loss for Financial Year to Net Cash Flows (Used In)/ Provided by Operating Activities

	Consolidated	
	2013 $	2012 $
Loss for financial year	(10,930,403)	(3,287,382)
Add (subtract):		
Depreciation of plant and equipment and amortisation of computer software	1,010,099	948,676
Net foreign currency gains	(3,824,221)	(3,885,319)
Non-cash employee benefits expense: share-based payments expense	5,117,620	5,969,470
Items classified as investing/financing activities:		
Net foreign currency losses/(gains)	799,227	(502,799)
Net loss on disposal of subsidiaries	-	427
Net loss/(gain) on disposal of plant and equipment	4,160	(7,955)
Change in operating assets and liabilities		
(Increase) decrease in assets:		
Receivables – current	(1,589,030)	1,509,296
Security deposits	-	3,177,395
Current tax assets	(519,594)	(560,717)
Other assets	657,436	(43,944)
Increase (decrease) in liabilities:		
Trade and other payables – current	(203,760)	(441,642)
Provisions	104,459	106,658
Net cash flows (used in)/ provided by operating activities	(9,374,007)	2,982,164

Note 30. Share-based Payments

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

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

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

If there is a change of control of the Company:

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

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

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

Note 30. Share-based Payments (continued)

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

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	
	2013 Number	2013 Weighted Average Exercise Price	2012 Number	2012 Weighted Average Exercise Price
Balance at beginning of financial year	5,495,000	$9.64	3,775,000	$11.00
Granted during financial year	1,238,999	$6.85	2,420,000	$7.30
Exercised during financial year	-	-	-	-
Cancelled during financial year	(250,000)	$8.29	(500,000)	$9.67
Forfeited during financial year	-	-	-	-
Expired during financial year	-	-	(200,000)	$6.84
Balance at end of financial year	6,483,999	$9.16	5,495,000	$9.64
Exercisable at end of financial year	3,135,000	$11.32	2,130,000	$12.06

The weighted average fair value of ESOP options granted during the financial year was $1.27 (2012: $1.51).

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

ESOP options outstanding as at 30 June 2013 had a range of exercise prices from $6.85 to $14.07 (30 June 2012: $7.30 to $14.07) with a weighted average remaining contractual life of 643 days (30 June 2012: 875 days).

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

Grant Date	Expiry Date	Exercise Price Per Option	Number
23 November 2009	12 November 2013	$14.07	530,000
9 December 2009	18 November 2013	$11.50	1,500,000
3 September 2010	31 October 2014	$9.77	705,000
12 January 2011	31 October 2014	$9.77	300,000
18 November 2010	18 November 2014	$9.77	100,000
10 November 2011	31 October 2015	$7.30	800,000
10 October 2011	31 October 2015	$7.30	1,310,000
30 November 2012	29 November 2016	$6.85	1,164,665
14 January 2013	29 November 2016	$6.85	74,334
Total ESOP options			6,483,999

(b) Other Share Options

The Group has granted other share options over unissued ordinary shares in the Company during the financial year to Directors. The exercise price of other share options, issued during the financial year, was based on the weighted average price at which the Company's ordinary shares are traded on the ASX during the 90 trading days before the options were offered plus a premium to the market price. Other share options may be exercised after the date the option was granted. If there is a change of control of the Company, all unexercised other share options will become immediately exercisable. Other share options granted carry no dividend or voting rights. When exercisable, each other share option is convertible into one ordinary share of the Company.

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

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

	Consolidated		Consolidated	
	2013 Number	2013 Weighted Average Exercise Price	2012 Number	2012 Weighted Average Exercise Price
Balance at beginning of financial year	6,150,000	$10.87	1,500,000	$12.54
Granted during financial year	200,000	$6.85	4,800,000	$10.29
Exercised during financial year	-	-	-	-
Forfeited during financial year	-	-	(150,000)	$8.92
Expired during financial year	-	-	-	-
Balance at end of financial year	6,350,000	$10.75	6,150,000	$10.87
Exercisable at end of financial year	3,050,000	$11.01	850,000	$8.92

The weighted average fair value of other share options granted during the financial year was $6.85 (2012: $1.15).

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

Other share options outstanding as at 30 June 2013 had a range of exercise prices from $6.85 to $14.07 (30 June 2012: $8.92 to $14.07) with a weighted average remaining contractual life of 692 days (30 June 2012: 1,039 days).

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

Grant Date	Expiry Date	Exercise Price Per Option	Number
23 November 2009	12 November 2013	$14.07	1,000,000
18 November 2010	18 November 2014	$9.48	500,000
10 November 2011	1 May 2014	$8.92	850,000
10 November 2011	1 May 2015	$9.95	1,200,000
10 November 2011	1 May 2016	$10.98	2,600,000
30 November 2012	29 November 2016	$6.85	200,000
Total other share options			6,350,000

(c) Fair Value of Options

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

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

	2013	2012
Weighted average exercise price	$6.85	$9.29
Weighted average life of options	1,458 days	1,418 days
Weighted average share price	$4.92	$4.56
Expected share price volatility	42%	58%
Risk free interest rate	3.24%	4.24%
Weighted average option value	$1.27	$1.27

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

Note 30. Share-based Payments (continued)

(d) Performance Rights Plan ('PRP')

Under the PRP, eligible employees are given performance rights to be issued and allotted ordinary shares in the Company, to be issued as fully paid for no consideration provided certain conditions have been met. Vesting of performance rights is conditional on the achievement of performance measures, over a one year performance period, and provided the employee remains employed by the Company for an additional year. In each case, the Remuneration Committee will be responsible for assessing whether the performance measures have been achieved. When vested, each performance right is convertible into one ordinary share of the Company.

Performance rights granted carry no dividend or voting rights.

If there is a change of control of the Company, for all unexercised performance rights issued pursuant to the Company's PRP, a percentage amount of unvested performance rights may vest on the basis of the pro-rata achievement of pre-determined performance conditions.

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

	Consolidated 2013 Number
Balance at beginning of financial year	-
Granted during financial year	259,469
Vested during financial year	-
Cancelled during financial year	-
Forfeited during financial year	-
Expired during financial year	-
Balance at end of financial year	259,469

The weighted average fair value of performance rights granted during the financial year was $4.92. The fair value of the performance rights at grant date was based on the closing market price of the Company's ordinary shares on that date.

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

Performance rights outstanding as at 30 June 2013 had a weighted average remaining contractual life of 882 days.

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

Grant Date	Expiry Date	Number
30 November 2012	29 November 2015	245,876
14 January 2013	29 November 2015	13,593
Total performance rights		259,469

(e) Share-based Payments Expense

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

	Consolidated	
	2013 $	2012 $
Options issued under ESOP	1,877,638	2,541,371
Other share options	2,874,558	3,428,099
Performance rights issued under PRP	365,424	-
Total share-based payments expense	5,117,620	5,969,470

Note 31. Remuneration of Key Management Personnel

Directors and other key management personnel at any time during the financial year were as follows:

Name	Position
Directors	
Mr Robert Hosking	Executive Chairman and Chief Executive Officer
Mr Mark Smith	Executive Director and Exploration Director
Mr Geoff Atkins	Independent Non-Executive Director
Mr Clark Davey	Independent Non-Executive Director
Mr Stephen Power	Non-Executive Director
Mr Jose Coutinho Barbosa	Non-Executive Director
Other key management personnel	
Mr Scott Hosking	Company Secretary and Chief Financial Officer (Group)
Mr Tim Hosking	South American General Manager and Chief Executive Officer Brazil
Mr Lino Barro	Engineering Manager
Mr Edward Munks	Chief Operating Officer

All of the above persons were also Directors or other key management personnel during the previous financial year.

(a) Directors and Other Key Management Personnel Remuneration

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

	Consolidated	
	2013 $	2012 $
Short-term employee benefits	3,119,248	2,845,146
Post-employment benefits	229,061	310,989
Long-term employee benefits (non-cash)	59,356	53,876
Share-based payments expense (non-cash)	3,679,698	4,249,792
Total key management personnel remuneration	7,087,363	7,459,803

Detailed remuneration disclosures are provided in Sections A-D of the audited Remuneration Report on pages 26 to 39.

(b) Employee Share Option Plan and Other Share Options; Performance Rights Plan

Information relating to the Company's PRP, ESOP and other share options, including details of options and performance rights granted, exercised, cancelled, forfeited and expired during the financial year and options and performance rights over unissued ordinary shares in the Company outstanding at the end of the financial year to Directors, other key management personnel and others, is set out in Note 30.

(c) Options and Performance Rights Over Unissued Ordinary Shares in the Company

During the financial year 578,294 (2012: 5,540,000) options over unissued ordinary shares in the Company were issued to Directors and other key management personnel, including their personally related parties.

During the financial year 82,462 performance rights over unissued ordinary shares in the Company were issued to Directors and other key management personnel, including their personally related parties.

Note 31. Remuneration of Key Management Personnel (continued)

(c) Options and Performance Rights Over Unissued Ordinary Shares in the Company (continued)

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

	Balance as at 1 July 2012	Granted as Remuneration	Exercised (Options)/ Vested (Performance Rights)	Options or Performance Rights Forfeited	Balance as at 30 June 2013	Total Vested and Exercisable as at 30 June 2013	Total Unvested as at 30 June 2013
Executive Directors							
Mr Robert Hosking							
– Other share options	2,325,000	-	-	-	2,325,000	1,025,000	1,300,000
Mr Mark Smith							
– Other share options	2,325,000	-	-	-	2,325,000	1,025,000	1,300,000
Non-Executive Directors							
Mr Geoff Atkins							
– Other share options	500,000	-	-	-	500,000	500,000	-
Mr Clark Davey							
– Other share options	500,000	-	-	-	500,000	-	500,000
Mr Stephen Power							
– Other share options	500,000	-	-	-	500,000	500,000	-
Mr Jose Coutinho Barbosa							
– Other share options	370,000	200,000	-	-	570,000	300,000	270,000
Other key management personnel							
Mr Scott Hosking							
– ESOP options	550,000	102,041	-	-	652,041	400,000	252,041
– Performance rights	-	22,124	-	-	22,124	n/a	22,124
Mr Tim Hosking							
– ESOP options	450,000	100,000	-	-	550,000	230,000	320,000
– Performance rights	-	22,124	-	-	22,124	n/a	22,124
Mr Lino Barro							
– ESOP options	500,000	74,212	-	-	574,212	400,000	174,212
– Performance rights	-	16,090	-	-	16,090	n/a	16,090
Mr Edward Munks							
– ESOP options	400,000	102,041	-	-	502,041	200,000	302,041
– Performance rights	-	22,124	-	-	22,124	n/a	22,124
Total key management personnel							
– Options	8,420,000	578,294	-	-	8,998,294	4,580,000	4,418,294
– Performance rights	-	82,462	-	-	82,462	n/a	82,462

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

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

	Balance as at 1 July 2011	Granted as Remuneration	Options Exercised	Options Forfeited	Balance as at 30 June 2012	Total Vested and Exercisable as at 30 June 2012	Total Unvested as at 30 June 2012
Executive Directors							
Mr Robert Hosking							
– Other share options	-	2,400,000	-	(75,000)	2,325,000	425,000	1,900,000
Mr Mark Smith							
– Other share options	-	2,400,000	-	(75,000)	2,325,000	425,000	1,900,000
Non-Executive Directors							
Mr Geoff Atkins							
– Other share options	500,000	-	-	-	500,000	-	500,000
Mr Clark Davey							
– Other share options	500,000	-	-	-	500,000	-	500,000
Mr Stephen Power							
– Other share options	500,000	-	-	-	500,000	-	500,000
Mr Jose Coutinho Barbosa *(appointed 31 August 2011)*							
– Other share options	300,000	70,000	-	-	370,000	300,000	70,000
Other key management personnel							
Mr Scott Hosking							
– ESOP options	400,000	150,000	-	-	550,000	400,000	150,000
Mr Tim Hosking							
– ESOP options	230,000	220,000	-	-	450,000	230,000	220,000
Mr Lino Barro							
– ESOP options	400,000	100,000	-	-	500,000	300,000	200,000
Mr Edward Munks							
– ESOP options	200,000	200,000	-	-	400,000	-	400,000
Total key management personnel							
– Options	3,030,000	5,540,000	-	(150,000)	8,420,000	2,080,000	6,340,000

Note 31. Remuneration of Key Management Personnel (continued)

(d) Shareholdings

The number of ordinary shares held by Directors and other key management personnel, including their personally related parties, as at 30 June 2013 and 30 June 2012 was as follows:

	Balance as at 1 July 2012	Received as Remuneration	Options Exercised/ Performance Rights Vested	Ordinary Shares Purchased	Ordinary Shares Sold	Other	Balance as at 30 June 2013
Executive Directors							
Mr Robert Hosking	12,857,722	-	-	5,500	(150,000)	46,000	12,759,222
Mr Mark Smith	3,002,037	-	-	-	(110,000)	-	2,892,037
Non-Executive Directors							
Mr Geoff Atkins	714,676	-	-	-	-	-	714,676
Mr Clark Davey	13,144	-	-	10,000	-	-	23,144
Mr Stephen Power	602,142	-	-	-	(100,000)	-	502,142
Mr Jose Coutinho Barbosa	-	-	-	-	-	-	-
Other key management personnel							
Mr Scott Hosking	280,659	-	-	-	(35,000)	-	245,659
Mr Tim Hosking	240,055	-	-	-	(20,000)	-	220,055
Mr Lino Barro	-	-	-	-	-	-	-
Mr Edward Munks	942,885	-	-	-	-	-	942,885
Total key management personnel	18,653,320	-	-	15,500	(415,000)	46,000	18,299,820

	Balance as at 1 July 2011	Received as Remuneration	Options Exercised	Ordinary Shares Purchased	Ordinary Shares Sold	Other	Balance as at 30 June 2012
Executive Directors							
Mr Robert Hosking	12,882,122	-	-	2,000	(26,400)	-	12,857,722
Mr Mark Smith	3,002,037	-	-	-	-	-	3,002,037
Non-Executive Directors							
Mr Geoff Atkins	712,176	-	-	2,500	-	-	714,676
Mr Clark Davey	13,144	-	-	-	-	-	13,144
Mr Stephen Power	602,142	-	-	-	-	-	602,142
Mr Jose Coutinho Barbosa *(appointed 31 August 2011)*	-	-	-	-	-	-	-
Other key management personnel							
Mr Scott Hosking	270,727	-	-	16,882	(6,950)	-	280,659
Mr Tim Hosking	242,055	-	-	-	(2,000)	-	240,055
Mr Lino Barro	-	-	-	-	-	-	-
Mr Edward Munks	942,885	-	-	-	-	-	942,885
Total key management personnel	18,667,288	-	-	21,382	(35,350)	-	18,653,320

(e) Loans to Directors and Other Key Management Personnel

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

(f) Other Transactions with Directors and Other Key Management Personnel

Refer to Note 32 for other transactions with Directors and other key management personnel during the financial year.

Note 32. Related Party Transactions

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

(a) Parent Company

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

(b) Subsidiaries

Interests in subsidiaries are set out in Note 24.

During the financial year, the Group provided accounting, administrative and technical services to subsidiaries at cost. This allocation was based on costs recharged on a relevant time allocation of employees and consultants and associated office charges.

Other transactions that occurred were advancement of intercompany loans at Nil% interest rate (2012: Nil%) and no fixed term for repayment as it was used for funding the intercompany operations and therefore will not be repaid within 12 months. Loans are unsecured and are repayable in cash.

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

The above transactions are eliminated on consolidation.

Parent Company guarantees provided to third parties guaranteeing a subsidiary's performance under joint venture operating agreements are set out in Note 26.

(c) Directors and Other Key Management Personnel

Disclosures relating to Directors and other key management personnel are set out in the Directors' Report and Note 31.

Apart from the details disclosed in this note, no Director or other key management personnel has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' or other key management personnel interests subsisting as at 30 June 2013 other than as stated in the Directors' Report (Remuneration Report, Section C).

(d) Superannuation Contributions

During the financial year, the Group contributed to accumulation type benefit funds administered by external fund managers or an employee's self-managed superannuation fund. The funds cover all Australian domiciled employees and Directors of the Company. The current contribution rate is 9.0% p.a. (2012: 9.0% p.a.) of employee cash remuneration up to a cap of $16,470. Contributions to superannuation funds, on behalf of Directors and employees, during the financial year by the Group amounted to $367,699 (2012: $456,309).

(e) Other Related Party Transactions Within the Group

During the financial year, Mr Stephen Power, a Non-Executive Director, had an interest in Napier Legal Pty Ltd which provided legal services to the Group. The value of transactions during the financial year in the Group was $97,340 (2012: $57,043).

During the financial year, Mr Clark Davey, a Non-Executive Director, had an interest in Anderson Park Tax Pty Ltd which provided taxation services to the Group. The value of transactions during the financial year in the Group was $6,039 (2012: $7,140).

During the financial year, Mr Jose Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda which provided business and geology consulting services to the Group. The value of transactions during the financial year in the Group was $245,289 (2012:$198,249; for the time since he was a Director).

Note 32. Related Party Transactions (continued)

(e) Other Related Party Transactions Within the Group (continued)

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director, was employed by the Group as the in-house Legal Advisor in Brazil. As an eligible employee, 70,000 ESOP options, with an exercise price of $7.30 expiring 31 October 2015, were issued to her during the previous financial year. The total value of her remuneration (including share-based payments expense) during the financial year was $257,651 (2012: $223,581; for the time since her father was a Director).

During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a key management person), was employed by the Group as the Community Relations and Social Projects Manager in Peru. As an eligible employee, 70,000 ESOP options, with an exercise price of $7.30 expiring 31 October 2015, were issued to her during the previous financial year. The total value of her remuneration (including share-based payments expense) during the financial year was $222,508 (2012: $208,111).

During the financial year, Mr William Hosking, the son of the Executive Chairman of the Company, was employed on a part-time basis by the Group in Australia. The total value of his remuneration during the financial year was $12,851.

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

	Company	
	2013 $	2012 $
Note 33. Parent Company Financial Information		
(a) Summary Financial Information		
The individual financial statements for Karoon Gas Australia Ltd show the following aggregate amounts:		
Statement of financial position		
Current assets	93,503,119	221,733,111
Non-current assets	505,247,807	376,968,977
Total assets	598,750,926	598,702,088
Current liabilities	667,546	1,089,303
Non-current liabilities	310,603	206,144
Total liabilities	978,149	1,295,447
Net assets	597,772,777	597,406,641
Equity		
Contributed equity	664,894,335	664,894,335
Accumulated losses	(96,557,230)	(91,805,746)
Share-based payments reserve	29,435,672	24,318,052
Total equity	597,772,777	597,406,641
Loss for financial year	(4,751,484)	(26,441,712)
Total comprehensive loss for financial year	(4,751,484)	(26,441,712)

	Company 2013 $	2012 $
(b) Contingent Liabilities of Parent Company		
(i) Bank guarantees were provided in respect of operating lease rental agreements at Melbourne and Mount Martha for the Company. These guarantees may give rise to liabilities in the Parent Company if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	375,004	344,386
(ii) Performance guarantees (via letters of credit) were provided to Peru Petro SA for Block Z-38 and Block 144 by the Company for second and third period work commitments. The Directors are of the opinion that the work commitments will be satisfied for both Blocks. The letters of credit are fully funded by way of payment of security deposits (refer Note 13), which will be released once the work commitments are met.	7,696,604	6,995,982
(iii) The Company's present intention is to provide the necessary financial support for all Australian incorporated subsidiaries, whilst they remain wholly owned subsidiaries, as is necessary for each company to pay all debts as and when they become due.		

(c) Guarantees Entered into by Parent Company

Parent Company guarantees provided to third parties guaranteeing a subsidiary's performance under joint venture operating agreements are set out in Note 26.

Note 34. Subsequent Events

The Annual Report was authorised for issue by the Board of Directors on 13 September 2013. The Board of Directors has the power to amend and reissue the consolidated financial statements and notes.

Since 30 June 2013, the following material events have occurred:

(a) Share Placement

During August 2013, the Company completed a successful share placement to sophisticated and professional investors of 29,700,000 fully paid ordinary shares at $5.10 per share to raise total gross proceeds of $151,147,000.

(b) Share Purchase Plan

A Share Purchase Plan ('SPP') had been offered to eligible Australian and New Zealand shareholders registered as at the close of business on 7 August 2013 to acquire ordinary shares in the Company for $5.10 each. The offer closed on 3 September 2013 with gross proceeds raised of $24,076,141 from the issue of 4,720,812 fully paid ordinary shares in the Company.

(c) Browse Drilling Campaign

On 30 August 2013, Karoon announced a gas discovery at the Proteus-1 exploration well located in permit WA-398-P. Petrophysical log interpretation, formation pressure gradients and gas samples recovered to surface confirmed the presence of moveable condensate bearing gas in multiple good quality Jurassic reservoir intervals. The well was drilled to a total depth of 5,250 metres. An 87 metre gross interval with high net pay was penetrated. The joint venture operation is conducting a production test, with results expected during September 2013.

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

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the consolidated financial statements and notes, set out on pages 44 to 91, 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 2013 and of its performance for the financial year ended on that date; and

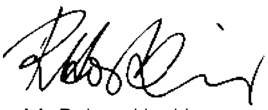
(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

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

On behalf of the Directors:



Mr Robert Hosking
Executive Chairman

13 September 2013

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Report

We have audited the accompanying financial report of Karoon Gas Australia Ltd ('the Company'), which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the financial year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration for the Karoon Gas Australia Ltd Group ('the consolidated entity'). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

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

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

Auditor's Opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 40 of the Directors' Report for the financial year ended 30 June 2013. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Karoon Gas Australia Ltd for the financial year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This independent auditor's report relates to the financial report and Remuneration Report of Karoon Gas Australia Ltd (the 'Company') for the financial year ended 30 June 2013 included on Karoon Gas Australia Ltd's website. The Company's Directors are responsible for the integrity of the Karoon Gas Australia Ltd website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and Remuneration Report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the Remuneration Report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and Remuneration Report to confirm the information included in the audited financial report and Remuneration Report presented on this website.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
13 September 2013

STATEMENT OF CORPORATE GOVERNANCE

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

The Company, as a listed entity, must comply with the *Corporations Act 2001* (Cth) ('*Corporations Act 2001*'), the Australian Securities Exchange ('ASX') Listing Rules and other Australian and international laws. The ASX Listing Rules require the Company to report on the extent to which it has followed the Corporate Governance Recommendations contained in the ASX Corporate Governance Council's ('ASXCGC') second edition of its Corporate Governance Principles and Recommendations (August 2007 as amended during 2010).

A checklist cross-referencing the ASXCGC Recommendations to the relevant sections of this statement and the Annual Report is set out below. The Company's website contains copies of Board and Committee charters and copies of many of the policies and documents referred to in this statement.

ASXCGC Recommendations	Company's Practice	Compliance
Principle 1 – Lay solid foundations for management and oversight		
Establish and disclose the functions reserved to the Board and those delegated to senior executives.	**Paragraph 1.1** discloses the separation of responsibilities between the Board and senior executives. The Board Charter is disclosed on the Company's website.	✓
Disclose the process for evaluating the performance of senior executives.	**Paragraph 1.5** discusses the process for evaluating senior executive performance. The Board Performance Review Policy is disclosed on the Company's website.	✓
Principle 2 – Structure the Board to add value		
A majority of the Board should be independent Directors.	**Paragraphs 1.2** and **1.3** confirm that the Board currently consists of two Non-Executive Independent Directors, two Non-Executive but not Independent Directors and two Executive Directors. As discussed in **paragraph 1.2**, the Company has a view to appointing a majority of Independent Directors in the future.	✗
The chair should be an independent director.	**Paragraph 1.2** identifies that the Chairman is currently the Executive Chairman and sets out why the Board considers it acceptable at this time.	✗
The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.	**Paragraph 1.2** identifies that the Chairman is currently the Executive Chairman and sets out why the Board considers it acceptable at this stage.	✗
Establish a nomination committee consisting of a minimum of three members, with the majority being independent Directors.	**Paragraphs 1.4** and **3.2** detail the role and membership of the Nomination Committee.	✓
Disclose the processes for evaluating the performance of the Board, its committees and individual Directors.	**Paragraph 1.5** details the process for evaluating the performance of the Board and its committees. The Board Performance Review Policy is disclosed on the Company's website.	✓

ASXCGC Recommendations	Company's Practice	Compliance
Principle 3 – Promote ethical and responsible decision-making		
Establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating unethical practices.	**Paragraph 7.1** confirms that the Company has adopted a Code of Conduct. A copy of the Code of Conduct is disclosed on the Company's website.	✓
Establish a diversity policy and disclose the policy or a summary. The diversity policy should include a requirement for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and the progress in achieving them.	**Paragraph 7.2** confirms that the Company has adopted and disclosed its Diversity Policy.	✓
Disclose in each Annual Report the measurable objectives for achieving gender diversity and progress towards achieving them.	**Paragraph 7.2** sets out the measurable objectives to achieve gender diversity that the Board has set and the progress in achieving them.	✓
Disclose in each Annual Report the proportion of women employees in the Company, in senior executive positions and on the Board.	**Paragraph 7.2** discloses the proportion of women employees and women in senior management positions. **Paragraph 1.2** indicates that there are currently no women on the Board.	✓
Principle 4 – Safeguard integrity in financial reporting		
Establish an audit committee.	**Paragraph 3.1** confirms that the Board has established an Audit Committee.	✓
Structure the audit committee so that it: • consists only of Non-Executive Directors; • consists of a majority of independent Directors; • is chaired by an independent Chair who is not Chair of the Board; and • has at least three members.	**Paragraph 3.1** describes the structure of the Audit Committee.	✓
The audit committee should have a formal charter.	**Paragraph 3.1** confirms the Company has adopted a formal Audit Committee Charter which is disclosed on the Company's website.	✓
Principle 5 - Make timely and balanced disclosure		
Establish and disclose written policies designed to: • ensure compliance with ASX Listing Rule disclosure requirements; and • ensure accountability at a senior executive level for that compliance.	**Paragraph 7.6** describes the Company's approach to disclosure and confirms that the Company has established a written Continuous Disclosure Policy which is available on the Company's website.	✓

ASXCGC Recommendations	Company's Practice	Compliance
Principle 6 – Respect the rights of shareholders		
Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings. Disclose the policy or a summary of that policy.	A summary of the Company's policy for communicating with shareholders is disclosed at **paragraph 9**.	✓
Principle 7 – Recognise and manage risks		
Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	**Paragraph 5** describes the Company's approach to risk management and confirms the Company's adoption of a formal Risk Management Policy.	✓
Require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to the Board on whether those risks are being managed effectively. Disclose that management has reported to the Board as to the effectiveness of the Company's management of its material business risks.	**Paragraphs 4** and **5** describe the Company's approach to risk management, internal controls and senior management's responsibility for implementing and reporting on effective risk management.	✓
Disclose whether the Board has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	**Paragraph 4** confirms that the Board has received this assurance from the Executive Chairman and Chief Financial Officer.	✓
Principle 8 – Remunerate fairly and responsibly		
Establish a remuneration committee.	**Paragraph 3.3** confirms that the Board has established a Remuneration Committee.	✓
Structure the remuneration committee so that it: • consists of a majority of independent Directors; • is chaired by an independent Chair; and • has at least three members.	**Paragraph 3.3** describes the structure of the Remuneration Committee.	✓
Clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives.	**Paragraph 9** describes the Company's approach to the remuneration of Executive and Non-Executive Directors. Further information regarding the remuneration of Directors and other key management personnel is set out in the Directors' Report (Remuneration Report section) of this Annual Report.	✓

1. Board of Directors

1.1 Role of the Board

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

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

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

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

1.2 Composition of the Board

The Board is currently constituted by six Directors. The skills, experience and expertise relevant to the position of each Director who is in office at the date of the Annual Report and their term of office are detailed in the Directors' Report.

The Company's Chairman also acts as its Chief Executive Officer. The Company's Chairman is the Company's founding Director and one of the Company's substantial shareholders. Given the stage of the Company's growth, the Board considers it acceptable for the Chairman to be an Executive Director and not independent.

The composition of the Board is reviewed on an ongoing basis having regard to the growth of the Company's business, with a view to appointing a majority of Independent Directors in the future.

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

While the Directors on the Board represent a diverse range of backgrounds, the Board recognises the current gender imbalance and the need to address it in the future as the Company and Board evolve. The Board has assessed the benefits of electing a lead Independent Director but considers such an appointment to be unwarranted at this time considering the Company's current size and activities.

1.3 Independence of Directors

When determining the independent status of a Director, the Board has adopted the definition of independence as set out in the Corporate Governance Principles. Accordingly, the Board considers a Director not to be independent if he or she:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company or another Group company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional adviser or a material consultant to the Company or another Group company, or an employee materially associated with the service provided; or
- is a material supplier or customer of the Company or other Group company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer who has a material contractual relationship with the Company or another Group company other than as a Director.

The test of whether a relationship or business is material is based on the nature of the relationship or business and on the circumstances and activities of the Director. Materiality is considered from the perspective of the Company and its Group companies, the persons or organisations with which the Director has an affiliation and from the perspective of the Director.

Mr Geoff Atkins and Mr Clark Davey are considered to be independent Non-Executive Directors based on the above criteria.

The Non-Executive Directors of the Company are Mr Geoff Atkins, Mr Clark Davey, Mr Stephen Power and Mr Jose Coutinho Barbosa. The Board has had an equal number of independent and non-independent Non-Executive Directors.

The Company considers Mr Stephen Power and Mr Jose Coutinho Barbosa to be Non-Independent Directors, due to companies in which Mr Power and Mr Barbosa each have an interest, providing significant services to the Group. Services rendered are provided by the relevant related party companies on normal commercial terms and conditions and at market rates. In practice, both of these Non-Executive Directors act in a capacity of oversight and advice.

1.4 Selection and Appointment of Directors

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

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

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

1.5 Review of Board, Director and Senior Executive Performance

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

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

1.5 Review of Board, Director and Senior Executive Performance (continued)

Performance evaluations for senior executives have taken place during the financial year, in accordance with the process described in the Performance Review Policy.

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

2. Operation of the Board

2.1 Board Meetings

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

2.2 Independent Advice

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

2.3 Role of the Company Secretary

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

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

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

3. Board Committees

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

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

3.1 Audit Committee

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal financial control and the appropriate ethical standards for the financial management of the Group. The Company has formally adopted an Audit Committee Charter.

The Audit Committee also reviews the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The responsibilities of the Audit Committee include:

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

The Audit Committee reports to the Board after each Committee Meeting and minutes of meetings are provided to all Directors. A full description of the role and responsibilities of the Audit Committee is contained in the Audit Committee Charter, which can be found under the Corporate Policies tab on the Company's website at www.karoongas.com.au.

The Audit Committee consists of three Non-Executive Directors, a majority of whom are independent Directors and is chaired by an independent Director.

The Audit Committee consists of:

- Clark Davey (Chairman of the Committee);
- Geoff Atkins; and
- Stephen Power.

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

3.2 Nomination Committee

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

The Nomination Committee consists of a majority of independent Directors and is chaired by an independent Director.

The Nomination Committee consists of:

- Geoff Atkins (Chairman of the Committee);
- Clark Davey; and
- Stephen Power.

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

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

3.3 Remuneration Committee

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

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

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

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

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

3.3 Remuneration Committee (continued)

The Remuneration Committee consists of a majority of independent Directors and is chaired by an independent Director. The Remuneration Committee consists of:

- Geoff Atkins (Chairman of the Committee);
- Clark Davey; and
- Stephen Power.

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

4. Executive Chairman and Chief Financial Officer Assurance

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

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

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

The Executive Chairman and Chief Financial Officer have provided written confirmation to the Board in respect of the matters referred to above.

5. Risk Assessment and Management

The Company has a formal Risk Management Policy with the Board responsible for reviewing the policy and its implementation. The Board has overall responsibility for monitoring compliance and oversight of the Risk Management Policy along with ensuring that it is relevant and effective.

Currently, as part of the Group's strategy to implement an integrated framework of control, the Board continually identifies and monitors the material business and financial risks. The Board has and continues to develop appropriate controls to effectively manage those risks. Throughout the financial year, senior management has reported to the Board as to the effectiveness of the Company's management of its material business risks and the Company has consequently reviewed and, where required, improved risk management and internal compliance and control systems. The Company will continue to review and improve its risk management systems in conjunction with senior management over the coming financial periods.

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

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

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

6. External Auditors

The Company appointed the current external auditors, PricewaterhouseCoopers, during the financial year ended 30 June 2009.

The Audit Committee oversees the coordination of the external auditors and monitors the effectiveness and independence of the external auditor.

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

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

7. Ethical Standards and Responsible Decision-making

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

7.1 Code of Conduct

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

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

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

7.2 Diversity

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

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

7.2 Diversity (continued)

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

	Female	Female %
Group (includes administration/technical/specialists)	23	43
Senior management	-	0
Board	-	0

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

7.3 Fair Dealings and Related Party Transactions

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

In addition, contracts with Directors, or entities in which Directors have a significant interest and/or influence, must be approved by the Audit Committee in advance of committing the Company to:

- contracts for the supply of goods and/or services which extend beyond one year, or where the total value of goods and/or services supplied under the contract will, in any one year, exceed $25,000;
- all agreements to lease and/or leases of property; and
- all agreements for the acquisition or disposal of property, except by way of public auction.

Any Director who is a member of the Audit Committee and who has a significant interest and/or influence in relation to a contract to be approved by the Audit Committee must absent themselves from the meeting and not participate in any vote to approve such contract.

7.4 Policy and Procedure for Share Trading

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

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

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

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

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

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

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

7.5 Environment

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

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

7.6 Disclosure of Information

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

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

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

8. Remuneration Policy

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

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

Non-Executive Directors are remunerated by way of Directors' fees in the form of cash and superannuation contribution at market levels, as well as non-performance and performance related share-based remuneration incentives. The Company has not established any schemes for retirement benefits, other than superannuation, for Non-Executive Directors.

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

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

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

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

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

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

9. Communication with Shareholders

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

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

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

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

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

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

ADDITIONAL SECURITIES EXCHANGE INFORMATION

Additional information required by ASX Listing Rules and not disclosed elsewhere in the Annual Report is set out below. The information was applicable for the Company as at 10 September 2013.

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	2,779	1,371,643
1,001 to 5,000	3,875	10,497,072
5,001 to 10,000	1,219	8,763,513
10,001 to 100,000	1,181	28,908,626
More than 100,000	126	206,300,727
Total	9,180	255,841,581

There were 338 shareholders holding less than a marketable parcel of ordinary shares to the value of $500.

Substantial Shareholders

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

	Fully Paid Ordinary Shares	
Shareholder	Number Held	% of Issued Ordinary Shares
Wellington Management Group, LLP and its related bodies corporate	35,152,430	13.74
Talbot Group Holdings Pty Ltd	26,358,356	10.30
FMR Corp. and FIL	14,554,497	5.69
Paradice Investment Management Pty Ltd	13,446,549	5.26
Total	89,511,832	34.99

Twenty Largest Shareholders

The names of the 20 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	47,410,009	18.53
2	JP Morgan Nominees Australia Limited	38,576,513	15.08
3	National Nominees Limited	19,477,584	7.61
4	Talbot Group Holdings Pty Ltd <Talbot Equities A/C>	15,317,043	5.99
5	Talbot Group Investments Pty Ltd	11,000,313	4.30
6	JP Morgan Nominees Australia Limited <Cash Income A/C>	9,779,891	3.82
7	Citicorp Nominees Pty Limited	9,238,985	3.61
8	Ropat Nominees Pty Ltd	9,210,022	3.60
9	HSBC Custody Nominees (Australia) Limited - A/C 2	3,960,188	1.55
10	UBS Wealth Management Australia Nominees Pty Ltd	2,356,990	0.92
11	Mr Robert Hosking	2,250,000	0.88
12	BNP Paribas Noms Pty Ltd <DRP>	1,923,675	0.75
13	AMP Life Limited	1,637,744	0.64
14	HSBC Custody Nominees (Australia) Limited-<NT-Comnwlth Super Corp A/C>	1,503,040	0.59
15	HSBC Custody Nominees (Australia) Limited-GSCO ECA	1,423,468	0.56
16	Mr Mark Smith	1,390,000	0.54
17	IERS (Australia) Pty Ltd <Smith Family Investment A/C>	1,271,500	0.50
18	RBC Investor Services Australia Nominees Pty Limited ,GSAM A/C>	1,266,259	0.49
19	Mrs Mara Spong	1,127,888	0.44
20	HSBC Custody Nominees (Australia) Limited-<3 A/C>	1,101,083	0.43
Total		181,222,195	70.83

ADDITIONAL SECURITIES EXCHANGE INFORMATION (CONTINUED)

Unlisted Equity Securities: Options and Performance Rights

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

	Number of Holders	Number of Unlisted Options or Performance Rights on Issue
Options issued pursuant to Karoon Gas Australia 2009 Employee Share Option Plan	45	5,195,000
Options issued pursuant to Karoon Gas Australia 2012 Employee Share Option Plan	22	1,224,698
Other share options issued	6	6,350,000
Performance rights issued pursuant to Company's PRP	22	256,368
Total	95	13,026,066

Voting Rights

(a) Ordinary Shares, Fully Paid

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

(b) Unlisted Options and Performance Rights

No voting rights.

Other Information

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

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

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

Schedule of Interests in Petroleum Tenements

Exploration Permit	Basin	% Interest Held
WA-314-P	Browse, Australia	90.00*
WA-315-P	Browse, Australia	40.00*
WA-398-P	Browse, Australia	40.00
WA-482-P	North Carnarvon, Australia	100.00^
Block S-M-1037	Santos, Brazil	100.00~
Block S-M-1101	Santos, Brazil	100.00~
Block S-M-1102	Santos, Brazil	100.00~
Block S-M-1165	Santos, Brazil	100.00~
Block S-M-1166	Santos, Brazil	100.00~
Block 144	Maranon, Peru	100.00
Block Z-38	Tumbes, Peru	75.00#

* 1.5% ORR for first five years of production, going to 2% thereafter.

^ Subject to completion of first and second permit year work program commitments and obtaining regulatory approval. Following completion of the second year of the permit term, Karoon has withdrawal rights under the farm-in agreement before the third permit year well commitment is due. If Karoon elects to acquire the permit, such assignment will be conditional on regulatory approval. Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.

~ 100% equity interest in 5 Blocks, reducing to 65% subject to regulatory approval to farm-out to PRE and completion by PRE of its farm-in obligations.

The Group's 75.00% Block equity interest is subject to completion of farm-in obligations.

GLOSSARY OF TERMS

Term	Definition
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
$ or cents	Units of Australian currency.
AASB	Australian Accounting Standards Board.
ANP	Agencia Nacional do Petróleo.
API	American Petroleum Institute's inverted scale for denoting the 'lightness' or 'heaviness' of crude oils and other liquid hydrocarbons.
appraisal well	A well drilled to confirm the size or quality of a hydrocarbon discovery.
associated gas	Natural gas found in association with oil, dissolved either in the oil or as a cap of free gas above the oil.
ASX	ASX Limited (ACN 008 624 691), trading as Australian Securities Exchange.
ATO	Australian Taxation Office.
AUD	Australian currency.
barrel or bbl	Barrel of oil, inclusive of condensate. A quantity of 42 United States gallons; equivalent to approximately 159 litres.
basin	An ancient natural depression on the earth's surface in which sediments, eroded from higher surrounding ground levels, accumulated and were preserved.
BCF	Billion cubic feet (1,000,000,000 cubic feet); equivalent to approximately 28.3 million cubic metres.
block	A licence or concession area. It may be almost any size or shape, although usually part of a grid pattern.
boe	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 standard cubic feet per barrel and not price equivalence at the time.
BOP	Blowout preventer.
BTU	British Thermal Unit. The unit of measurement of the quantity of heat required to raise the temperature of one pound of water by one degree fahrenheit, equivalent to 1055.056 joules.
Company or Parent Company	Karoon Gas Australia Ltd.
condensate	Hydrocarbons which are predominantly pentane and heavier compounds which are in a gas phase in the reservoir and which separate out from natural gas at the well head and condense to liquid at lower pressures and temperatures.
ConocoPhillips	ConocoPhillips (Browse Basin) Pty Ltd.
contingent resources	Those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable (as evaluation of the accumulation is insufficient to clearly assess commerciality). 1C – Denotes low estimate scenario of contingent resources. 2C – Denotes best estimate scenario of contingent resources. 3C – Denotes high estimate scenario of contingent resources.
CPP	Citizen Participation Plan.
Director	A Director of Karoon Gas Australia Ltd.
DHI	Direct hydrocarbon indicator.
discovery well	The first successful well on a new prospect.

Term	Definition
DSEWPaC	Department of Sustainability, Environment, Water, Population and Communities.
DST	Drill stem test.
economically recoverable reserves	The estimated quantity of hydrocarbons in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions.
EDT	Eastern Daylight Time, being the time in Melbourne, Victoria.
EIA	Environmental Impact Assessment. A report on the study of the effect of proposed works on the local people and environment.
ESOP	Karoon Gas Australia 2009 Employee Share Option Plan and Karoon Gas Australia 2012 Employee Share Option Plan.
exploration	The process of identifying, discovering and testing prospective hydrocarbon regions and structures, mainly by interpreting regional and specific geochemical, geological, geophysical survey data and drilling.
farm-in and farm-out	A commercial agreement in which an incoming joint venture participant (the 'farmee') earns an interest in an exploration permit by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the exploration permit (the 'farmor') pays a reduced contribution. The interest received by a farmee is a farm-in while the interest transferred by the farmor is a farm-out.
FBT	Fringe Benefits Tax in Australia.
FID	Final Investment Decision.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area although it may refer to both the surface and underground productive formation.
financial year	Financial year ended 30 June 2013.
GST	Goods and Services Tax in Australia.
hydrocarbon	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
IASB	International Accounting Standards Board.
Karoon or Group	Karoon Gas Australia Ltd and its subsidiaries.
lead	A potential hydrocarbon target which has been identified but requires further evaluation before it is drill ready, at which point it becomes a prospect.
Liberty Petroleum	Liberty Petroleum Corporation.
LNG	Liquefied natural gas.
LPG	Liquid petroleum gas.
LTI	Long-term incentive.
m	Metres.
market capitalisation	The product of a company's share price multiplied by the total number of ordinary shares issued by the company.
migration	Hydrocarbons are often found in formations other than those in which their organic source was deposited. This movement often covers considerable distances and is known as migration.

Term	Definition
mm	Million.
mmbbls	Millions of barrels (1,000,000 barrels).
mmscf	Millions of standard cubic feet.
mmscf/d	Millions of standard cubic feet per day; equivalent to 28,317 cubic metres per day.
mmtpa	Million tonne per annum. A common measurement of LNG facility production capacity.
Monte Carlo simulation	Where there is uncertainty in the variables used in the calculation of economically recoverable reserves, the ranges of possible values of each variable can be incorporated in a Monte Carlo simulation calculation to produce a range of probabilistic outcomes that reflect that uncertainty. The 'mean' is the expected outcome. The P10 (probability greater than 10%) is often used as the maximum case, the P50 (probability of 50%) the mid case and the P90 (probability greater than 90%) the minimum case.
mRT	Metres rotary table.
NGER Act	*National Greenhouse and Energy Reporting Act 2007 (Cth)*.
NOPSEMA	National Offshore Petroleum Safety and Environmental Management Authority.
operator	One joint venture operation participant that has been appointed to carry out all operations on behalf of all the joint venture operation participants.
ordinary shares	The ordinary shares in the capital of Karoon Gas Australia Ltd.
ORR	Over-riding royalty.
p.a.	Per annum.
Pacific Rubiales	Pacific Rubiales Energy Corp.
performance rights	Performance rights issued under the PRP.
permit	A hydrocarbon tenement, lease, licence, concession or Block.
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 2012.
PRE	Pacific Brasil Exploração e Produção de Óleo e Gás Ltda. A subsidiary of Pacific Rubiales Energy Corp.
PRP	Karoon Gas Australia 2012 Performance Rights Plan.
prospect	A geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.
prospective resource	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. Low estimate (P90): P90 refers to a 90% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Median estimate (P50): P50 refers to a 50% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. High estimate (P10): P10 refers to a 10% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Mean estimate: Mean estimate is the expected value, equal to the sum of the values in that distribution divided by the number of values.

Term	Definition
prospectivity	Referring to the likelihood of finding commercial hydrocarbons.
PRRT	Petroleum Resource Rent Tax.
psia	Pounds per square inch absolute.
REAL	Brazilian currency.
recoverable gas	An estimated measure of the total amount of gas which could be brought to surface from a given reservoir. In a good quality reservoir this is usually in the order of 70-80% of the estimated gas-in-place.
reserves	Quantities of economically recoverable hydrocarbons estimated to be present within a trap.
reservoir	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
rig	The equipment needed for drilling a well. It includes the onshore and offshore vehicles, mobile platforms or vessel on which the equipment is stored.
risk	Prospect risk or geologic risk is the assessed chance that the drilling of the prospect will be successful in finding significant volumes of hydrocarbons. The risk is calculated by multiplying the chance of success of each of the petroleum system elements involved in the prospect.
seismic survey	A type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near vertical plane back to the surface from subsurface boundaries. This data is typically used to determine the depths and form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
SPE PRMS standards	Society of Petroleum Engineers Petroleum Resource Management System Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet to be discovered accumulations, resource evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resource management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.
SPP	Share Purchase Plan.
spud	To start drilling a new well.
STI	Short-term incentive.
TCF	Trillion cubic feet (1,000,000,000,000 cubic feet).
trap	A formation in the earth's subsurface which prevents the onward migration of hydrocarbons.
TSR	Total shareholder return.
unrisked	A risk value has not been applied to an estimate of hydrocarbon volume either in place or recoverable.
USD	United States dollars.

CORPORATE DIRECTORY

Board of Directors

Mr Robert Hosking – Executive Chairman
Mr Mark Smith – Executive Director
Mr Geoff Atkins – Independent Non-Executive Director
Mr Clark Davey – Independent Non-Executive Director
Mr Stephen Power – Non-Executive Director
Mr Jose Coutinho Barbosa – Non-Executive Director

Company Secretary

Mr Scott Hosking

Audit Committee Members

Mr Clark Davey (Chairman of Committee)
Mr Geoff Atkins
Mr Stephen Power

Nomination Committee Members

Mr Geoff Atkins (Chairman of Committee)
Mr Clark Davey
Mr Stephen Power

Remuneration Committee Members

Mr Geoff Atkins (Chairman of Committee)
Mr Clark Davey
Mr Stephen Power

Registered Office and Head Office

Office 7A, 34-38 Lochiel Avenue
Mount Martha VIC 3934
Australia

ACN	107 001 338
ABN	53 107 001 338
Telephone	+ 61 3 5974 1044
Facsimile	+ 61 3 5974 1644
Website	www.karoongas.com.au
Email	info@karoongas.com.au

External Auditor

PricewaterhouseCoopers Australia
Freshwater Place
2 Southbank Boulevard
Southbank VIC 3006
Australia

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

Share Registrar

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

Telephone	1300 850 505 (within Australia) + 61 3 9415 5000 (outside Australia)
Facsimile	+ 61 3 9473 2500
Website	www.computershare.com

Securities Exchange Listing

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

ASX code KAR

Notice of Annual General Meeting

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

River Room 1 at the Crown Towers
Level 1, 8 Whiteman Street
Southbank VIC 3006

Time	11.00am EDT (registration opens at 10.00am EDT)
Date	Thursday 31 October 2013

Karoon
Gas Australia Ltd