



Karoon
Gas Australia Ltd

**ANNUAL
REPORT
2016**





CONTENTS

02	Chairman and Managing Director's Review
04	Highlights for 2015-16
05	Where We Operate
06	Strategy, Strengths and Risks
07	Resource Summary
08	Operations Review
20	Corporate Sustainability Report
27	Directors' Report
60	Auditor's Independence Declaration
61	Consolidated Financial Statements
107	Directors' Declaration
108	Independent Auditor's Report
110	Additional Securities Exchange Information
112	Glossary of Terms
117	Corporate Directory

CHAIRMAN AND MANAGING DIRECTOR'S REVIEW

Karoon has focused on progressing appraisal and development plans for its Santos Basin assets, Echidna and Kangaroo, this year, while also considering a large number of oil producing assets for potential acquisition.

The 2015-16 financial year presented challenges for the oil and gas industry worldwide. Fluctuations in oil price continued in a year that saw the lowest oil price in over a decade. However these fluctuations have also resulted in positive impacts for well-positioned companies, including the potential for opportunistic acquisition of producing assets and reduced drilling rig and development costs.

Karoon entered this period of decreased oil prices with a robust balance sheet, putting it in a relatively unique position to take advantage of acquisition opportunities that may arise. Karoon has undertaken due diligence on a large number of oil and gas assets in many parts of the world in the course of the year. While some attractive assets have been identified, there have not yet been any at a price that Karoon considers would add sufficient value for shareholders.

The work completed this year has enabled Karoon to further define its asset focus and due diligence processes, standing it in good stead to complete a strong and value accretive acquisition when the right opportunity becomes available.

Karoon expects the increase in the potential availability of good acquisition assets, which has been observed over the past few months, to continue during the coming financial year as the global oil and gas industry prepares to stabilise and companies consolidate their positions. While this is encouraging Karoon is committed to only effecting acquisitions that are considered to complement and add value to Karoon's existing portfolio.

Brazilian Assets

The principal focus for Karoon in 2016 has been to further advance appraisal and pre-development planning of the Echidna and Kangaroo light oil discoveries.

It was initially Karoon's intention to drill two appraisal wells on the Echidna discovery during the 2016 financial year. However its 35% partner, Pacific Exploration and Production Corp ('Pacific'), formerly Pacific Rubiales Energy Corp, requested the drilling be deferred until the second half of calendar year 2016. Karoon conceded to this delay and has utilised the time to advantage, undertaking further predevelopment studies to optimise the appraisal program for Echidna and Kangaroo.

As a result of these studies, Karoon has been able to significantly reduce the capital and operating cost estimates for the Santos Basin fields. Through increased knowledge of the geological setting Karoon has been able to refine the well objectives and locations to achieve the best possible outcome from the upcoming Echidna appraisal drilling program.

Most importantly, this has enabled the number of wells required to achieve the maximum economic field size from Echidna to be reduced, contributing to substantial potential capital savings.

In addition, industry conditions have seen individual well costs reduced significantly. Costs of completed production wells have fallen approximately 35% or US\$50 million while costs of injection wells have fallen approximately 25% or US\$25 million over the past year.

Karoon expects that current economic conditions in Brazil, especially in the oil and gas industry, are likely to result in a longer period of reduced costs compared to elsewhere in the world, enabling the Company to carry out an appraisal and development program in an ongoing low-cost environment.

Karoon's joint venture partner in the Santos Basin, Pacific, continued to be negatively affected by the downturn in the industry, resulting in its application for insolvency protection, making its further participation in the joint venture difficult. Discussions with Pacific following the end of the financial year have resulted in Karoon purchasing Pacific's interest at an attractive price. Karoon now owns 100% of the Echidna and Kangaroo light oil discoveries.

Karoon will focus calendar year 2017 on furthering the appraisal and pre-FEED work on both Echidna and Kangaroo. The Company aims to commence drilling during calendar year 2017, and continue development planning to achieve first oil by 2020. To sensibly defer risk, a partner will be sought to take up a minority interest in the project.

Peruvian and Australian Assets

Work continued throughout the year on the geotechnical evaluation of Karoon's acreage in Peru and Australia.

Of particular interest is Block Z-38 in the Tumbes Basin, offshore Peru. Geological work undertaken during the year, including new quantitative interpretation (QI) of seismic data, has resulted in positive outcomes. The QI enables a distinction to be made between likely water, oil and gas signatures in reservoirs over large stacked pay prospects in the 1,500 square kilometre 3D seismic area. This work suggests that the Tumbes Basin is an analogue of the San Joaquin Basin in California, with similar geological age, stratigraphy and structural geological setting to the Tumbes Basin. The San Joaquin Basin has over 12 billion bbls of oil and 3.5 tcf gas in total, produced reserves.

The enhanced geological and geophysical knowledge of Block Z-38 materially adds to what is already significant prospectivity in the block. This, coupled with the opportunity to drill wells at large discounts created by the low oil price environment, has increased farm-in interest from larger companies.

Karoon will continue to work with the interested parties currently evaluating the Block, so as to facilitate a potential farm-out that represents value for shareholders.

The challenge for the next year will be to complete a transaction and move towards drilling exploration wells while costs are depressed. Karoon has continued discussions with rig owners to ascertain rig cost and availability, to prepare for a drilling campaign.

Share Buy-back

In the course of the financial year the Directors held the view that Karoon was undervalued considering its prospects and cash backing and executed a portion of Karoon's right to a 10% on-market share buy-back of the Company's ordinary shares on offer. The number of shares purchased was considered good value given the discount to cash and the value of Karoon's assets, along with the long-term leverage established for shareholders from future success.

The Future

Karoon commences the 2017 financial year with a very strong cash position, several opportunities under review and plans to progress its most valuable assets to development. While the oil and gas industry continues to go through a difficult time, the increase in oil price suggests the worst is likely to be behind us.

Oil and gas fundamentals remain healthy. Increasing demand and the natural decline in production, exacerbated by greatly reduced capital spending worldwide, mean that reserve replacement and new production will be required in the future. Our industry is a cyclical one and while there can be no certainty as to exactly when prices will recover, there is no doubt that there will be a recovery.

Karoon already has an impressive portfolio of projects ranging from appraisal and pre-development in Brazil, to drill-ready exploration projects in Peru, to geotechnical work-up in Australia. The Board of Directors of Karoon views the current environment as providing an exciting platform for opportunistic further investment to increase Shareholder value.

The corporate strategy to deliver value to shareholders through exploration can be complemented at this stage of the commodity cycle by disciplined investment in high-quality projects. Karoon is well poised to take advantage of the opportunity to continue to build the foundations for future growth, which will see Karoon transition from explorer to producer.

As Karoon prepares to move towards development, we are pleased to have secured the expertise of Ms Luciana Rachid to the Board. Ms Rachid, appointed after the financial year end, has more than 30 years' experience in the Brazilian oil and gas industry and will bring valuable insight and expertise to the Board and Karoon's future operations.

Mr Bernard Wheelahan will retire at the Annual General Meeting. Mr Wheelahan has been a valued and respected member of the Board providing careful and considered contributions to deliberations on many issues and we wish him well for the future.

The Board would like to thank you, our Shareholders, for your continued support and patience, which we feel confident will lead to future success for all of us. We would also like to take the opportunity to thank the dedicated employees and contractors of Karoon for their efforts over the past year to advance the Company's prospects.



Dr David Klingner
Independent Non-Executive Chairman



Mr Robert Hosking
Managing Director

28 September 2016

HIGHLIGHTS FOR 2015-2016

- + Updated net 2C contingent resource volume estimate for the Santos Basin blocks of 129 mmbbls across the Echidna (75 mmbbls) and Kangaroo (54 mmbbls) light oil discoveries.
- + Established a highly experienced South American Project Development Team with extensive in-country and global development and operating experience.
- + In Brazil, the Echidna discovery pre-FEED studies identified a floating production, storage and off-loading facility ('FPSO') development concept as suitable.



- + Ongoing optimisation work supported a full field Echidna development as the most likely development option as opposed to a staged development scenario with an early production system ('EPS'), considered previously. The full field development considers using extended horizontal production wells and combined water and gas injection, which is expected to materially reduce the well count.

- + Expected Echidna discovery development costs have reduced significantly over the financial year as dramatic cuts to capex have driven utilisation rates lower. Completed and connected production well costs have fallen 35% per well over the last 12 months.

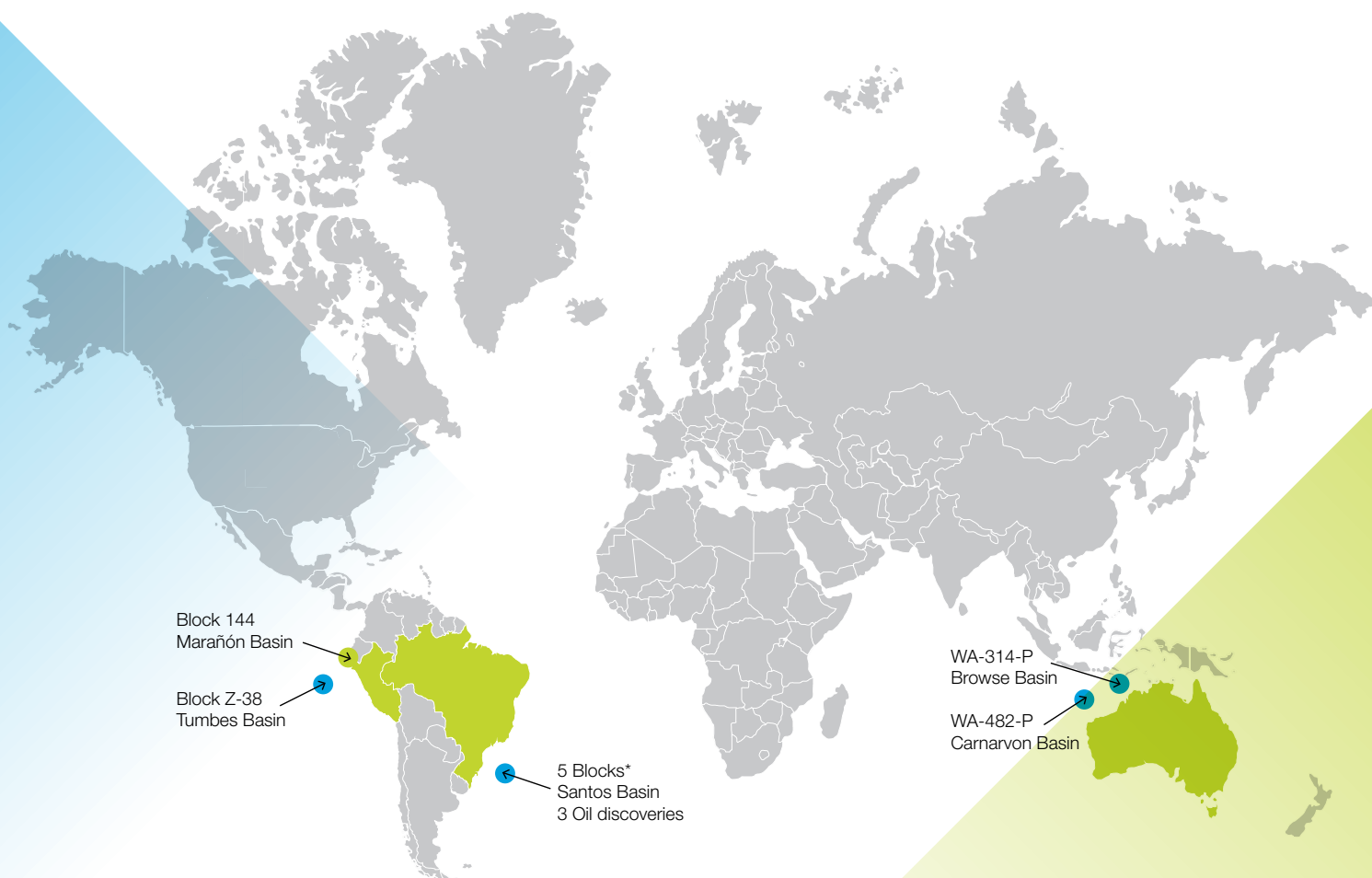
- + In Peru, advanced geophysical studies, QI and amplitude versus offset ('AVO') work commenced during the financial year. The results of the analysis are encouraging and show a clear distinction between water, oil and gas signatures in reservoirs in a number of new shallower prospects and leads over the 1,500 square kilometre 3D seismic survey area.

- + Capital management continued with 1.66 million ordinary shares bought back through the active on-market share buy-back, repurchasing equity at a 23% discount to the implied cash backed amount of \$1.94 per ordinary share (based on the closing cash balance and opening ordinary shares for the financial year).

- + Financial year closed with a \$480 million cash and cash equivalents balance.

Financial year closed with a \$480 million cash and cash equivalents balance.

WHERE WE OPERATE



Permit/Block	Basin	Equity Interest (%)	Gross Acreage (sq kms)	Water Depth (m)	Type	Status
WA-314-P	Browse	100	998	500	Oil	Exploration
WA-482-P	Carnarvon	50	13,539	400-2,000	Oil	Exploration
S-M-1037, 1101, 1102, 1165, 1166	Santos	100 [^]	549	400	Oil	Discovery appraisal
Z-38	Tumbes	75	4,750	300-3,000	Oil	Exploration
144	Marañón	100	6,836	Onshore	Oil	Exploration

[^] The Group's 100% ownership interest is subject to obtaining regulatory approvals and an approval order from the Superior Court of Justice in Ontario.

STRATEGY, STRENGTHS AND RISKS

Corporate Strategy

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

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

Value is created through the geotechnical work-up of the acreage, leveraging the high equity interests through farm-outs to assist in funding the capital intensive exploration and appraisal drilling phase to achieve commercialisation.

While the Company's core strategy is identifying offshore early stage exploration opportunities, Karoon's medium to longer-term strategy is to evolve into a development company with operated production assets. Karoon will also look to capitalise on cyclical downturns to acquire development or production opportunities.

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

Strengths

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

Specific Risks

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

RESOURCE SUMMARY

Internal Management Contingent Resource Volume Estimates

Net Contingent Resource Volumes (Discovered) – mmbbls

Discovery (Blocks)	Interest	Basin	Type	1C	2C	3C
Kangaroo (S-M-1101, S-M-1165)	100%	Santos	Oil	20	54	100
Echidna (S-M-1037, S-M-1102)	100%	Santos	Oil	25	75	152
Total			Oil	45	129	252

The Kangaroo and Echidna contingent resource volumes were prepared on a probabilistic basis and have been disclosed in Karoon's ASX announcement 'Contingent Resource Volume Update: Santos Basin Brazil', 17 September 2015. Karoon is not aware of any new information or data that materially affects the resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement with respect to Brazil continue to apply and have not materially changed.

Independently Assessed Prospective Resource Volume Estimates – DeGolyer & MacNaughton

Net Unrisked Prospective Resource Volumes (Undiscovered) – mmbbls

Block	Interest	Basin	Type	Low	Best	High
Block Z-38	75%	Tumbes	Oil	686	1,686	3,764
Block 144	100%	Marañón	Oil	53	107	195
Total			Oil	739	1,793	3,959

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

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

Exploration Permit WA-314-P, Browse Basin, Australia: An updated resource estimate is expected once the reprocessed Kraken 3D seismic is available and interpreted.

Exploration Permit WA-482-P, Carnarvon Basin, Australia: Following the drilling of the Levitt-1 exploration well during the September quarter 2015, new information and data is available that could affect the prospective resource estimates assessed by DeGolyer & MacNaughton announced during April 2014.

Forward-looking Statements

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

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

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

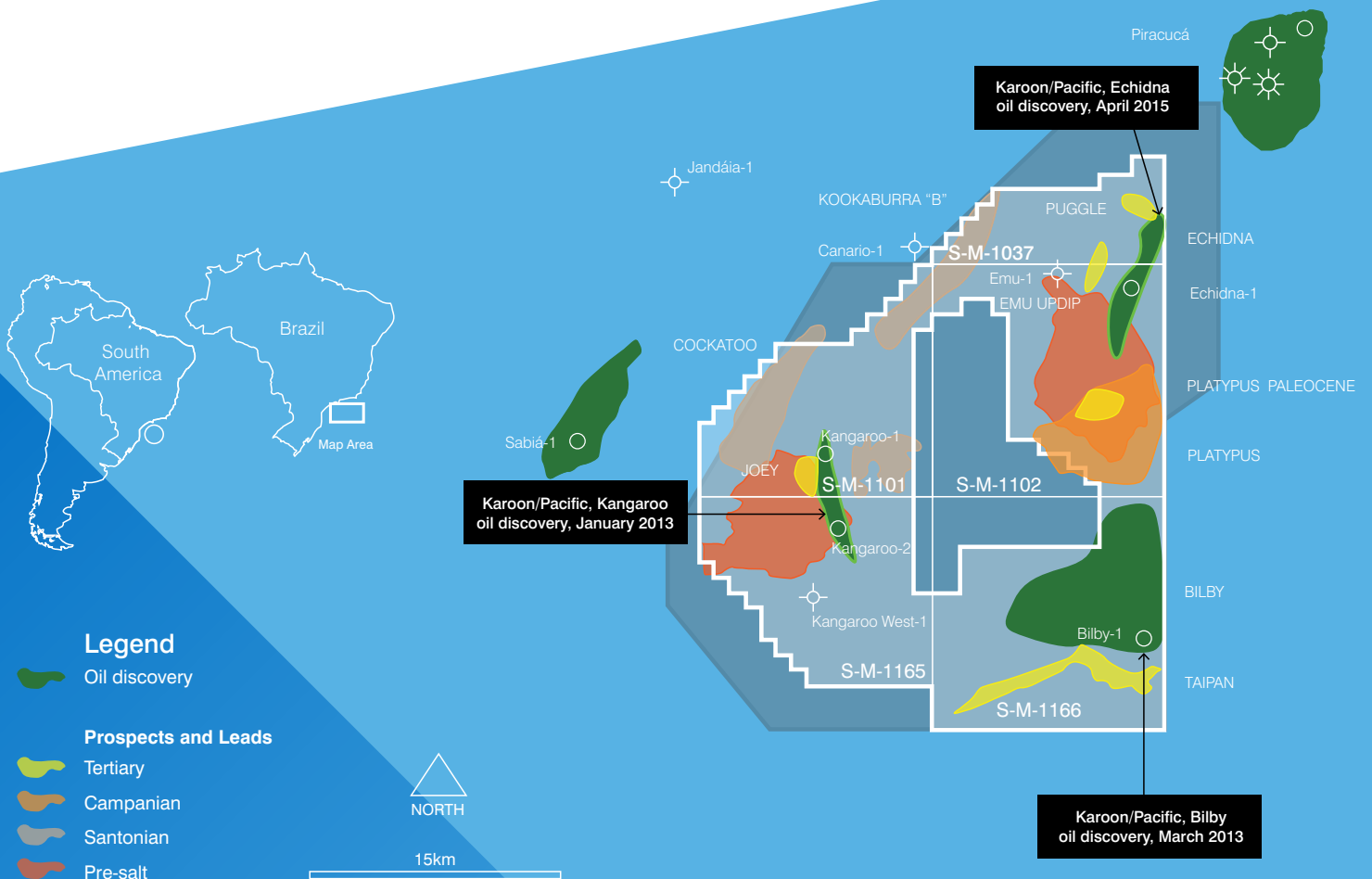
OPERATIONS REVIEW

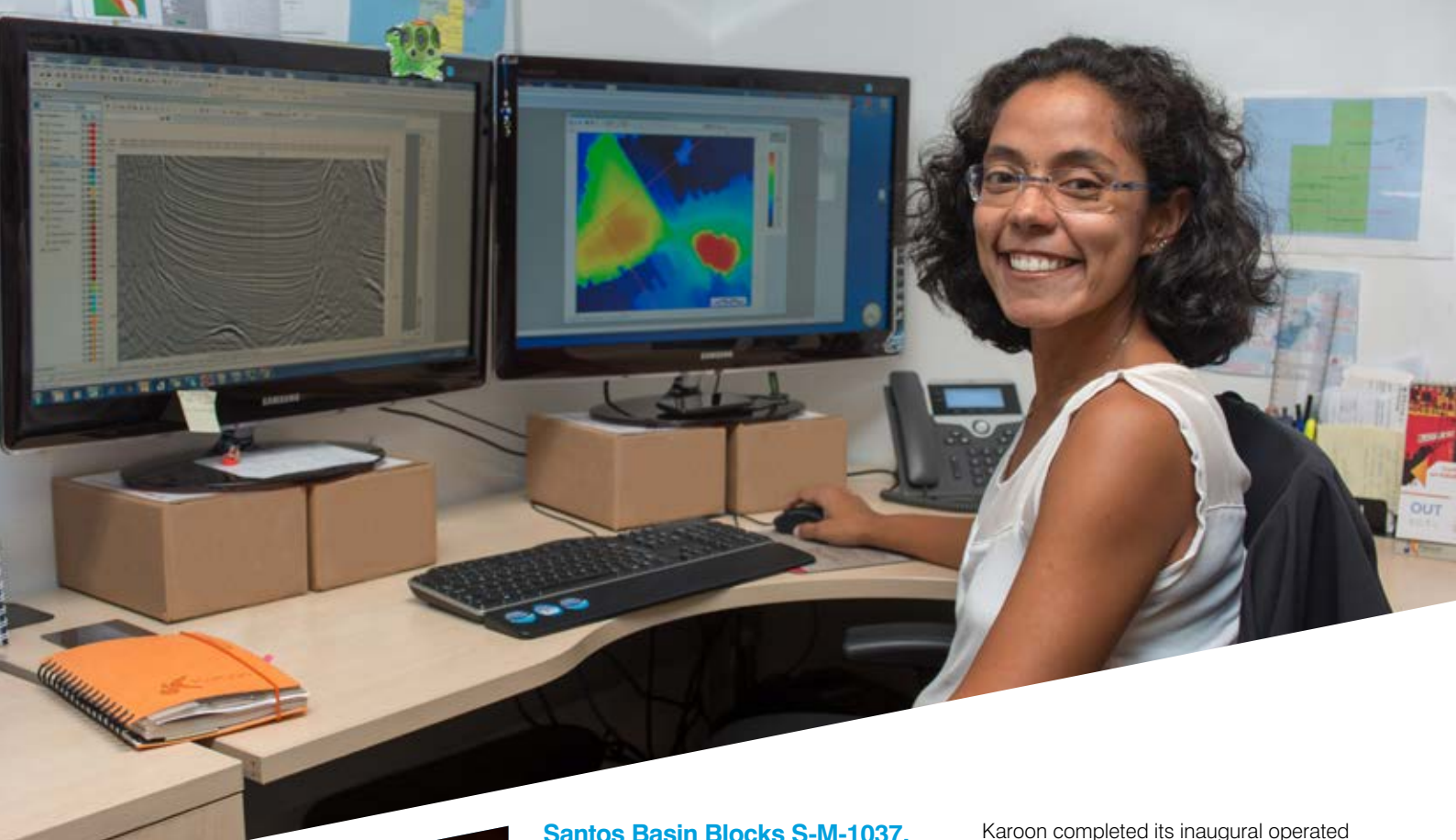
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Santos Basin, Brazil

Key Statistics	
Blocks:	S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1166
Interest:	100%*
Operator:	Karoon
Gross Acreage:	549 sq kms
Water Depth:	400 metres
Type:	Oil
Status:	Discovery appraisal phase

* The Group's 100% ownership interest is subject to obtaining regulatory approvals and an approval order from the Superior Court of Justice in Ontario.





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

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

During September 2012, Karoon farmed-out a 35% interest in the Blocks to Pacific.

During April 2016, due to the persistently low oil price and high levels of debt, joint operation partner Pacific applied for insolvency protection with the Superior Court of Justice in Ontario, Canada. Karoon subsequently issued Pacific with default notices relating to overdue payments. This led to commercial discussions with respect to Pacific's equity interest in the Blocks. During September 2016, Karoon repurchased Pacific's 35% interest for US\$15.5 million in upfront cash plus an additional US\$5 million contingent on a production threshold from the Blocks of 1 mmbbls being reached. As a result of the Pacific transaction, Karoon currently holds 100% of the Blocks subject to Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') approval.

Karoon completed its inaugural operated drilling campaign during 2013, making the Kangaroo and Bilby light oil discoveries. The Echidna light oil discovery was made during April 2015 as part of the second drilling campaign. Karoon has successfully operated two drilling campaigns, with a total of six wells along with two side-track wells drilled in the Blocks with no significant safety incidents recorded.

Based on the production test results at the Echidna-1 and Kangaroo-2 well locations, Karoon estimates horizontal production wells in each discovery can be expected to produce in excess of 10,000 barrels per day. Due to the size of the resource, strong production test results and lower reservoir complexity, the Echidna discovery is the focus of the current forward work program.

The revised Appraisal Plan approved by the ANP during August 2015 for the follow-on work program includes two firm wells in the Echidna/Emu area, the acquisition and processing of a new 3D seismic survey, pre-stack depth migration of data at 2 millisecond ('ms') sampling and further processing of 2 ms data to increase resolution. All firm commitments under the plan are to be completed by 31 December 2018.

Karoon announced an updated contingent resource volume estimate for the Blocks during September 2015. The Echidna light oil discovery is estimated to have a net 2C contingent resource volume of 75 mmbbls and the updated Kangaroo light oil discovery net 2C contingent resource volume estimate was revised to 54 mmbbls.¹

1. Refer to the Resource Summary on page 7. Note the contingent resource volumes are at 100% following Karoon's acquisition of Pacific's 35% interest in the Blocks.

OPERATIONS REVIEW continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Echidna Development Concept

Over the past 18 months, Karoon established its South American Project Development Team. The core senior leadership group comprises extensive in-country and global development and operating experience.

The project development team continued pre-FEED studies on the Echidna discovery during the financial year. The initial base case development concept was presented during September 2015, and consisted of a staged development approach utilising an EPS. Preliminary completed and connected ('completed') development wells were estimated to cost US\$140 million per production well and US\$102 million per injection well.

Subsequent market testing of the Echidna discovery development concept cost estimates shows significant reductions are expected for completed development wells. Over the past 12 months completed production well costs have fallen approximately 35% per well to US\$90 million, and completed injection wells have fallen 26% per well to approximately US\$76 million.

The project development team has continued its work throughout the financial year and further reservoir modelling and development optimisation work supports the use of extended horizontal production wells along with combined water and gas injection wells. These enhancements are likely to materially reduce the number of overall development wells from the September 2015 development concept.

Economic analysis of the refined development concepts supports a full field development without an EPS as the optimal base case development concept.

In addition to market testing capex estimates, weak global utilisation rates for offshore support vessels and FPSOs are expected to result in total operating costs being approximately 10-15% lower than previous estimates. Karoon has identified a number of available FPSOs that are suitable for an Echidna development with limited investment required. Current low utilisation rates and subsequent reduced expected lead times for procurement support chartering a vessel, which is expected to reduce upfront capex. This is consistent with the previous development concept.

The outlook for exploration and production ('E&P') costs in Brazil are likely to remain lower for longer as the industry adjusts to the country's largest oil and gas producer, Petróleo Brasileiro SA ('Petróbras'), cutting its rolling five-year E&P costs by US\$93 billion from US\$154 billion in June 2014 to US\$61 billion in September 2016. Utilisation rates and consequently costs are therefore likely to be impacted over the medium term, even in a recovering oil price environment.

Echidna Appraisal Program

Karoon has a good data set over Echidna, however, with only one well and the expectation of some degree of reservoir variability across the field, and an unpenetrated oil-water-contact, significant uncertainty remains. The planned Echidna appraisal campaign is designed to address these uncertainties, following which geologic models and the development concept will be refined before considering any future development.

During December 2015, Karoon contracted the 'Olinda Star' semi-submersible drilling rig for the 2 well Echidna appraisal drilling campaign. The contract includes the flexibility for an additional 2 option wells.

The 'Olinda Star' is well known to Karoon's drilling team having been used in the successful 2014-15 drilling campaign. The rig was again selected due to its performance and it satisfies the minimum local content requirement in the Blocks.



Following the acquisition of Pacific's 35% interest, Karoon will be in a position to better control the timing of the Echidna discovery appraisal campaign. Karoon is currently holding the 'Olinda Star' in country on warm stack so that it can be mobilised in a relatively short period of time to commence the drilling campaign.

Karoon will now look to complete a farm-out of the Blocks and continue preparations for the Echidna discovery appraisal drilling campaign. Drilling is expected to commence during the calendar year 2017.

Equity Interests

Equity interest of Karoon in the Blocks is:

Karoon Petróleo & Gas Ltda (Operator)	100%*
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* Subject to obtaining regulatory approvals and an approval order from the Superior Court of Justice in Ontario.

Santos Basin Block S-M-1352

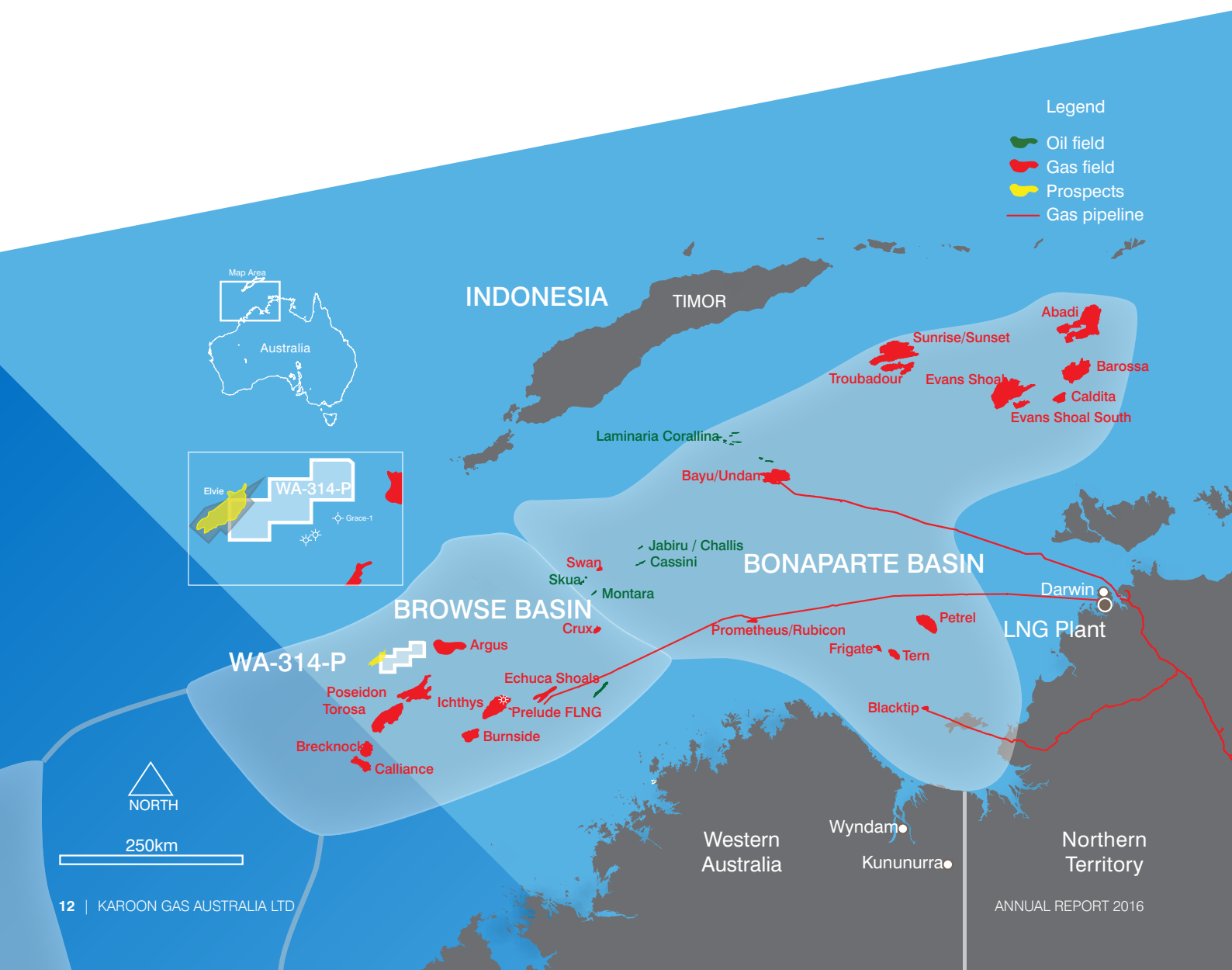
Exploration Block S-M-1352, Santos Basin, is located approximately 200 kms off the coast of the State of Santa Catarina, Brazil.

During the 2015 financial year, due to the limited recoverable resource estimate of the Bauna Sul oil discovery and timing restrictions on a development decision, an application was submitted by the Operator to the ANP to relinquish the Block. The application was approved during the 2016 financial year and the Group's 20% equity interest in Block S-M-1352 was relinquished.



Browse Basin, Australia

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





Browse Basin Permit

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

During 2009 the joint operation discovered the multi-tcf Poseidon gas discovery with the Poseidon-1 exploration well in permit WA-315-P. A total of 10 exploration wells were drilled in the permits between 2009 and 2014 across two drilling campaigns with eight gas discoveries.

During June 2014, Karoon sold its 40% interest in permits WA-315-P and WA-398-P, including the Poseidon gas discovery to Origin Energy Browse Pty Ltd ('Origin') for up to US\$800 million. As at the end of the financial year, outstanding deferred milestone payments of US\$75 million due at FID, US\$75 million due at first production and a resource step-up payment of up to US\$50 million payable on first production remain contingent.

Permit WA-314-P

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

During the financial year, Karoon negotiated the exploration licence renewal over the permit for a five-year term. The renewed exploration licence area covers an area of 998 square kms.

The work program for the initial three-year period consists of geological and geophysical ('G&G') studies, which are to be completed by October 2018.

3D Seismic Processing and Interpretation

Following interpretation of the Kraken 3D marine seismic survey data and thermal maturation modelling, evidence of hydrocarbons generating from a source kitchen to the northwest of the Elvie structure suggests that the kitchen is oil prone.

Reprocessing of the acquired Kraken 3D seismic is planned to commence during the next three months. This work is expected to provide better definition of plays identified and together with AVO/QI analysis will allow re-risking of the Elvie prospect.

Forward Plan

The current work program provides sufficient time to complete the low-cost G&G work along with working through the current farm-out plans on the permit.

Any decision to commit to drilling a further exploration well in the permit will be made if a farm-out is achieved or before proceeding into the optional fourth year of the current exploration licence.

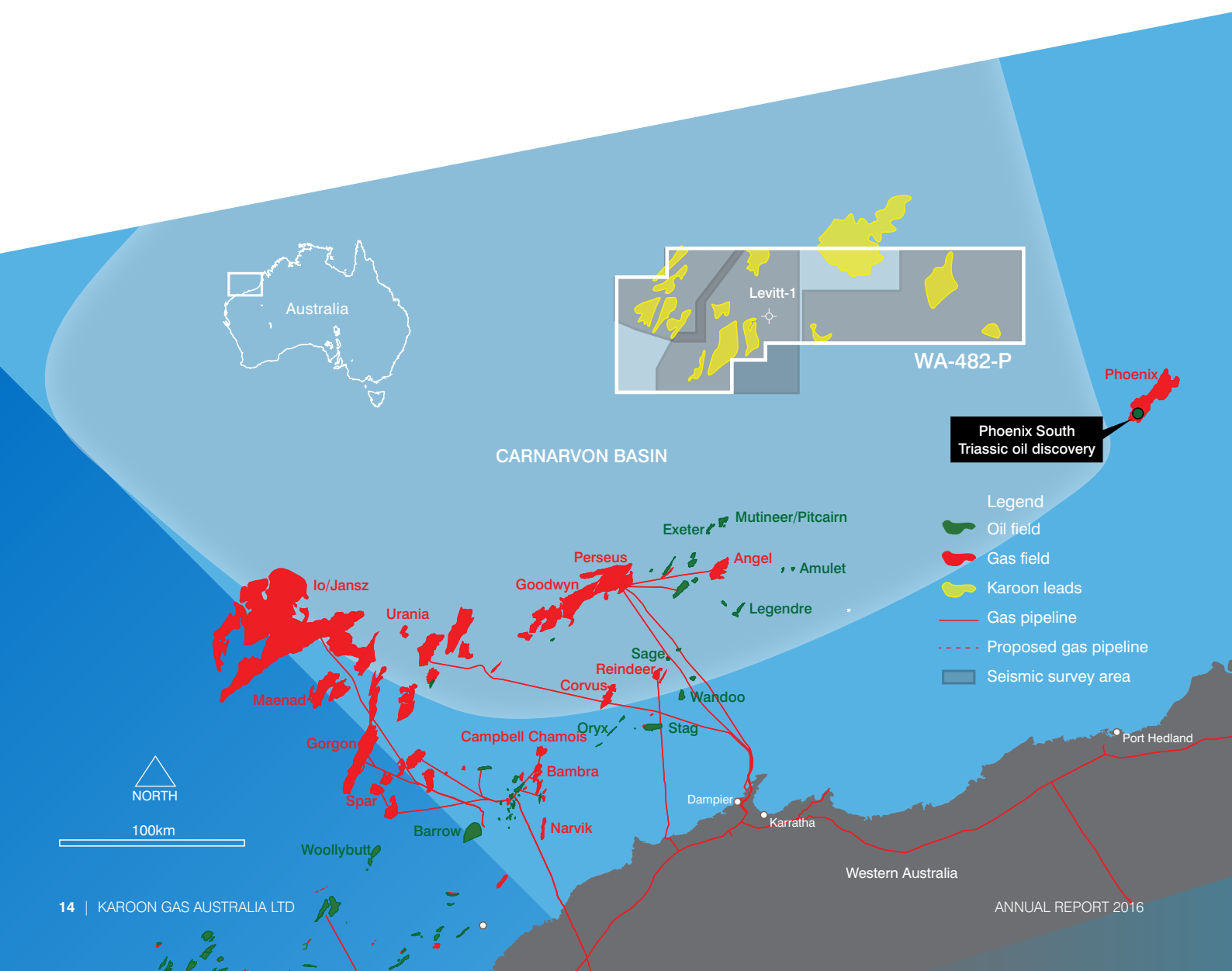
Equity Interest

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

Karoon Gas Browse Basin Pty Ltd (Operator)	100%
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Carnarvon Basin, Australia

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



Carnarvon Basin Permit WA-482-P

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

During May 2014, Karoon farmed-out a 50% interest and operatorship in WA-482-P to Apache Northwest Pty Ltd ('Apache'), now part of Quadrant Energy Australia Limited ('Quadrant'). Under the terms of the farm-out, Karoon was carried for 90% of the cost of the Levitt-1 exploration well.

While the permit is in a relatively underexplored part of the Carnarvon Basin, it covers a very large area in one of Australia's largest and most prolific oil and gas basins. A successful exploration result in this area could open up new exploration plays in the basin.

Drill Results

Operated by Quadrant, the Levitt-1 exploration well spudded on 4 July 2015 using the 'Ocean America' semi-submersible drilling rig. The well was completed on 8 August 2015, reaching a final total depth of 4,929 mRT. The sands were water bearing at this location.

After the carry the total net cost of the well to Karoon was approximately \$5 million.

Petrophysical analysis from the well data indicates good quality reservoir in the Legendre and North Rankin formations with a thick sealing unit penetrated over the North Rankin Formation. In addition, geochemical analysis of mechanical sidewall core tool cores from the North Rankin Formation show oil fluorescence, the analysis of which indicates the generation and migration of oil from a mature expelling source kitchen nearby.

The presence of good reservoirs, seals and migrated oil is encouraging and provides support for a possible working petroleum system present in the acreage.

3D Seismic Acquisition, Processing and Interpretation

Interpretation of the Chrysalids 3D marine seismic survey data continued during the financial year.

The multi-client Capreolus high resolution broadband 3D marine seismic survey over the eastern part of WA-482-P was completed during the December half-year. The joint operation licensed 5,256 square kms of the survey data acquired over the permit. The PSTM (pre-stack time migration) data and the final processed PSDM (pre-stack depth migration) data were received during the financial year.

The eastern part of the permit is of great interest with a number of significant structures within the depocentre of the oil mature Wigmore sub-basin. Following the acquisition of the Capreolus 3D seismic data, the joint operation now has high quality 3D data covering over 75% of the permit, which will be used to better define, risk and rank identified prospects and leads.

Forward Program

The well data from Levitt-1, along with 3D seismic data, provides important information that will add to the understanding of the petroleum systems in the permit. The joint operation will incorporate this data along with regional drilling results into the basin modelling studies, which will be used to high grade future drilling targets.

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

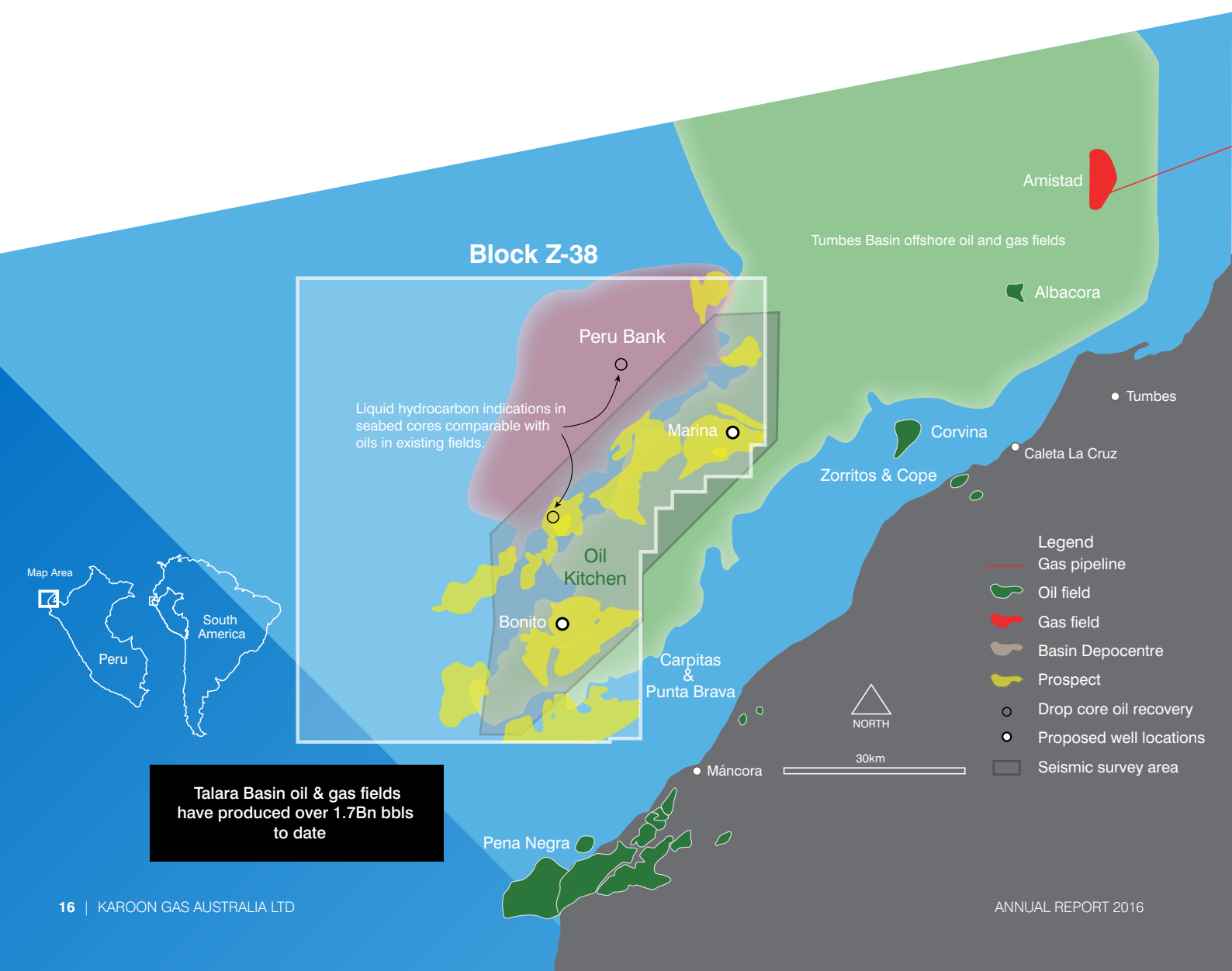
Equity Interests

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

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

Tumbes Basin, Peru

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



Talara Basin oil & gas fields have produced over 1.7Bn bbls to date

Tumbes Basin Block Z-38

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

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

DeGolyer & MacNaughton provided an independent prospective resource assessment as at 31 December 2013. The assessed gross unrisks prospective resource best estimate¹ is 2,248 mmbbls of oil, or 1,686 mmbbls of oil net to Karoon, identified across 18 prospects.

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

Karoon's geologic studies in the Block, which include a 3D seismic survey, sea floor drop cores and QI of seismic, suggest that the Tumbes Basin serves as an analogue to the prolific San Joaquin Basin in California, which has produced over 12 billion barrels of oil and 3.5 tcf gas to date.

These studies characterise an active Oligocene-Miocene pull-apart system similar in dimension, process and age to the San Joaquin Basin.

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

Geological and Geophysical Studies

Sea floor drop cores in the permit area have recovered hydrocarbons whose biomarkers match the Oligocene Heath Formation, the marine source rock for Tumbes Basin edge fields and the giant 1.7 billion barrel Talara Field. The Heath Formation is similar in setting and characteristics to the San Joaquin Miocene Monterey Formation source rock.

The San Joaquin is noted for having prolific fields at basin centre, such as Mid-way Sunset Field of 3.5 billion barrels of oil and Elk Hills Field of 1.3 billion barrels of oil, which lie 40 kms from the basin edge. These fields exhibit improved reservoir quality due to an increase in sediment transport distance. Karoon's prospects lie in the undrilled Z-38 basin centre block approximately 40 kms from the Tumbes Basin edge and basin edge fields. As in the San Joaquin, it is believed reservoir quality will improve with an increase in transport distance. Recent QI of seismic is encouraging and supports a large number of prospects and leads.

During the year advanced geophysical studies, AVO studies, commenced using existing 3D seismic data. The results of new seismic attribute and AVO analysis are very encouraging and indicate a clear distinction between water, oil and gas signatures in reservoirs over the 1,500 square kilometre 3D seismic area.

The new seismic analysis has identified several additional younger and shallower prospects, which have good quality seismic attributes, some aligning to depth contours. This likely indicates oil water contacts.

On completion of this work, Karoon expects the prospects in the younger shallower zones could add prospective resource volumes to the previously disclosed prospective resource volumes.

Forward Program

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

The preliminary plans are to test the Tumbes Formation with the first well, Marina. The Marina prospect has a gross unrisks prospective resource best estimate¹ of 320 mmbbls of oil as assessed by DeGolyer & MacNaughton. The Marina prospect has a Tumbes Formation target in a fault block structure.

The second well, Bonito, is planned to test the Zorritos formation. The Bonito prospect has a gross unrisks prospective resource best estimate¹ of 554 mmbbls of oil as assessed by DeGolyer & MacNaughton. The Bonito prospect has a Zorritos Formation target in a faulted four-way dip closed structure.

Drilling preparations are ongoing.

Equity Interests

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

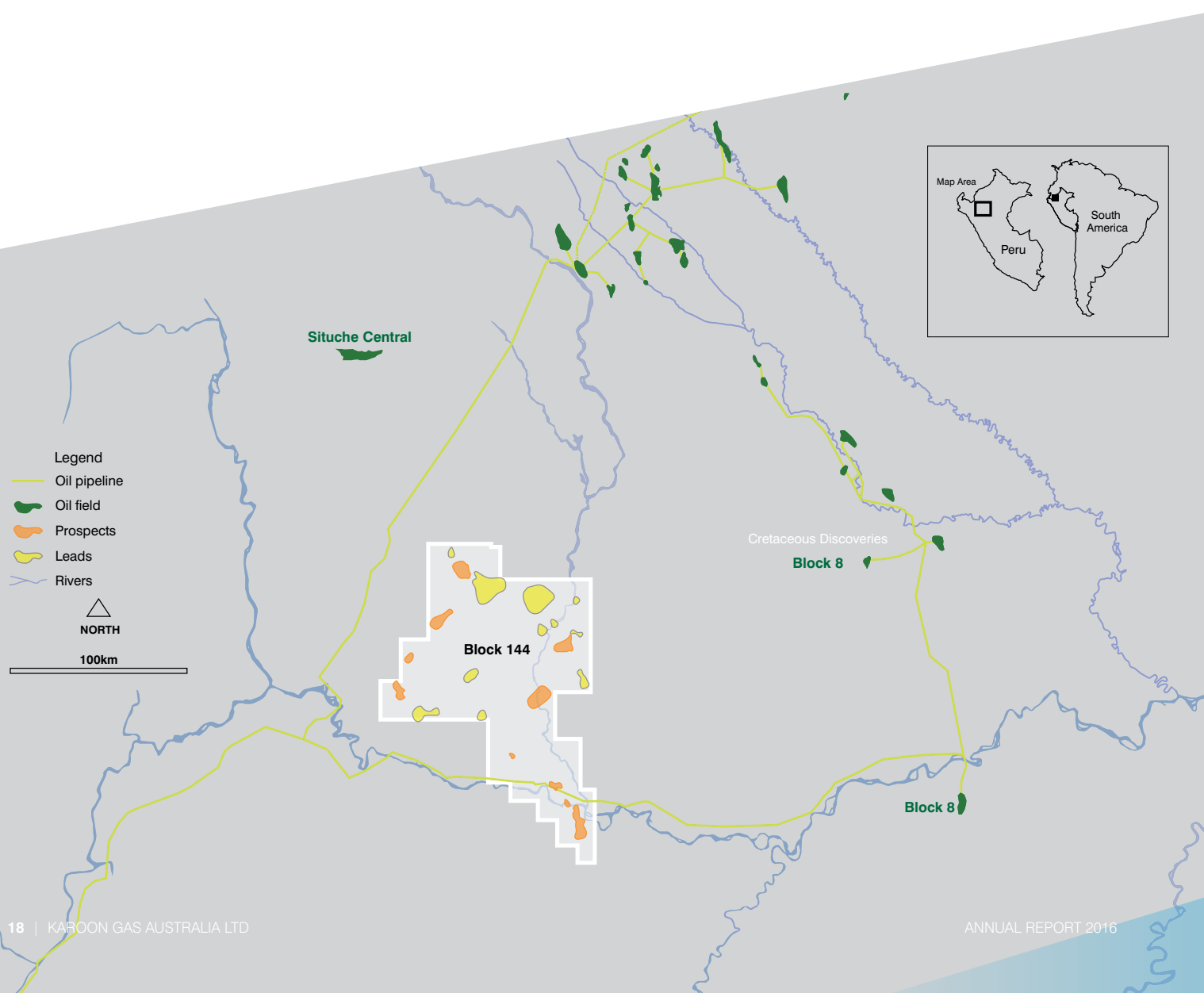
KEI (Peru Z38) Pty Ltd, Sucursal del Peru (Operator)	75%*
Pitkin Petroleum Peru Z-38 SRL	25%

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

1. Refer to Resource Summary on page 7.

Marañón Basin, Peru

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





Marañón Basin Block 144

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

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

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

Block 144 is in force majeure while minimal social programs and government introductions to the Indigenous communities are ongoing.

Forward Program

Exploration work and work program commitments will resume once force majeure is lifted.

Karoon is continuing geotechnical and minimal social work along with undergoing an Environmental Impact Assessment study for the acquisition of 300 sq kms of 2D seismic as part of the second period work commitment.

Equity Interest

Equity interest of the participant in Block 144 is:

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

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Karoon has had another successful year in continuing to build on its three core areas of sustainability, namely society, the environment and governance, which underpin Karoon's business culture and growth strategy. Highlights of the financial year include:

- a focus on embedding a sustainability culture within Karoon, including a commitment to establish a Sustainability Committee and a coordinated recognition of World Environment Day across all offices;
- a full external review of the Karoon Health, Safety, Security and Environment Management System ('HSSEMS');
- improvements to Karoon's social programs to provide even more successful outcomes for participants; and
- a significant increase in the score achieved by Karoon in the Carbon Disclosure Project ('CDP') Climate Change Response.

Philosophy and Management

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

Risk management continues to be at the core of Karoon's sustainability undertaking, as overseen by the Risk and Governance Committee of the Board. The Corporate Risk Register is maintained by the Risk Management Team, with risks assessed in principal business areas. This financial year the Risk Management Team opted to specifically include Exploration, Appraisal and Development as a distinct category

from Operations. This category relates to the technical aspects of predicting and achieving successful exploration and development outcomes. The other five core categories are:

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

Karoon is pleased to report on the excellent progress made during the financial year in addressing high priority sustainability risks in each of the core risk categories, as reported in the following sections.

Operations

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

Safety

Karoon did not act as Operator on any drilling programs during the financial year, and the Health, Safety, Security and Environment ('HSSE') metrics for the financial year are all zero (see Table 1).

This period has provided Karoon time to carry out a proactive review and assessment of its HSSEMS, which sets the standard for safety for all of Karoon's offices, activities and projects. The review was undertaken to ensure the system continues to be compliant with external safety standards and that it is being appropriately disseminated throughout the Group. Compliance, both external and internal, represents a high priority sustainability operations risk in Karoon's Corporate Risk Register.

The Karoon HSSEMS was established during 2007 and has continued to evolve to reflect Karoon's commitment to health and safety, regulatory and legislative requirements and current industry best practice.

To date the HSSEMS has focused on exploration in line with Karoon's operational activities. Recognising the move toward development and production, Karoon has reviewed its HSSEMS to ensure the management system reflects the full range of Karoon's proposed activities.

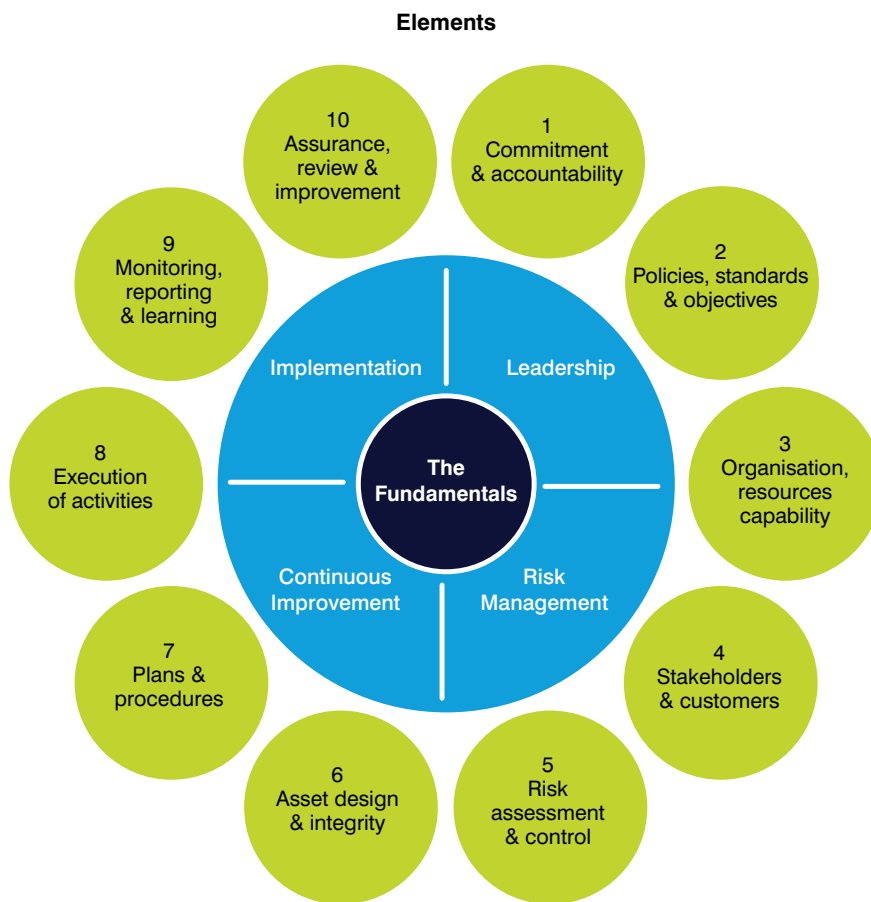
An external consultant was engaged to undertake a comprehensive review and gap analysis of the existing HSSEMS against various industry standards, including OGP¹ 510 and the Operational Safety Management System Management Practices (as required by the Brazilian oil and gas regulatory authority the ANP), for all phases from exploration to development and fully operated production.

Table 1: 2016 Financial Year HSSE Statistics

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

1. The international Oil and Gas Producers ('OGP') represents the upstream oil and gas industry for international organisations, including the International Maritime Organisation, the United Nations Environment Programme ('UNEP'), Regional Seas Conventions and other groups under the United Nations umbrella. Equally important is OGP's role in promulgating best practices, particularly in the areas of health, safety, the environment and social responsibility.

The principal advice from the review was to update the HSSEMS to an Operating Management System ('OMS') by adopting OGP 510. The new OMS will focus on 10 core elements (standards), with expectations for each element. These elements and expectations are simple and high level, while at the same time setting the minimum standards for Karoon's projects and offices worldwide (refer diagram below).



Source: OGP Report No 510, June 2014: Operating Management System Framework

This high level documentation is supported by policies, standards, objectives, plans, procedures and other working documents that provide more detail regarding specific activities, offices or projects. Where possible these will be uniform across all jurisdictions, although minor differences are necessary to account for local legislation and custom.

Karoon's ongoing safety and training programs, including emergency preparedness and first aid, continued uninterrupted throughout the review.

Karoon employees from both Australia and South America are continuing to work through the outcomes of the review, which will result in a system that will be easier to implement and monitor, ensuring Karoon's high standards of health and safety can continue to be applied across all jurisdictions and all activities from exploration and appraisal to development and production.

CORPORATE SUSTAINABILITY REPORT continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Respect for Communities

Karoon's team of qualified social and environmental professionals is based in Brazil and Peru. The team has been responsible for the development and implementation of a number of successful programs in education, health care, environmental stewardship, land titling and assisting local businesses.

Consultation is a key component of Karoon's approach to supporting the involvement of local communities. This helps identify areas of greatest need for each community and create an appropriate implementation plan for any proposed program. Karoon values input and feedback from all of its stakeholders, especially members of the communities where Karoon operates.

During the financial year, Karoon spent time updating the design and usability of its website to make it easier to both disseminate and receive information. The new website will launch during the 2017 financial year and will include a newsfeed on Karoon's social programs, as well as a photo and video gallery to provide greater insight into its social and environmental aspects and what Karoon and the local communities have been able to achieve by working together to improve local development.

Karoon has sought to facilitate the promotion and sharing of knowledge and research in the oil and gas industry in all three of its geographical jurisdictions during the financial year, with university-related scholarships in Australia and Peru and sponsorship of oil and gas industry events at universities in Brazil.

Karoon has also sought to further improve other local community programs, building on the success achieved in past years. The 2016 financial year's projects included:

- improvements to the Karoon 'Tumpis' university scholarship program providing additional support such as tutoring classes, and provision for extra-curricular activities, resulting in a better retention rate within the program and higher academic achievements for the students;
- oil and gas industry sponsorship in Brazil through two university projects, namely:
 - Petro-Sul, the largest petroleum and gas event in the south of Brazil, bringing together approximately 300 participants. The event was organised by the Federal University of Pelotas, in Rio Grande do Sul, and included technical visits, lectures and courses offered by renowned professionals, who shared insights, advances, the latest news and technological trends from the industry; and
 - the 'I SPE-UDESC Petroleum Workshop', organised by the State University of Santa Catarina, to discuss technological and institutional themes related to the oil and gas engineering sectors. It showcased the latest technological and research trends in the industry. Karoon, in partnership with Haliburton, was able to sponsor a session of the workshop delivered by André Mandonça, a specialist in drilling fluids;
- ongoing support for the Magnificent Frigatebird environmental stewardship project to protect the mangrove habitat of the Frigatebird (nearby Karoon's Block Z-38, Peru) and develop a local tourism industry around visitors wishing to view

the birds in their native environment. A highlight for Karoon and the project this financial year was the successful launch of a book about the project, containing valuable scientific information about the Frigatebirds. This study, conducted by Dr Carlos B Zavalaga from Universidad Peruana Cavetano Heredia, was the first scientific study about Frigatebirds in Peru;

- the establishment of the Karoon Geoscience Scholarship open to Honours and Masters candidates studying a geoscience, energy-related academic program in Victoria or Tasmania. The scholarship will be awarded to a student with both a good academic record and a record of personal achievement;
- improvements to the Karoon Mutumbi micro business program supporting local women in Peruvian communities in establishing jewellery making businesses, giving them some form of income and financial independence; and
- natural medicine training programs, in conjunction with the Peruvian Amazon Research Institute ('IIAP'), for local health care workers using medicinal plants found in the Amazon region.

Further details regarding these and other Karoon-sponsored programs are available through the current Karoon Brazil website at www.karoon.com.br.

'Ensuring the availability of necessary expertise and resources is key to achieving operational success and sustainable business outcomes.'

Exploration, Appraisal and Development

Oil and gas exploration is a high-risk industry requiring significant investment in data and analysis to identify successful drilling sites and development scenarios. Karoon recognises that its outstanding drilling success rate is largely attributable to the expertise and resources used to identify drilling locations, develop drilling programs and facilitate funding. Karoon values this expertise and understands the importance of finding and retaining high-quality personnel, as well as remaining current with industry best practice.

During the financial year Karoon has been preparing to undertake an appraisal drilling campaign at its Santos Basin assets, with the aim of being able to move forward into development and production. To ensure Karoon has the expertise needed to maximise the success of this program and future operations, it has recruited outstanding technical experts to join its Production and Development Team.

They have added to the wealth and depth of in-house knowledge that has optimised the exploration and appraisal programs. In addition, they further enhance the expertise needed to evaluate potential asset acquisitions. Key new members of the Production and Development Team are:

- *José Formigli, Karoon Production and Development Committee Chair and Principal Production and Development Team Adviser:*

Over 30 years' experience in the oil and gas industry culminating in three years as the Chief Exploration and Production Officer for Petróbras in Brazil responsible for an annual budget of over US\$ 20 billion, and a member of the Petróbras Executive Board;

- *Ricardo Abi Ramia, Production Manager:*
Over 28 years of experience in the offshore oil and gas industry, holding management positions in various organisations including Director of Operations (OAS), Director of Engineering, Operations and Chartering (OSX), Production Development Executive Manager (OOGX) and International Business Development Executive Manager (Petróbras); and
- *Oliver Seybold, Reservoir Manager:*
Over 26 years of experience in the oil and gas industry, with a solid theoretical and practical background in all aspects of reservoir engineering and production engineering.

Karoon will continue to seek to develop its experienced Production and Development Team and ensure the team is appropriately supported and resourced to work effectively in maintaining Karoon's long-term business growth strategies.



CORPORATE SUSTAINABILITY REPORT continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Finance

'The prolonged low oil price environment has challenged Karoon's business strategy of acquiring assets to further enhance Karoon's financial sustainability.'

Karoon has maintained a robust, sustainable financial position throughout this volatile period experienced by the global oil and gas industry. Careful planning has meant Karoon is debt free at a time when others in the industry are facing significant challenges to liquidity and asset retention. The industry-wide challenges brought about by fluctuations in crude oil prices have resulted in a significant reduction in operating costs due to an oversupply of equipment and resources, presenting Karoon with a unique opportunity to acquire existing production assets in a relatively low-cost market. While Karoon has been keen to take advantage of this opportunity, identifying appropriately accretive acquisitions has proved difficult.

Recognising the volatility within the oil and gas industry, Karoon has been especially cognisant of ensuring a thorough due diligence process, including risk assessment, is undertaken when considering an asset for potential acquisition. Karoon has undertaken several detailed reviews throughout the financial year, however it has found that many assets have not demonstrated sufficiently attractive returns.

Karoon is not prepared to risk the financial sustainability of the Company through an inappropriate acquisition. Karoon is committed to seeking a potential asset acquisition that complements its existing portfolio and fulfils its business strategy and as such will continue to complete a thorough due diligence process before bidding for any asset.

Legal and Compliance

'Karoon's governance framework provides the structure and oversight to a successful and sustainable business'

Karoon recognises the importance of a sustainable Human Resources ('HR') framework in establishing an effective and efficient working environment where all employees feel motivated, valued and supported. Karoon is committed to maintaining a system that achieves these outcomes and to keeping employees informed with regard to relevant regulations and legislation.

During the 2015 financial year, Karoon reviewed and updated its external policies and charters (available for viewing on the Karoon Gas Australia Ltd website at www.karoongas.com.au). During the 2016 financial year, Karoon extended this review to the internal policies and procedures contained in the Karoon HR Manual. All Karoon personnel are expected to be familiar with the contents of the HR Manual as it sets out their rights and responsibilities as employees.

This is vital in ensuring employees understand their entitlements, the expectations of being a Karoon employee and knowledge that they are a valued member of the Karoon team, as well as ensuring that Karoon fulfils its legal and regulatory obligations.

The HR Manuals were combined to be consistent across Australia, Brazil and Peru, with minor changes where necessary to account for local legislation and custom. The revised HR Manual underwent an external legal review in each relevant country to ensure that it was compliant. Karoon personnel in each office were also engaged in the review, providing feedback and comment to ensure the HR Manual reflects local customs and demonstrates respect for all employees.

As Karoon transitions from a HSSEMS to an OMS, the HR Manual will be incorporated into the OMS. As part of the OMS, all sections of the HR Manual will be controlled documents making it easier to maintain consistency across the Group, track and monitor legislative changes and ensure compliance with legislative and regulatory requirements.

People and Culture

Karoon has a strong sustainability culture in its South American operations, driven by the local Sustainability Team. During the financial year there has been substantial progress made in embedding that culture throughout the Group, especially through the Risk Management Team. In an effort to further strengthen sustainability efforts and engage employees better, Karoon has

'Karoon is committed to ensuring its policies and procedures are embedded in its culture and business practices throughout the Group.'

committed to establishing a Sustainability Committee comprising senior social and environmental, HSSE, HR and operations representatives from both Australia and South America. The Committee will work towards establishing and maintaining sustainable business practices by engaging, educating and motivating personnel in social, environmental and governance issues and ensuring the Company upholds high ethical standards of operations.

The Sustainability Committee will:

- establish and maintain programs that engage personnel in business strategy, in operations and social, environmental and governance issues through training, education and awareness such as:
 - the Karoon Brazil and Peru 'Lunch and Learn' program, which brings employees from all departments together to consider projects, policies and/or procedures and improve understanding across all aspects of the business;
 - multi-office coordinated programs like the recent Karoon Environment Week that involved a series of seminars and events in the Australian, Brazilian and Peruvian offices following 2016 World Environment Day. The activities served

to raise awareness of environmental issues generally and make personnel aware of Karoon's commitment to environmental best practice; and

- external communication workshops for the managers in Peru to assist them in engaging with stakeholders, including interest groups, the media, relevant government authorities, employees, and other oil and gas companies.
- assist the HSSE Team in overseeing the transition from a HSSEMS to an OMS, and provide ongoing OMS support in the future;
- identify projects, such as the recently purchased breastfeeding screens in the Karoon Peru office, to facilitate flexibility in work conditions beyond the legal obligations of parental leave, carer's leave and study leave to assist in retaining key personnel;
- establish and maintain social and environmental programs that demonstrate Karoon's commitment to fulfil its obligations as a responsible corporate citizen;
- use formal reporting platforms, such as the CDP, to report externally on Karoon's sustainability position; and

- promote the health and wellbeing of all Karoon personnel by building on Karoon's existing commitment to promote a healthy lifestyle across all of its offices. Examples include:

- the provision of fresh fruit daily in all offices;
- encouraging employees to be physically active through gym membership subsidies and team sports; and
- maintaining a Sustainability Noticeboard that includes healthy lifestyle information such as tips on diet, office ergonomics, relaxation techniques and recommendations to prevent work-related illnesses.

Over time the Sustainability Committee is expected to identify further projects to develop more effective and efficient practices to engage employees and resources.



CORPORATE SUSTAINABILITY REPORT continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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

Reputation

During the 2015 financial year, Karoon acknowledged that, despite a longstanding commitment to operate in accordance with the principles of social, environmental and economic sustainability, it had not formally reported on its corporate sustainability business practices. Karoon undertook to improve its sustainability reporting, especially with regard to governance systems and risk management.

Karoon is pleased to report that this was well received by stakeholders in the investment and wider community, and has had a positive impact on Karoon’s standing as a Group committed to achieving sustainable solutions. This is demonstrated through the significant improvement to Karoon’s score in its response to the CDP.

CDP reports are publically available and provide details of a company’s greenhouse gas emissions, approach to climate change and some of the specific risks and opportunities identified by those companies. Karoon first voluntarily submitted a response

to the 2012 CDP Report without, unfortunately, fully describing its governance framework and risk management processes. This resulted in a score of 20 and a low sustainability rating. During the 2015 financial year, it was decided to voluntarily respond a second time with a more detailed description of the processes and management of sustainability at Karoon. This resulted in an exceptional score of 90, outscoring far larger companies listed on the ASX and from the Australian oil and gas industry.

This recognition of the commitment of the Directors and management to raise the profile of sustainability at Karoon is encouraging and provided impetus to the proposed creation of the Sustainability Committee to continue to look for potential improvements in social, environmental and governance projects and reporting. Through this Committee, Karoon hopes to increase its awareness, and improve its reporting, of corporate sustainability through consultation and public disclosure using reporting platforms such as the CDP Report.



DIRECTORS' REPORT

The Board of Directors submits its Directors' Report on Karoon Gas Australia Ltd (the 'Company') and its subsidiaries (the 'Group') for the financial year ended 30 June 2016 (the 'financial year').

Board of Directors

Under the Company's Constitution, the minimum number of Directors that may comprise the Board of Directors is currently 3 and the maximum number of Directors is 10. Directors are elected and re-elected at Annual General Meetings of the Company.

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

Dr David Klingner

BSc. (Hons), PhD, FAusIMM

Independent Non-Executive Chairman

Appointed 19 December 2014.

David has over a decade of Australian and international boardroom experience and has worked in the natural resources industry for 49 years. David spent his career working for Rio Tinto and its affiliated companies, holding many senior executive positions including Head of Exploration, Group Executive Coal and Gold, Managing Director Kaltim Prima Coal. David's various other commercial and technical roles included Group Geologist Petroleum Exploration. Since 2004, David has been an active company chairman and corporate Director.

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

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

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

Member of the Remuneration Committee, Risk and Governance Committee.

Mr Robert Hosking

Managing Director

Appointed 11 November 2003.

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

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

Mr Mark Smith

Dip. App. Geol, Bsc. (Geology)

Executive Director and Exploration Director

Appointed 20 November 2003.

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

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

DIRECTORS' REPORT

continued

Board of Directors continued

Ms Luciana Bastos de Freitas Rachid

B Chem Eng. Post Grad Degree Corporate Finance

Independent Non-Executive Director

Appointed 26 August 2016.

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

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

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

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

Member of the Nomination Committee, Risk and Governance Committee.

Mr Geoff Atkins

FIE Aust. CP Eng.

Independent Non-Executive Director

Appointed 22 February 2005.

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

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

Chairman of the Nomination Committee.

Member of the Audit Committee.

Mr Clark Davey

B. Commerce, FTIA, MAICD

Independent Non-Executive Director

Appointed 1 October 2010.

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

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

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

Chairman of the Audit Committee.

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

Mr Peter Turnbull

B. Commerce, LLB, FGIA, FAICD

Independent Non-Executive Director

Appointed 6 June 2014.

Peter has significant experience as an independent Non-Executive Director from a range of organisations and industries and is a current and longstanding Director, and former President, of the Governance Institute of Australia. Peter has over 30 years of senior executive experience gained in publically listed, private and government owned organisations in Australia, South East Asia, Europe and the United Kingdom. Peter's experience includes over a decade in energy markets and the resources sector in senior executive positions including as Company Secretary of Newcrest Mining Limited, Company Secretary and General Counsel of BTR Nylex Limited and General Manager, Legal and Corporate Affairs with Energex Limited.

Peter also has extensive experience in designing and managing corporate governance frameworks, including risk management and remuneration regimes.

He is an executive committee member of several global organisations that promote good governance and is a regular contributor and speaker on corporate governance issues. Peter also has significant regulatory and public policy experience including as a former Director of corporate finance for the Securities and Futures Commission of Hong Kong.

Chairman of the Remuneration Committee.

Chairman of the Risk and Governance Committee.

Member of the Audit Committee and Nomination Committee.

Mr Bernard Wheelahan AM

BSc., DipEd, FRACI, FAusIMM, FAIE, FAICD

Independent Non-Executive Director

Appointed 24 June 2014.

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

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

Member of the Nomination Committee, Risk and Governance Committee.

Mr Jose Coutinho Barbosa

Bsc. (Geology), Msc. (Geophysics)

Non-Executive Director

Appointed 31 August 2011.

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

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

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

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

DIRECTORS' REPORT

continued

Board of Directors continued

Company Secretary

Mr Scott Hosking

B. Commerce

Appointed on 10 March 2006.

Scott has a significant international financial and commercial management background and has been involved with several commercial ventures over the past 19 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 attendance by each Director of the Company during the financial year were:

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings		Risk and Governance Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
Dr David Klingner	11	11	-	-	5	4	-	-	4	4
Mr Robert Hosking	11	11	-	-	-	-	-	-	-	-
Mr Mark Smith	11	10	-	-	-	-	-	-	-	-
Mr Geoff Atkins	11	11	5	4	-	-	2	2	-	-
Mr Clark Davey	11	11	5	5	5	5	2	2	4	4
Mr Peter Turnbull	11	11	5	5	5	5	2	2	4	4
Mr Bernard Wheelahan	11	10	-	-	-	-	2	2	4	4
Mr Jose Coutinho Barbosa	11	9	-	-	-	-	-	-	-	-

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

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

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

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

Director	Ordinary Shares, Fully Paid	Unlisted Share Options	Unlisted Performance Rights
Dr David Klingner	103,591	-	-
Mr Robert Hosking	11,874,462	915,219	142,417
Mr Mark Smith	2,892,037	915,219	142,417
Mr Geoff Atkins	696,784	-	-
Mr Clark Davey	24,294	-	-
Mr Peter Turnbull	32,500	-	-
Mr Bernard Wheelahan	80,000	-	-

Principal Activities

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

Significant Changes in State of Affairs

The Company's share buy-back commenced on 3 September 2014 and was continued on 3 September 2015 for a further 12 months. During the financial year, a total of 1,660,319 ordinary shares had been purchased and cancelled at an average price of \$1.55 per share, with prices ranging from \$1.34 to \$1.70. The total reduction in contributed equity as a result of the share buy-back and cancellation of ordinary shares was \$2,561,944. The share buy-back lapsed on 2 September 2016.

Results

The consolidated result of the Group for the financial year was a loss after tax income of \$105,126,345 (2015: profit after tax expense \$231,456,873).

The loss for the financial year included the write-off of capitalised exploration and evaluation expenditure associated with historical Australian exploration and evaluation activities that are no longer continuing and not considered prospective of \$148,958,458 (2015: \$28,553,885 for Block S-M-1352 in Brazil) and net employee benefits expense of \$11,888,746 (2015: \$10,962,775), which included share-based payments expense of \$3,253,193 (2015: \$3,199,441). The financial year also included exploration and evaluation expenditure of \$1,508,493 (2015: \$934,112) from reviewing new exploration opportunities predominantly in Australia and Brazil, and \$1,674,246 (2015: \$Nil) on business development and other project activities that included internal time allocation of employees and consultants and associated office charges, geotechnical data and external advice relating to due diligence reviews on potential asset acquisitions.

Partially offsetting the loss for the financial year were net foreign currency gains of \$19,061,558 (2015: \$121,290,995); tax income of \$44,304,488 (2015: tax expense of \$115,894,599) relating largely to the de-recognition of a deferred tax liability in relation to capitalised Australian exploration and evaluation expenditure written-off; reversal of provision for restoration of \$2,471,244 as a result of approval from the ANP to relinquish Block S-M-1352 in its current state; and interest income of \$1,608,292 (2015: \$2,004,783). The net foreign currency gains were almost entirely attributable to the appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.7680 as at 30 June 2015 to AUD1:USD0.7426 as at 30 June 2016) on cash assets and security deposits held in United States dollars by the Group during the financial year.

Cash Flows

Operating activities resulted in a cash outflow for the financial year of \$31,209,795 (2015: \$13,967,296), predominantly for payments to suppliers and employees and payment of Australian income tax as a result of divestment of exploration permits WA-315-P and WA-398-P to Origin during the previous financial year. Cash outflow from investing activities for the financial year was \$53,961,479 (2015: cash inflow of \$442,245,164) relating principally to the payment for exploration and evaluation expenditure in Australia, Brazil and Peru. Cash outflow from financing activities for the financial year was \$2,566,955 (2015: \$30,818,389) related to the Company's on-market share buy-back.

The positive effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies, primarily in United States dollars, for the financial year was \$14,237,255 (2015: \$116,618,518).

Financial Position

At the end of June 2016, the Group had a cash and cash equivalents balance of \$479,590,366 (30 June 2015: \$553,091,340) and no debt.

The Group's working capital, being current assets less current liabilities, decreased from \$508,457,139 as at 30 June 2015 to \$475,731,658 as at 30 June 2016 predominantly as a result of expenditure on exploration and evaluation assets and the Company's on-market share buy-back; partially offset by the appreciation in the United States dollar against the Australian dollar on cash assets and security deposits held in United States dollars.

During the financial year, total assets decreased from \$1,095,339,759 to \$917,187,319, total liabilities decreased from \$136,834,119 to \$59,224,572 and total equity decreased by \$100,542,893 to \$857,962,747. The major changes in the consolidated statement of financial position were largely due to the following:

- exploration and evaluation expenditure in Australia, Brazil and Peru;
- write-off of capitalised Australian exploration and evaluation expenditure and the corresponding deferred tax liability;
- appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.7680 as at 30 June 2015 to AUD1:USD0.7426 as at 30 June 2016) on cash assets and security deposits held in United States dollars;
- reversal of the provision for restoration for Block S-M-1352 in Brazil;
- the use of cash and cash equivalents for the Company's on-market share buy-back; and
- payment of Australian income tax as result of divestment of exploration permits WA-315-P and WA-398-P to Origin during the previous financial year.

The contributed equity of the Company decreased by \$2,561,944 during the financial year through the Company's on-market share buy-back.

DIRECTORS' REPORT

continued

Financial Position continued

Exploration and evaluation expenditure of \$38,164,303 was incurred during the financial year, with major expenditure in the following operating segments:

- Australia, the Group participated in the drilling of the Levitt-1 exploration well operated by Quadrant Energy Australia Limited ('Quadrant') in exploration permit WA-482-P, continued processing and interpretation of the Chrysalids marine 3D seismic survey over the western section of the permit and interpretation of the recently acquired Capreolus marine 3D seismic survey over the eastern part of the WA-482-P, at a total cost of \$9,840,238;
- Brazil, the Group began preparatory work for the appraisal drilling campaign, along with detailed geological, geophysical, reservoir modelling and production scenario work, at a total cost of \$21,250,949; and
- Peru, the Group continued with drill planning and preparation, commenced advanced geophysical studies (amplitude versus offset) using the existing 3D seismic data in Tumbes Basin Block Z-38, along with geotechnical, social and environmental work in the Marañón Basin Block 144, at a total cost of \$7,073,116.

Review of Operations

Information on the operations of the Group is set out in the Operations Review on pages 8 to 19 of this Annual Report.

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

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

Dividends

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

Share Options and Performance Rights

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

Type of Share Option	Grant Date	Date of Expiry	Exercise Price Per Share Option	Number of Share Options
ESOP options	22 August 2014	30 June 2018	\$4.06	1,104,049
ESOP options	29 August 2014	30 June 2018	\$4.06	548,232
ESOP options	3 November 2014	30 June 2018	\$4.06	848,620
ESOP options	17 February 2015	30 June 2018	\$4.06	370,731
ESOP options	23 January 2015	30 December 2018	\$4.06	56,604
ESOP options	9 October 2015	30 June 2019	\$3.04	1,066,752
ESOP options	30 October 2015	30 June 2019	\$3.04	981,818
Total ESOP options				4,976,806

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

Type	Grant Date	Date of Expiry	Exercise Price Per Performance Right	Number of Performance Rights
Performance rights	9 October 2015	30 June 2017	\$-	127,857
Performance rights	9 October 2015	30 June 2018	\$-	404,632
Performance rights	9 October 2015	30 June 2019	\$-	471,371
Performance rights	30 October 2015	30 June 2017	\$-	146,374
Performance rights	30 October 2015	30 June 2019	\$-	138,460
Performance rights	14 December 2015	30 June 2017	\$-	53,424
Performance rights	18 December 2015	30 June 2017	\$-	64,182
Total performance rights				1,406,300

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

193,627 fully paid ordinary shares have been issued since 1 July 2016 as a result of the vesting and conversion of Karoon Gas Australia 2012 Performance Rights Plan ('PRP') performance rights.

Information relating to the Company's PRP, Employee Share Option Plan ('ESOP') and other share options, including details of performance rights and share options granted, exercised, cancelled, forfeited and expired during the financial year and performance rights and share options outstanding at the end of the financial year, is set out in Note 27 of the consolidated financial statements.

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

Indemnification of Directors, Officers and External Auditor

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

As approved by shareholders at the 2009 Annual General Meeting, the Company will continue to pay those Director insurance premiums for a period of 10 years following termination of their directorships of the Company and will provide each Director with access, upon ceasing for any reason to be a Director of the Company and for a period of 10 years following cessation, to any Company records that are either prepared or provided to the Director during the time period they were a Director of the Company.

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

Proceedings on Behalf of the Company

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

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

Corporate Governance

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

Environmental Regulation

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

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

DIRECTORS' REPORT

continued

Greenhouse Gas Emissions and Reporting Requirements

Relevant entities are required to report greenhouse gas emissions, energy consumption and energy under the National Greenhouse and Energy Reporting Scheme. The Group was not required to register and report greenhouse gas emissions, energy consumption or energy production under the scheme for this financial year, as it did not meet the relevant thresholds for the relevant period. However, the Group's global carbon footprint during the financial year was 2,653 tonnes of carbon dioxide equivalent based on equity share and including scope 1 and scope 2 emissions (2015: 55,962 tonnes), resulting primarily from the Karoon share of emissions from the Levitt-1 exploration well drilled in the Carnarvon Basin during July and August 2015 and from administration emissions from global offices and Company vehicles. This represents a significant decrease in total emissions compared to the previous financial year where several operated wells were drilled in the Santos Basin.

While there were no operated wells drilled during the financial year, the total greenhouse gas emissions from the Levitt-1 well was 4,858 tonnes of carbon dioxide equivalent. Karoon's share of this was 2,429 tonnes of carbon dioxide equivalent. Greenhouse gas emissions from Karoon's administrative function totalled 224 tonnes of carbon dioxide equivalent.

The Company continues to seek cost-effective, reliable and environmentally efficient methods for addressing future greenhouse gas emissions and energy consumption. Karoon has been working with external contractors to consider carbon offsetting projects that could be sustainable and respond to the Company's existing emissions and that may be scaled to respond to future (post-development) emissions.

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 60 of this Annual Report.

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

Remuneration Report (Audited)

Dear Shareholders,

On behalf of the Remuneration Committee and the Board of Directors, I am pleased to present Karoon's Remuneration Report for the financial year ended 30 June 2016.

1. Overview

It has been a turbulent year in the oil and gas sector since our last Annual Report, with many geo-political and commercial challenges affecting the sector globally. In these circumstances, there are both opportunities and challenges that Karoon embraces and the remuneration policy and practice must recognise.

The Remuneration Committee has again this financial year taken independent expert advice from John Egan, of Egan Associates, on various remuneration issues including salary benchmarking (including related parties), expatriate conditions and performance milestone outcomes to ensure that the Remuneration Committee has the best possible advice and data on which to base its decision making.

Karoon's guiding principles for remuneration strategy have been to ensure that:

- the best possible health and safety outcomes are achieved and that no events of bribery or corruption have occurred before any performance awards are vested;
- remuneration measures are aligned with shareholder outcomes, including defining short and longer-term performance measures, which are genuinely designed to stretch operational outcomes and build measurable asset value and increase shareholder value over time;
- Karoon can attract, motivate and retain the very best people;
- measures, outcomes and reporting are simple and transparent;
- decision making is longer-term in its focus;
- appropriate restraint is exercised having due regard to market conditions; and
- we appreciate and listen to shareholder feedback.

These principles and our overall remuneration structure will not be changed for the 2017 financial year, supported by shareholders voting 98.89% in favour of the Remuneration Report last year.

The uncertainty in world oil and gas markets has put downward pressure on Karoon's share price, as has been the case with most of its industry peers and we are very cognisant of this share price reality from a shareholder perspective.

2. Links to Strategy

The Board and management are very aware of the need to ensure that executive performance outcomes are very much aligned to building asset value and securing share price growth over time.

As I mentioned last year, we strive to ensure that internal remuneration strategies are designed to reward genuine performance outcomes. Put another way, our performance regime is not designed to reward people for fulfilling their core roles, rather it is designed to incentivise our staff to achieve better than budgeted 'stretch' outcomes for shareholders. Karoon's short-term incentive ('STI') targets are directly derived from our strategy of continued exploration success, moving to production in Brazil as quickly as possible, seeking opportunistic acquisition opportunities, managing risk through joint operation relationships, preserving scarce capital and minimising the cost of adding value to our suite of assets.

Our long-term incentive ('LTI') targets are based on a relative total shareholder return measure, meaning people need to outperform an industry peer group in terms of share price performance for any performance incentive to vest.

We also seek to achieve longer-term value creation and employee continuity by deferring STI grant outcomes for two years and measuring LTI outcomes over three years.

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

3. Key Developments

The key developments and outcomes for the 2016 financial year and 2017 financial year are:

- key management personnel – fixed remuneration will not be increased and there will be no adjustment of executives' salaries for inflation;
- Non-Executive Director and Board Committee fees will remain unchanged (as they have been since 2013);
- STI – 55% of the available pool will be awarded for the 2016 financial year based on the achievement of a proportion of the predetermined operational milestones. The STI is subject to a one-year retention period before vesting;
- LTI – the total relative shareholder return measure was not achieved, so there will be no award. The long-term incentive was measured over the period from 2013 to 2016;
- related party remuneration – there were no new related party remuneration transactions during the 2016 financial year; and
- Remuneration Report – we have continued to refine the structure and style of the Remuneration Report to provide the best possible explanations and transparency to our shareholders and other stakeholders, including demonstrating to shareholders how executive reward is directly linked to operational performance and the delivery of shareholder wealth accretion.

In summary, over the 2016 financial year we have focused on improving the alignment of employee incentive-based outcomes with shareholder value through further refinement of performance measures, industry peer group comparators and disclosure of remuneration practices. We continue to make changes to improve the transparency of, and data associated with, our remuneration practices. We have also exercised restraint in terms of the outcomes of this financial year in light of the difficult market conditions and share price performance, notwithstanding that we continue to make good progress operationally.

Listening and reacting to shareholder feedback on remuneration strategies remain a core focus of the Remuneration Committee. We will continue to consult with all stakeholders, including institutional shareholders, retail shareholders, industry funds and proxy advisory organisations on an ongoing basis. As always, we welcome your feedback into the future.



Peter Turnbull

Chairman, Remuneration Committee

Contents

Section 1.	Introduction	Page 37
Section 2.	Remuneration Committee Oversight	Page 38
Section 3.	Executive Remuneration	Page 39
	A. Executive Remuneration Framework for the Financial Year Ended 30 June 2016	
	B. Executive Remuneration Outcomes	
	C. Executive Remuneration for the Financial Year Ending 30 June 2017	
	D. Executive Agreements	
Section 4.	Independent Non-Executive Chairman and Non-Executive Directors	Page 48
Section 5.	Statutory and Share-based Reporting	Page 50

Section 1. Introduction

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

For the financial year ended 30 June 2016, KMP disclosed in the Remuneration Report are as follows:

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

In the period after 30 June 2016 and before the date of this Directors' Report, Ms Luciana Rachid was elected as an Independent Non-Executive Director. Ms Rachid will stand for election as a Director at Karoon's 2016 Annual General Meeting.

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

The Remuneration Report for the financial year ended 30 June 2016 outlines the remuneration arrangements of KMP of the Group in accordance with the requirements of the *Corporations Act 2001* and its regulations. The information provided in this Remuneration Report has been audited by the Company's external auditor, as required by Section 308(3C) of the *Corporations Act 2001*. The Remuneration Report forms part of the Directors' Report.

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 2. Remuneration Committee Oversight

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

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

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

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

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

Use of Independent Remuneration Consultants

During the financial year ended 30 June 2016, the Remuneration Committee engaged Egan Associates as its independent Remuneration Consultant. The Remuneration Consultant was engaged by the Chairman of the Committee and reported directly to the Remuneration Committee. In selecting the Remuneration Consultant, the Remuneration Committee considered potential conflicts of interest and required the Remuneration Consultant's independence from management as part of Egan Associates' terms of engagement. Where Egan Associates was asked to provide a remuneration recommendation in relation to KMP, the recommendation was provided to and discussed directly with the Chairman of the Remuneration Committee.

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

2015 Remuneration Report Vote

At the Company's 2015 Annual General Meeting, the Company's Remuneration Report received a vote in favour of 98.89%. Feedback on the Remuneration Report was not received during the 2015 Annual General Meeting. However, the Company did seek and received specific feedback from institutional and retail shareholders and proxy advisory organisations during the financial year ended 30 June 2016. Views expressed during these meetings have contributed to Karoon's 2016 reward practices, the setting of incentive hurdles and policies being developed for application during the 2017 financial year and beyond. In reviewing reward arrangements, assessing industry practice and the availability of global talent, the Board of Directors acknowledges that today, given the nature of Karoon's challenges and opportunities, it is fortunate to have a team of highly experienced and internationally regarded executives who have a track record of success.

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

- in recognition of the current energy industry market conditions, base salary for Non-Executive Directors and executives will not increase for the financial year ending 30 June 2017;
- as noted above, an external review was conducted by the Remuneration Committee's independent Remuneration Consultant, Egan Associates, in relation to both Non-Executive Directors and executives. The review confirmed the appropriate nature of executive reward arrangements given the expertise and experience available to the Company. There are no major structural changes planned for the 2017 financial year;
- the short-term incentive plan performance conditions for executives will be based on an up-to-date list of Company-wide Operational Objectives and, in some instances, role-specific objectives, in order to focus executives on the achievement of value-adding operational progress in the short-term and relative Company performance in the long-term. A safety hurdle will continue to be used as a gateway measure. Negative discretion based on poor Anti-bribery and Corruption Policy implementation and outcomes will also continue to be used to modify short-term incentives;

- in recognition of Karoon's global nature and current operational phase, the Board of Directors reviewed the companies against which Karoon compares its Total Shareholder Return ('TSR') (in a relative sense) and made small adjustments to the comparator group, which comprises a selection of Australian industry and global peers that reflects the current size and business model of the Company; and
- appropriate restraint is exercised having due regard to market conditions and investor feedback.

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

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

Share Trading Policy

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

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

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

Section 3. Executive Remuneration

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

The executive remuneration arrangements for the financial year ended 30 June 2016 were structured to be directly aligned with the business outcomes including by achieving engineering, geological and geophysical milestones as well as creating value-accretive opportunities, which add clear value to Karoon's suite of assets. In particular, the decision to use performance tested share-based grants for its incentive plans reflects the Board of Directors' belief that this best aligns executive and shareholder interests in the short and long-term, while allowing the Company to retain its cash for operational activities.

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

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

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

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2016

The following table summarises the target remuneration mix for executives for the financial year ended 30 June 2016, based on maximum achievement of incentive plan outcomes:

	Fixed	'At Risk' STI	LTI
Executive Directors	40%	30%	30%
Other KMP	50%	25%	25%

Fixed Remuneration

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

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

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

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

Superannuation

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

Social Security and Indemnity Fund Contributions

The single Brazilian-based executive is subject to specific Brazilian employment regulations whereby the Group is required to contribute 27.3% of Brazilian cash compensation as social security to fund government pensions paid in retirement. The executive upon retirement will only be entitled to a portion of this contribution. A further 8% of their cash remuneration is required to be contributed to a Federal Severance Indemnity Fund ('FGTS'). In the situation of unfair dismissal without just cause, the Group would have to pay a fine equivalent to 50% of the accumulated balance of the individual's FGTS account.

'At Risk' Remuneration

The Company aims to align the interests of executives with those of shareholders by having a significant proportion of executive remuneration 'At Risk'. 'At Risk' remuneration represents the proportion of remuneration that requires predetermined performance conditions to be met before the remuneration is vested to the executive. Annually, the Remuneration Committee reviews the operational goals and budget objectives looking broadly at where the building blocks for long-term value exist, then sets performance conditions that not only motivate, reward and retain executives by generating a link between operating performance and remuneration received, but also encourage executives to achieve the personal and business targets that most improve the performance of the Company and, in turn, provide value for shareholders.

Short-term Incentive ('STI') Plan

Executives have the opportunity to earn an annual incentive award through the STI plan. The percentage of salary allocated to STI remains at risk until the performance conditions are tested. If the performance conditions are not met this portion of remuneration is not vested and is cancelled. The STI is payable as performance rights under the 2012 Performance Rights Plan ('PRP'), approved by shareholders at the Company's 2012 Annual General Meeting. The PRP provides a reward for short-term performance in lieu of cash bonuses, allowing cash to be directed to the Company's principal activities. The issue of performance rights rather than cash is considered appropriate by the Company at present given its activities are not generating earnings from operations or sales revenue. The key features of the PRP award for the financial year ended 30 June 2016 ('FY16 award') are outlined in the table below:

Participation	All executives. Participation in the STI is at the discretion of the Board of Directors (on the recommendation of the Remuneration Committee). No employee has a contractual right to receive performance rights.
STI Opportunity	The STI opportunity level of each executive is a predetermined proportion of an executive's total remuneration. The quantum of performance rights received is determined by dividing the STI opportunity for each employee by the Company's weighted average share price in the 20 trading day period leading up to the first day of the performance period. The STI opportunity available to an executive is between 25%-30% of total remuneration and performance conditions are required to be met before any award is received.
Form of Award	Executives receive performance rights. Each performance right provides the participant with the right to receive one fully paid ordinary share in the Company, or its equivalent value, for no consideration. Vesting is subject to the achievement of the relevant performance conditions. Under the rules of the plan, ordinary shares issued as a result of the exercise of vested and converted performance rights may be issued as new equity, ordinary shares acquired on-market or an equivalent value in cash at the Company's discretion.
Performance Period	12-month period from 1 July 2015 to 30 June 2016.
Deferral Period	Vested performance rights are subject to a deferral period of 12 months immediately following the satisfaction of performance conditions, subject to continued employment with Karoon for an additional 12-month period after the performance period is complete.
Performance Conditions	As part of the 2016 remuneration review, for the financial year ended 30 June 2016 the Remuneration Committee set out the award for short-term incentives based on a mix of the following performance hurdles:

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

Company-wide Operational Objectives form the sole performance criteria and included:

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

The amount of STI that may vest may be reduced, based on the Company's enforcement of its Anti-bribery and Corruption Policy, particularly in relation to any incidence of corrupt activity.

Further details on the performance conditions, targets and outcomes for the FY16 award are provided in the STI outcomes within Section 3B on page 45.

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

Short-term Incentive ('STI') Plan continued

Grant Date	Maximum amount of performance rights available were determined following finalisation of the 30 June 2015 audited accounts and remained at risk until tested during July 2016 and retention conditions are met 1 July 2017. Grant date occurs following the offer and acceptance of performance rights. However, any performance rights offered and accepted by the Executive Directors will be subject to shareholder approval.
Termination of Employment	Unvested performance rights will lapse upon cessation of employment with the Company, subject to the discretion of the Remuneration Committee depending on the nature and circumstances of the termination. To date, discretion has never been exercised to allow any performance rights to vest.
Change of Control	Upon a change of control, the Board of Directors may determine that a portion of the individual's unvested performance rights will vest based on pro-rata achievement of the performance conditions.
Link Between Performance and Reward	<p>Linking STI outcomes to operational performance develops an essential alignment between the Company's year-to-year inherent value growth through identification, evaluation and drilling of exploration and evaluation targets and the reward provided to those who establish that value. The Remuneration Committee annually reviews and recommends operational performance metrics, including safety and Anti-bribery and Corruption compliance, which demonstrate a clear pathway towards value creation, either through the discovery of new hydrocarbons, commercial arrangements to monetise assets or movement closer to development for previous discoveries.</p> <p>In setting objectives for the performance period, the Remuneration Committee assesses the operational goals for the performance period and upcoming key value drivers within the Company's operations, allowing for transparent measurement of performance against these objectives.</p> <p>The Remuneration Committee recognises the risks associated with offshore drilling and considers safety paramount to its operations. Safety will continue to be used as a gateway for vesting conditions.</p>

Long-term Incentive ('LTI') Plan

All executives received grants of share options and performance rights during the financial year ended 30 June 2016, under the Karoon Gas Australia 2012 ESOP and 2012 PRP.

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

The key features of the ESOP and PRP grant for the financial year ended 30 June 2016 ('FY16 grant') are outlined in the table below:

Participation	<p>All executives.</p> <p>Participation in the ESOP and PRP is at the discretion of the Board of Directors on the recommendation of the Remuneration Committee. No executive has a contractual right to receive a grant under the LTI plan.</p>
LTI Opportunity	<p>The LTI opportunity level of each executive is a predetermined proportion of an employees' total remuneration, as outlined above in Section 3A on page 40.</p>
Form of Grant	<p>Employee share options and performance rights are issued under the terms of the 2012 ESOP and 2012 PRP respectively. The quantum of share options and performance rights received is determined by dividing the LTI opportunity for each executive by the fair value of options under the ESOP option, using the Black-Scholes option pricing model and divided by the 20-day weighted average share price at the beginning of the test period for the performance rights.</p> <p>The LTI opportunity available to an executive is between 15% and 30% of total remuneration.</p> <p>Each ESOP option provides the participant with the right to acquire one fully paid ordinary share in the Company at the exercise price determined upon grant, subject to the achievement of the relevant performance conditions.</p> <p>Each performance right provides the participant with the right to receive one fully paid ordinary share in the Company or its equivalent value for no consideration.</p>
Performance Period	<p>Three-year period from 1 July 2015 to 30 June 2018.</p>

Performance Conditions

For the financial year ended 30 June 2016, Relative TSR performance was measured against the following industry peer group.

Australian Market Peers

AWE Limited
 Beach Energy Limited
 Buru Energy Limited
 Drillsearch Energy Limited
 FAR Limited
 Horizon Oil Limited
 New Zealand Oil & Gas Limited

Origin Energy Limited
 Oil Search Limited
 Santos Limited
 Senex Energy Limited
 Woodside Petroleum Limited

Global Peers

Cobalt International Energy Inc
 Gran Tierra Energy Inc
 GeoPark Limited
 Kosmos' Energy Ltd
 Ophir Energy plc
 QGEP Participacoes SA
 Tullow Oil plc

Vesting will occur in accordance with the following schedule:

Performance Against the Industry Peer Group**Proportion of LTI Vesting**

Less than 50th percentile	Nil%
At 50th percentile	50%
Between 50th and 75th percentile	50% plus 2% for each additional percentile ranking above the 50th percentile
At or above 75th percentile	100%
At 100% percentile	120%

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

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

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

Grant Date

ESOP options and PRP performance rights were granted during the financial year ended 30 June 2016, following finalisation of the 30 June 2015 audited accounts.

Exercise Period

ESOP options and PRP performance rights will remain exercisable for a 12-month period following vesting, provided the individual remains an employee of the Company during this period.

Termination of Employment

Unvested (and unexercised) ESOP options and performance rights will lapse upon cessation of employment with the Company, subject to the discretion of the Remuneration Committee depending on the nature and circumstances of the termination.

Change of Control

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

Link Between Performance and Reward

The Board of Directors and Remuneration Committee consider it important to link remuneration to share price performance relative to the Company's industry peers over the long-term, in order to align executive reward with increases in shareholder value. In the case where performance does not reach the 50th percentile, no incentive will be paid.

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

B. Executive Remuneration Outcomes

Relationship between the Executive Remuneration Framework and Company Performance

The Company has a transparent and rigid performance based remuneration structure in place that provides a direct link between Company performance and remuneration in the short and long-term. As part of this structure, executive rewards are directly linked to operational, safety and financial performance metrics along with relative market performance.

Karoon has historically set ESOP option exercise prices at a level that provided for an inherent 30% premium to the market prices at the time of offer to executives. This premium ensures a simple share price accretion hurdle of 10% per year over the three-year testing period is achieved before the ESOP options achieve a value.

Notwithstanding the Company has created significant value through its continued development of its Santos Basin assets, it has maintained a robust financial position in a difficult oil and gas industry environment, including \$480 million in cash and cash equivalents, and has good opportunities for investment in the current portfolio and from opportunistic purchases. The Company has, however, not created value for shareholders through share price appreciation during the financial year. This has resulted in only partial vesting of incentives for executives being approximately half the short-term incentive and none of the long-term incentive pool. Incentives that were paid related to the internal work on development planning and progression of the Brazilian assets. The Board of Directors believes its current policy was effective in linking remuneration to Company performance.

The tables below set out summary information about the Company's earnings, net assets and movements in shareholder wealth from 1 July 2008 to 30 June 2016:

Financial Year Ended	30 June 2009	30 June 2010	30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	4,868,541	6,459,623	14,225,048	13,601,653	7,782,174	5,595,155	2,004,783	1,608,292
Profit (loss) before income tax	4,452,766	(14,665,017)	(23,304,914)	(3,287,382)	(10,930,403)	(19,503,668)	347,351,472	(149,430,833)
Profit (loss) for financial year	4,452,766	(14,893,839)	(23,304,914)	(3,287,382)	(10,930,403)	(5,518,780)	231,456,873	(105,126,345)
Net assets at end of financial year	334,658,839	361,703,571	617,867,324	600,599,921	599,840,897	766,473,931	958,505,640	857,962,747

Financial Year Ended	30 June 2009	30 June 2010	30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016
	\$	\$	\$	\$	\$	\$	\$	\$
Share price at beginning of financial year	4.54	9.09	5.95	5.23	4.03	5.09	3.07	2.25
Share price at end of financial year	9.09	5.95	5.23	4.03	5.09	3.07	2.25	1.285
Basic profit (loss) per ordinary share	0.0302	(0.0842)	(0.1119)	(0.0148)	(0.0494)	(0.0220)	0.9285	(0.4275)
Diluted profit (loss) per ordinary share	0.0300	(0.0842)	(0.1119)	(0.0148)	(0.0494)	(0.0220)	0.9274	(0.4275)

STI Outcomes

The table below outlines actual achievements against STI performance targets for the financial year ended 30 June 2016:

Performance Condition	Achievement Against STI Performance Targets	STI at Risk (% of Maximum STI Opportunity)	STI Vesting Outcome (% of Maximum STI Opportunity)
Safety	Total Recordable Incident Rate ('TRIR') of < 2.	Gateway	TRIR 0.00
Operational	Contingent resource definition in the Kangaroo and Echidna light oil discoveries Santos Basin (Brazil). Delineation of proposed concepts for the Santos Basin field development plan.	55%	55%
Financial	Completion of a farm-out in the South American portfolio. 2016 financial year corporate and capital expenditure is managed effectively while meeting operational objectives. Specifically:	15%	Nil%
	<ul style="list-style-type: none"> improvements made on budgeted corporate cost outcomes during the 2016 financial year; and effective management of costs relating to budgeted capital expenditure during the 2016 financial year. 	5% 25%	Nil% Nil%
Anti-bribery and Corruption Clawback	The amount of STI that may vest may be reduced based on the Company's enforcement of its Anti-bribery and Corruption Policy, particularly in relation to any incidence of corrupt activity.	No 'clawback'	No 'clawback', training was undertaken and there was no incidence of bribery or corruption

As outlined above, a total of 55% of the available STI opportunity vested to Executive Directors based on actual results against the performance targets. For other KMP, a total of 64% of the available STI opportunity vested to executives based on actual results against the performance targets, being 55% of Company-wide operational objectives and 100% of role-specific objectives.

The resulting STI performance rights now have a 12-month retention period ending 30 June 2017 before they become exercisable and convertible into fully paid ordinary shares. These STI performance rights expire on 30 June 2018.

LTI Outcomes

Share Options

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

All share options issued during the financial year ended 30 June 2016 were issued under the Karoon Gas Australia 2012 ESOP.

The second grant under the 2012 ESOP was made during the financial year ended 30 June 2013. As that grant had a three-year performance period, performance against the relevant conditions was tested at the completion of the financial year ended 30 June 2016.

The performance condition was the Company's Relative TSR when compared with its industry peer group companies in the S&P ASX 200 Energy Index over the period from 1 July 2013 to 30 June 2016. Over the testing period, Karoon made several gas discoveries and also made a significant profit during the financial year ended 30 June 2015 from the divestment of two of its exploration permits (WA-315-P and WA-398-P). However, the Relative TSR performance of the Company over the test period did not reach the level required to meet the performance condition and no LTI share options were vested.

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

C. Executive Remuneration for the Financial Year Ending 30 June 2017

As noted previously, there will be no salary increase for executives during the financial year ending 30 June 2017.

STI will continue to be delivered to executives in the form of 'At Risk' performance rights, to be tested against appropriate Company-wide and, in some instances, position-specific objectives. Safety performance remains a gateway, with express negative discretion to be applied by the Board of Directors to modify STI outcomes where there have been poor Anti-bribery and Corruption Policy implementation and enforcement issues.

LTI will also continue to be delivered as a mix of performance rights and share options, to be tested using the usual Relative TSR performance condition.

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

The target remuneration mix for the financial year ending 30 June 2017 will be as follows:

	Fixed	STI	'At Risk'	LTI
Executive Directors	40%	30%		30%
Other KMP	50%	25%		25%

Short-term Incentive

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

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

Company-wide Operational Objectives for the performance period from 1 July 2016 to 30 June 2017 are outlined in the table below. Vesting under each objective will occur upon satisfaction of the relative performance condition.

Class	Hurdle	Award Percentage 'At Risk'
Safety	Total Recordable Incident Rate ('TRIR') of < 2 required for any award to proceed	Gateway
Operational	Progression of key appraisal, field pre-development and joint operational targets	40%
Financial	Completion of key South American farm-outs (Brazil and Peru)	25%
New Asset Acquisition	Completion of a value accretive asset acquisition as judged by resulting market share price performance (Remuneration Committee/Board discretion to re-allocate 'at risk' percentages if the timing or size of an acquisition requires 'Operational' hurdles to be varied so as to achieve the best value for shareholders)	25%
Cost Control and Capital Preservation	Actual costs are below group budget targets for the 2017 financial year.	10%
Anti-bribery and Corruption	Negative discretion will be applied based on management's implementation and enforcement of its Anti-bribery and Corruption Policy	Clawback

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

The Remuneration Committee calculates the incentive value, establishes a maximum number of performance rights 'At Risk' at the beginning of the period, then issues the performance rights subject to vesting only when the performance conditions have been met and the retention period expires. This creates a situation where the executive is not guaranteed the incentive, must fulfil a performance criteria subject to Remuneration Committee veto and a two-year period from the date of the commencement of the performance period to the date of vesting.

Long-term Incentive

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

The LTI performance hurdle for the period commencing 1 July 2016 and ending 30 June 2019 will be Relative TSR as assessed against a list of closely related industry peer companies whose business models and/or regions of operations are similar to those of the Company.

For the period commencing 1 July 2016, the list of industry peer group companies will be as follows:

Australian Market Peers

AWE Limited
Beach Energy Limited
Buru Energy Limited
Carnarvon Petroleum Limited
FAR Limited
Horizon Oil Limited

Origin Energy Limited
Oil Search Limited
Santos Limited
Senex Energy Limited
Woodside Petroleum Limited

Global Peers

Cobalt International Energy Inc
Gran Tierra Energy Inc
GeoPark Limited
Kosmos' Energy Ltd
Ophir Energy plc
QGEP Participacoes SA
Tullow Oil plc

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

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

D. Executive Agreements

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

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

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 3. Executive Remuneration continued

D. Executive Agreements continued

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

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

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

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

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

Excluding changes to the superannuation guarantee, there have been no changes to Non-Executive Directors' base or Committee member fees for the financial year ended 30 June 2016 or for the period ending 30 June 2017. The table at the end of this section provides a summary of Karoon's Non-Executive Director fee policy for the financial year.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically approved by shareholders. The maximum aggregate amount, including superannuation contribution, that may be paid to Non-Executive Directors of the Company as remuneration for their services per annum is \$1,200,000, as approved by shareholders at the Company's 2015 Annual General Meeting.

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

Share-based Remuneration

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

There are no outstanding share options on issue to Non-Executive Directors from previous grants. The Company has determined that it will not grant bonus or incentive related share-based remuneration to Non-Executive Directors in the future.

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

Retirement Allowance for Directors

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

Non-Executive Director Fees for the Financial Year Ending 30 June 2017

No changes will be made to the base or relevant Committee fee structure for the financial year ending 30 June 2017.

Non-Executive Directors' fees for the financial year ended 30 June 2016 and financial year ending 30 June 2017 (excluding superannuation contribution) are outlined in the following table:

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

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

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting

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

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

Financial Year Ended 30 June 2016	Short-term Benefits		Post-employment Benefits		Long-term Benefits	Share-based Payments Expense	Remuneration Consisting of Share Options and Performance Rights*		Total Remuneration
	Cash Salary and Fees	Non-monetary Benefits	Superannuation Contributions	Social Security and Indemnity Fund Contributions	Long Service Leave	Share Options/ Performance Rights**	Options and Performance Rights*		
Name	\$	\$	\$	\$	\$	\$	\$	%	\$
Executive Directors									
Mr Robert Hosking	599,691	62,570	19,308	-	13,757	327,767	32.0%		1,023,093
Mr Mark Smith	573,782	16,533	19,308	-	3,725	327,767	34.8%		941,115
Non-Executive Directors									
Dr David Klingner	220,000	-	19,308	-	-	-	-	-	239,308
Mr Geoff Atkins	142,000	-	13,490	-	-	-	-	-	155,490
Mr Clark Davey	156,000	-	14,820	-	-	-	-	-	170,820
Mr Peter Turnbull	157,000	-	14,915	-	-	-	-	-	171,915
Mr Bernard Wheelahan	124,000	-	11,780	-	-	-	-	-	135,780
Mr Jose Coutinho Barbosa	100,000	-	-	-	-	35,630	26.3%		135,630
Total Directors' remuneration	2,072,473	79,103	112,929	-	17,482	691,164			2,973,151
Other key management personnel (Group)									
Mr Scott Hosking	418,000	26,165	19,308	-	16,686	209,575	30.4%		689,734
Mr Tim Hosking	393,712	10,562	-	32,966	-	184,832	29.7%		622,072
Mr Edward Munks	522,500	2,060	19,308	-	12,032	345,393	38.3%		901,293
Total other key management personnel remuneration (Group)	1,334,212	38,787	38,616	32,966	28,718	739,800			2,213,099
Total key management personnel remuneration (Group)	3,406,685	117,890	151,545	32,966	46,200	1,430,964			5,186,250

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

** Includes non-cash share-based payments expense of \$236,478 relating to 2016 performance rights yet to be granted to Executive Directors, which were subject to achievement of performance hurdles from 1 July 2015 to 30 June 2016. The share-based payments expense was based on the achievement of 55% of the executive's performance hurdles and an estimation of fair value at grant date, with a vesting period of 1 July 2015 to 30 June 2017. The grant of 2016 performance rights for each of the Executive Directors is subject to shareholder approval at the 2016 Annual General Meeting.

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

Fair value of share options are assessed under the Black-Scholes option pricing model. The Black-Scholes option pricing model takes into account the exercise price, the term of the share option, the share price at grant date and expected price volatility of the underlying share,

the expected dividend yield and the risk-free interest rate for the term of the share option.

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

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

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

** Included non-cash share-based payments expense of \$295,626 relating to 2015 performance rights yet to be granted, which were subject to achievement of performance hurdles from 1 July 2014 to 30 June 2015. The share-based payments expense was based on the achievement of 55% of the executive's performance hurdles and an estimation of fair value at grant date, with a vesting period of 1 July 2014 to 30 June 2016. The grant of 2015 performance rights for each of the Executive Directors was subsequently approved by shareholders at the 2015 Annual General Meeting.

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

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

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

Name	Related to Performance Conditions											
	Fixed Remuneration		STI (Performance Rights)		LTI (Performance Rights)		LTI [^]		Other Share Options		Remuneration Consisting of Share Options ^{^^}	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Executive Directors												
Mr Robert Hosking	67.9%	80.3%	15.7%	10.2%	1.5%	-	14.9%	9.5%	-	-	14.9%	9.5%
Mr Mark Smith	65.2%	78.6%	17.0%	11.1%	1.6%	-	16.2%	10.3%	-	-	16.2%	10.3%
Non-Executive Directors												
Dr David Klingner (appointed 19 December 2014)	100%	100%	-	-	-	-	-	-	-	-	-	-
Mr Geoff Atkins	100%	100%	-	-	-	-	-	-	-	-	-	-
Mr Clark Davey	100%	100%	-	-	-	-	-	-	-	-	-	-
Mr Peter Turnbull	100%	100%	-	-	-	-	-	-	-	-	-	-
Mr Bernard Wheelahan	100%	100%	-	-	-	-	-	-	-	-	-	-
Mr Jose Coutinho Barbosa	73.7%	53.7%	-	-	-	-	-	-	26.3%	46.3%	26.3%	46.3%
Other key management personnel (Group)												
Mr Scott Hosking	69.6%	66.8%	12.1%	18.9%	1.8%	-	16.5%	14.3%	-	-	16.5%	14.3%
Mr Tim Hosking	70.3%	75.5%	12.5%	13.5%	1.9%	-	15.3%	11.0%	-	-	15.3%	11.0%
Mr Edward Munks	61.7%	59.4%	11.5%	16.9%	2.4%	-	24.4%	23.7%	-	-	24.4%	23.7%

[^] Karoon Gas Australia 2012 Employee Share Option Plan options.

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

Further information on share options and performance rights is set out in Note 27 of the consolidated financial statements.

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

Share-based Remuneration

The issuance of share options and performance rights under the 2009 ESOP, 2012 ESOP and 2012 PRP is capped at 5% of the Company's total number of ordinary shares on issue and the Board is conscious of ensuring that the dilutionary effect of the issuance of share options and performance rights is kept to a minimum. The lowest exercise price of any share option on issuance is currently \$3.04 and the highest exercise price is \$4.06. There are currently 4,976,806 share options (4,976,806 remain unvested) and 1,406,300 performance rights issued under the 2012 ESOP and 2012 PRP respectively, representing approximately 2.61% of the Company's total number of ordinary shares issued.

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

Grant Date	Date Vested and Exercisable	Expiry Date	Exercise Price Per Share Option or Performance Right	Fair Value Per Share Option or Performance Right at Grant Date	% Vested	Performance Condition Achieved
ESOP options						
30 November 2012	29 November 2015	29 November 2016	\$6.85	\$1.29	Nil%	Performance condition not met
9 August 2013	30 June 2016	30 June 2017	\$6.74	\$2.00	Nil%	Performance condition not met
1 November 2013	30 June 2016	30 June 2017	\$6.74	\$1.08	Nil%	Performance condition not met
22 August 2014	1 July 2017	30 June 2018	\$4.06	\$1.38	-	To be determined
3 November 2014	1 July 2017	30 June 2018	\$4.06	\$0.77	-	To be determined
17 February 2015	1 July 2017	30 June 2018	\$4.06	\$0.59	-	To be determined
9 October 2015	1 July 2018	30 June 2019	\$3.04	\$0.66	-	To be determined
30 October 2015	1 July 2018	30 June 2019	\$3.04	\$0.48	-	To be determined
Other share options						
30 November 2012	29 November 2015	29 November 2016	\$6.85	\$1.29	Nil%	Performance condition not met [^]
Performance rights						
9 October 2015	1 July 2016	30 June 2017	\$-	\$2.08	64%	Achievement of a proportion of the predetermined operational hurdle and 100% of personal performance hurdle
30 October 2015	1 July 2016	30 June 2017	\$-	\$1.775	55%	Achievement of a proportion of the predetermined operational hurdle
9 October 2015	1 July 2017	30 June 2018	\$-	\$2.08	-	To be determined
9 October 2015	1 July 2018	30 June 2019	\$-	\$2.08	-	To be determined
30 October 2015	1 July 2018	30 June 2019	\$-	\$1.775	-	To be determined

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

Share options and performance rights are granted for no consideration.

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

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

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

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

Name	Number of Share Options and Performance Rights Granted During Financial Year	Fair Value Per Share Options and Performance Rights at Grant Date*	Value of Share Options and Performance Rights at Grant Date*	Number of Share Options and Performance Rights Vested During Financial Year	Number of Share Options and Performance Rights Forfeited	Value of Share Options and Performance Rights Forfeited**
Executive Directors						
Mr Robert Hosking						
- ESOP options	490,909	\$0.48	\$235,636	-	-	-
- Performance rights	142,417	\$1.775	\$252,790	-	-	-
Mr Mark Smith						
- ESOP options	490,909	\$0.48	\$235,636	-	-	-
- Performance rights	142,417	\$1.775	\$252,790	-	-	-
Non-Executive Directors						
Mr Jose Coutinho Barbosa						
- Other share options	-	-	-	-	200,000	\$440,000
Other key management personnel (Group)						
Mr Scott Hosking						
- ESOP options	136,192	\$0.66	\$89,887	91,112	102,041	\$224,490
- Performance rights	167,983	\$2.08	\$349,405	26,854	-	-
Mr Tim Hosking						
- ESOP options	131,873	\$0.66	\$87,036	59,009	100,000	\$220,000
- Performance rights	159,663	\$2.08	\$332,099	17,392	-	-
Mr Edward Munks						
- ESOP options	102,144	\$0.66	\$67,415	109,170	102,041	\$224,490
- Performance rights	232,308	\$2.08	\$483,201	32,177	-	-
Total key management personnel						
- Share options	1,352,027		\$715,610	259,291	504,082	\$1,108,980
- Performance rights	844,788		\$1,670,285	76,423	-	-

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

** The value of other performance rights forfeited during the financial year because a vesting condition was not satisfied was determined at the time of forfeit (7 August 2015), but assuming the condition was satisfied, based on the intrinsic value of the performance rights at that date.

No share options or performance rights over unissued ordinary shares in the Company, held by any Director or other key management personnel, lapsed during the financial year, except for 504,082 share options that were forfeited by other key management personnel.

Shares Issued on the Exercise of Share Options Provided as Remuneration

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

Shares Issued on the Conversion of Performance Rights Provided as Remuneration

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

Name	Date of Conversion of Performance Rights	Number of Ordinary Shares Issued	Value at Conversion Date*	Amount Paid Per Performance Right
Other key management personnel (Group)				
Mr Scott Hosking	11 August 2015	13,427	\$29,271	\$-
Mr Scott Hosking	3 July 2015	13,427	\$30,211	\$-
Mr Tim Hosking	17 July 2015	17,392	\$41,915	\$-
Mr Edward Munks	5 May 2016	32,177	\$44,243	\$-
		76,423	\$145,640	

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

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

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Details of Remuneration – Share Options and Performance Rights

For each grant of share options or performance rights in current or previous financial years that 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 predetermined performance conditions is set out below:

Name	Financial Year End Granted	Vested %	Forfeited %	Financial Years in Which Share Options or Performance Rights May Vest	Maximum Total Value of Grant Yet to Vest
Executive Directors					
Mr Robert Hosking					
- ESOP options	30 June 2015	-	-	30 June 2018	\$122,814
- ESOP options	30 June 2016	-	-	30 June 2019	\$88,414
- Performance rights	30 June 2016	-	-	30 June 2019	\$46,107
Mr Mark Smith					
- ESOP options	30 June 2015	-	-	30 June 2018	\$122,814
- ESOP options	30 June 2016	-	-	30 June 2019	\$88,414
- Performance rights	30 June 2016	-	-	30 June 2019	\$46,107
Non-Executive Directors					
Mr Jose Coutinho Barbosa					
- Other share options	30 June 2013	-	100%	30 June 2016	\$-
Other key management personnel (Group)					
Mr Scott Hosking					
- ESOP options	30 June 2013	-	100%	30 June 2016	\$-
- ESOP options	30 June 2014	-	100%	30 June 2016	\$-
- ESOP options	30 June 2015	-	-	30 June 2018	\$49,273
- ESOP options	30 June 2016	-	-	30 June 2019	\$32,945
- Performance rights	30 June 2016	-	-	30 June 2018	\$69,876
- Performance rights	30 June 2016	-	-	30 June 2019	\$34,045
Mr Tim Hosking					
- ESOP options	30 June 2013	-	100%	30 June 2016	\$-
- ESOP options	30 June 2014	-	100%	30 June 2016	\$-
- ESOP options	30 June 2015	-	-	30 June 2018	\$43,373
- ESOP options	30 June 2016	-	-	30 June 2019	\$31,900
- Performance rights	30 June 2016	-	-	30 June 2018	\$67,660
- Performance rights	30 June 2016	-	-	30 June 2019	\$32,966
Mr Edward Munks					
- ESOP options	30 June 2013	-	100%	30 June 2016	\$-
- ESOP options	30 June 2014	-	100%	30 June 2016	\$-
- ESOP options	30 June 2015	-	-	30 June 2018	\$118,911
- ESOP options	30 June 2016	-	-	30 June 2019	\$24,709
- Performance rights	30 June 2016	-	-	30 June 2018	\$87,345
- Performance rights	30 June 2016	-	-	30 June 2019	\$59,579

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

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

Share Options and Performance Rights over Unissued Ordinary Shares in the Company as at 30 June 2016

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

	Balance as at 1 July 2015	Granted as Remun- eration	Exercised (Share Options)/ Vested and Converted (Perfor- mance Rights)	Expired	Share Options or Perfor- mance Rights Forfeited	Balance as at 30 June 2016	Total Vested and Exercisable as at 30 June 2016	Total Unvested as at 30 June 2016
Executive Directors								
Mr Robert Hosking								
- Other share options	200,000	-	-	(200,000)	-	-	-	-
- ESOP options	424,310	490,909	-	-	-	915,219	-	915,219
- Performance rights	-	142,417	-	-	-	142,417	-	142,417
Mr Mark Smith								
- Other share options	200,000	-	-	(200,000)	-	-	-	-
- ESOP options	424,310	490,909	-	-	-	915,219	-	915,219
- Performance rights	-	142,417	-	-	-	142,417	-	142,417
Non-Executive Directors								
Dr David Klingner	-	-	-	-	-	-	-	-
Mr Geoff Atkins	-	-	-	-	-	-	-	-
Mr Clark Davey	-	-	-	-	-	-	-	-
Mr Peter Turnbull	-	-	-	-	-	-	-	-
Mr Bernard Wheelahan	-	-	-	-	-	-	-	-
Mr Jose Coutinho Barbosa								
- Other share options	270,000	-	-	(70,000)	(200,000)	-	-	-
Other key management personnel								
Mr Scott Hosking								
- ESOP options	540,323	136,192	-	(150,000)	(102,041)	424,474	-	424,474
- Performance rights	26,854	167,983	(26,854)	-	-	167,983	n/a	167,983
Mr Tim Hosking								
- ESOP options	552,570	131,873	-	(220,000)	(100,000)	364,443	-	364,443
- Performance rights	17,392	159,663	(17,392)	-	-	159,663	n/a	159,663
Mr Edward Munks								
- ESOP options	657,673	102,144	-	(200,000)	(102,041)	457,776	-	457,776
- Performance rights	32,177	232,308	(32,177)	-	-	232,308	n/a	232,308
Total key management personnel								
- Share options	3,269,186	1,352,027	-	(1,040,000)	(504,082)	3,077,131	-	3,077,131
- Performance rights	76,423	844,788	(76,423)	-	-	844,788	n/a	844,788

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

DIRECTORS' REPORT

continued

Remuneration Report (Audited) continued

Section 5. Statutory and Share-based Reporting continued

Share Options and Performance Rights over Unissued Ordinary Shares in the Company as at 30 June 2016 continued

The number of ordinary shares held by Directors and other key management personnel, including their personally related parties, as at 30 June 2016 was as follows:

	Balance as at 1 July 2015	Received as Remuneration	Exercised (Share Options)/Vested and Converted (Performance Rights)	Ordinary Shares Purchased	Ordinary Shares Sold	Balance as at 30 June 2016
Executive Directors						
Mr Robert Hosking	12,244,222	-	-	-	-	12,244,222
Mr Mark Smith	2,892,037	-	-	-	-	2,892,037
Non-Executive Directors						
Dr David Klingner	50,000	-	-	53,591	-	103,591
Mr Geoff Atkins	720,676	-	-	-	-	720,676
Mr Clark Davey	24,294	-	-	-	-	24,294
Mr Peter Turnbull	23,500	-	-	9,000	-	32,500
Mr Bernard Wheelahan	30,000	-	-	50,000	-	80,000
Other key management personnel						
Mr Scott Hosking	108,146	-	26,854	60,206	-	195,206
Mr Tim Hosking	232,179	-	17,392	-	(5,000)	244,571
Mr Edward Munks	755,009	-	32,177	-	-	787,186
Total key management personnel	17,080,063	-	76,423	172,797	(5,000)	17,324,283

None of the ordinary shares are held nominally by any Director or any of the other key management personnel. 'Held nominally' refers to the situation where the ordinary shares are in the name of the Director or other key management person but he is not the beneficial owner.

Loans to Directors and Other Key Management Personnel

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

Other Transactions with Directors and Other Key Management Personnel

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

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

During the financial year, Mr Jose Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda, which provided business and geology consulting services to the Group. The value of these transactions during the financial year in the Group was \$341,492. The balance outstanding included in current trade and other payables is \$60,363. Given Karoon's relative size to other operators in Brazil, the consulting services provided by Net Pay Óleo & Gás Consultoria Ltda are critical to Karoon's ability to operate within the Brazilian oil industry.

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director, was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration during the financial year was \$169,513, which includes social security and indemnity fund contributions of \$12,188. Ms Barbosa has been an employee of the Company since 2011, and has a comprehensive understanding of the Brazilian legal and regulatory framework.

During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a key management person), was employed by the Group as the Community Relations and Social Projects Manager in South America. The total value of her remuneration during the financial year was \$139,605, which includes social security and indemnity fund contributions of \$11,336. Ms Sayao is a key member of the South American management team. It is through her efforts that Karoon has one of the most respected community social responsibility programs in Peru, a key component of the Company's overall success in Peru. The Brazilian and Peruvian regulatory and business environments require transparent and clear communication on social and environmental issues with local and federal governments, it is not possible to conduct day-to-day business activities without these services.

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

Matters Arising Subsequent to the End of the Financial Year

Other than the matters disclosed in Note 30 of the consolidated financial statements, no other matter or circumstance has arisen since 30 June 2016 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:



Dr David Klingner
Independent Non-Executive Chairman



Mr Robert Hosking
Managing Director

28 September 2016

AUDITOR'S INDEPENDENCE DECLARATION



As lead auditor for the audit of Karoon Gas Australia Ltd for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Charles Christie', written in a cursive style.

Charles Christie
Partner
PricewaterhouseCoopers

28 September 2016

PricewaterhouseCoopers, ABN 52 780 433 757

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CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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

The consolidated financial statements are for the consolidated entity consisting 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	62
Consolidated Statement of Financial Position	63
Consolidated Statement of Changes in Equity	64
Consolidated Statement of Cash Flows	65

Notes to the Consolidated Financial Statements

Note 1.	Summary of Significant Accounting Policies	66
Note 2.	Significant Accounting Estimates, Assumptions and Judgements	76
Note 3.	Financial Risk Management	77
Note 4.	Revenue	83
Note 5.	Expenses	83
Note 6.	Income Tax	84
Note 7.	Remuneration of External Auditor	86
Note 8.	Dividends	86
Note 9.	Earnings Per Share	87
Note 10.	Cash and Cash Equivalents	87
Note 11.	Receivables	88
Note 12.	Inventories	88
Note 13.	Security Deposits	88
Note 14.	Other Assets	89
Note 15.	Plant and Equipment	89
Note 16.	Intangible Assets	89
Note 17.	Exploration and Evaluation Expenditure Carried Forward	90
Note 18.	Trade and Other Payables	91
Note 19.	Provisions	91
Note 20.	Contributed Equity and Reserves Within Equity	92
Note 21.	Subsidiaries	93
Note 22.	Segment Information	93
Note 23.	Joint Operations	96
Note 24.	Contingent Liabilities and Contingent Assets	97
Note 25.	Commitments	98
Note 26.	Reconciliation to the Consolidated Statement of Cash Flows	99
Note 27.	Share-based Payments	100
Note 28.	Related Party Transactions	103
Note 29.	Parent Company Financial Information	105
Note 30.	Subsequent Events	106

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	Consolidated	
		2016 \$	2015 \$
Revenue	4	1,608,292	2,004,783
Other income	4	21,989,448	399,202,199
Total revenue and other income		23,597,740	401,206,982
Computer support		(1,333,518)	(1,129,940)
Consulting fees		(585,850)	(686,626)
Depreciation and amortisation expense	5	(1,207,125)	(1,166,012)
Employee benefits expense (net)		(11,888,746)	(10,962,775)
Exploration and evaluation expenditure expensed or written-off	5	(150,466,951)	(29,487,997)
Farm-out costs		(430,310)	(640,540)
Finance costs	5	(209,149)	(3,627,534)
Insurance expense		(274,921)	(257,883)
Investor relation costs		(28,100)	(625,443)
Legal fees		(138,636)	(288,621)
Business development and other project costs		(1,674,246)	-
Property costs		(2,199,899)	(2,181,620)
Share registry and listing fees		(211,705)	(226,113)
Telephone and communication expenses		(329,146)	(356,716)
Travel and accommodation expenses		(902,068)	(1,296,044)
Other expenses		(1,148,203)	(921,646)
Total expenses		(173,028,573)	(53,855,510)
(Loss) profit before income tax		(149,430,833)	347,351,472
Tax income (expense)	6	44,304,488	(115,894,599)
(Loss) profit for financial year attributable to equity holders of the Company		(105,126,345)	231,456,873
Other comprehensive income, net of income tax:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		3,892,203	(11,907,919)
Other comprehensive income (loss) for financial year, net of income tax		3,892,203	(11,907,919)
Total comprehensive (loss) profit for financial year attributable to equity holders of the Company, net of income tax		(101,234,142)	219,548,954
(Loss) profit per share attributable to equity holders of the Company:			
Basic (loss) profit per ordinary share	9	(0.4275)	0.9285
Diluted (loss) profit per ordinary share	9	(0.4275)	0.9274

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 2016

		Consolidated	
	Note	2016 \$	2015 \$
Current assets			
Cash and cash equivalents	10	479,590,366	553,091,340
Receivables	11	3,672,007	3,410,296
Inventories	12	3,361,581	3,082,027
Security deposits	13	421,318	68,242
Current tax asset	6	431,059	208,279
Other assets	14	2,055,438	3,643,902
Total current assets		489,531,769	563,504,086
Non-current assets			
Inventories	12	38,487,405	33,780,628
Plant and equipment	15	1,603,216	2,301,659
Intangible assets	16	1,116,739	489,372
Exploration and evaluation expenditure carried forward	17	376,766,598	485,539,123
Security deposits	13	9,681,592	9,724,891
Total non-current assets		427,655,550	531,835,673
Total assets		917,187,319	1,095,339,759
Current liabilities			
Trade and other payables	18	13,512,663	30,421,131
Current tax liabilities	6	-	20,776,754
Provisions	19	287,448	3,849,062
Total current liabilities		13,800,111	55,046,947
Non-current liabilities			
Trade and other payables	18	504,771	-
Deferred tax liabilities	6	44,655,826	81,353,342
Provisions	19	263,864	433,830
Total non-current liabilities		45,424,461	81,787,172
Total liabilities		59,224,572	136,834,119
Net assets		857,962,747	958,505,640
Equity			
Contributed equity	20	802,967,815	805,529,759
Retained earnings		48,578,609	153,704,954
Share-based payments reserve		40,189,876	36,936,683
Foreign currency translation reserve		(33,773,553)	(37,665,756)
Total equity		857,962,747	958,505,640

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 2016

	Contributed Equity \$	Retained Earnings (Accumulated Losses) \$	Consolidated Share-based Payments Reserve \$	Foreign Currency Translation Reserve \$	Total Equity \$
Balance as at 1 July 2014	836,246,445	(77,751,919)	33,737,242	(25,757,837)	766,473,931
Profit for financial year	-	231,456,873	-	-	231,456,873
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(11,907,919)	(11,907,919)
Total comprehensive profit for financial year	-	231,456,873	-	(11,907,919)	219,548,954
Transactions with owners in their capacity as owners:					
Ordinary shares bought back (on-market) and cancelled	(30,702,361)	-	-	-	(30,702,361)
Share buy-back transaction costs	(14,325)	-	-	-	(14,325)
Share-based payments expense	-	-	3,199,441	-	3,199,441
	(30,716,686)	-	3,199,441	-	(27,517,245)
Balance as at 30 June 2015	805,529,759	153,704,954	36,936,683	(37,665,756)	958,505,640
Loss for financial year	-	(105,126,345)	-	-	(105,126,345)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	3,892,203	3,892,203
Total comprehensive loss for financial year	-	(105,126,345)	-	3,892,203	(101,234,142)
Transactions with owners in their capacity as owners:					
Ordinary shares bought back (on-market) and cancelled	(2,564,577)	-	-	-	(2,564,577)
Share buy-back transaction costs, net of tax	2,633	-	-	-	2,633
Share-based payments expense	-	-	3,253,193	-	3,253,193
	(2,561,944)	-	3,253,193	-	691,249
Balance as at 30 June 2016	802,967,815	48,578,609	40,189,876	(33,773,553)	857,962,747

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 2016

	Note	Consolidated	
		2016 \$	2015 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST refunds)		1,785,684	3,146,139
Payments to suppliers and employees (inclusive of GST)		(19,572,992)	(19,146,088)
Payments for exploration and evaluation expenditure expensed		(1,450,293)	(934,112)
Interest received		1,624,155	1,870,226
Interest and other costs of finance paid		(209,149)	(1,248,041)
Income taxes (paid) refund		(13,387,200)	2,344,580
Net cash flows used in operating activities	26	(31,209,795)	(13,967,296)
Cash flows from investing activities			
Purchase of plant and equipment		(297,921)	(276,219)
Purchase of computer software		(878,694)	(220,085)
Payments for exploration and evaluation expenditure capitalised		(52,798,565)	(216,194,862)
Repayment of security deposits		10,615	7,033
Proceeds from disposal of non-current assets		3,086	-
Proceeds from divestment of exploration permits WA-315-P and WA-398-P (net)	4(a)	-	658,929,297
Net cash flows (used in) provided by investing activities		(53,961,479)	442,245,164
Cash flows from financing activities			
Share buy-back (on-market)	20(b)	(2,566,955)	(30,716,686)
Proceeds from borrowings		-	21,450,021
Repayments of borrowings		-	(21,551,724)
Net cash flows used in financing activities		(2,566,955)	(30,818,389)
Net (decrease) increase in cash and cash equivalents		(87,738,229)	397,459,479
Cash and cash equivalents at beginning of financial year		553,091,340	39,013,343
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		14,237,255	116,618,518
Cash and cash equivalents at end of financial year	10	479,590,366	553,091,340

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Note 1. Summary of Significant Accounting Policies

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

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

(a) Basis of Preparation

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

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

Historical Cost Convention

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

Significant Accounting Estimates, Assumptions and Judgements

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

Compliance with International Financial Reporting Standards

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

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

The Group has adopted all of the new and/or revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the financial year ended 30 June 2016.

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

Early Adoption of Australian Accounting Standards

The Group has not elected to apply any new or revised Australian Accounting Standards before their operative date in the financial year beginning 1 July 2015.

(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 2016 and the results of all subsidiaries for the financial year then ended.

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

Interests in subsidiaries are set out in Note 21.

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 30 June, with the exception: of Karoon Petróleo & Gas Ltda; KEI (Peru 112) Pty Ltd, Sucursal del Peru; and KEI (Peru Z38) Pty Ltd, Sucursal del Peru. These subsidiaries and branches have a financial year end of 31 December in accordance with relevant Brazilian and Peruvian tax and accounting regulations respectively.

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

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

(c) Segment Information

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

(d) Revenue

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

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 Goods and Services Tax ('GST').

Interest Income

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

(e) Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Transactions and Balances

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

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

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

Group Companies

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 1. Summary of Significant Accounting Policies continued

(f) Income Taxes and Other Taxes

Current Tax

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

Deferred Tax

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

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

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

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

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

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

Tax Consolidation

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

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

Goods and Services Tax

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

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

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

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

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

Petroleum Resource Rent Tax ('PRRT')

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

Research and Development Tax Incentives

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

(g) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of financial position and for presentation in the consolidated statement of cash flows comprise cash at banks and on hand (including share of joint operation cash balances) and short-term bank deposits that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value.

(h) Receivables

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

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

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

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

(i) Inventories

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 1. Summary of Significant Accounting Policies continued

(j) Security Deposits

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

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

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

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

(k) Non-current Assets Held for Sale

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

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

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

(l) Plant and Equipment

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

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

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

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

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

(m) Intangibles

Computer Software

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

Commencing from the time the computer software is held ready for use, amortisation expense is calculated on a straight-line basis to allocate their cost amount, net of their residual values, over their estimated useful lives ranging from 2 to 2.5 years.

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

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

(n) Exploration and Evaluation Expenditure

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

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

Otherwise, exploration and evaluation expenditure is expensed as incurred.

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

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

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

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

Farm-out

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

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

Impairment of Capitalised Exploration and Evaluation Expenditure

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 1. Summary of Significant Accounting Policies continued

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

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

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

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

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

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

(p) Trade and Other Payables

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

(q) Employee Benefits

Wages, Salaries, Annual Leave and Personal Leave

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

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

Share-based Payments

Share-based remuneration benefits are provided to Executive Directors and employees via the Company's PRP, ESOP and Non-Executive Directors via other share options (refer Note 27).

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

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

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

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

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

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

Long Service Leave

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

Employee entitlements relating to long service leave are presented as a current provision in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

Restoration

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

(s) Borrowings

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

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

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

Borrowing Costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 1. Summary of Significant Accounting Policies continued

(t) Contributed Equity

Ordinary shares are classified as equity.

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

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

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

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

(u) Interests in Joint Operations

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

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

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

(v) Leases

Group as a Lessee

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

(w) Earnings Per Share

Basic Earnings Per Share

Basic earnings per ordinary share is calculated by dividing the profit or loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the financial year.

Diluted Earnings Per Share

Diluted earnings per ordinary share adjusts the figures used in the determination of basic earnings per ordinary share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) Parent Company Financial Information

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

Investments in Subsidiaries

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

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

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

Share-based Payments

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

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

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

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

The AASB has amended AASB 11 'Joint Arrangements'. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' as defined in AASB 3 'Business Combinations'. The amendments to AASB 11 apply prospectively for annual reporting periods beginning on or after 1 January 2016. The Group has interests in a number of joint operations. The Group is yet to assess the full impact of the amendments given it will only apply to future potential transactions. The Group will apply the amendments to the revised standard prospectively to acquisitions of an interest in a joint operation occurring on or after 1 July 2016. Transactions before that date are grandfathered.

(ii) AASB 16 'Leases'

AASB 16 'Leases' is the new standard for lease recognition, replacing AASB 117 'Leases'. AASB 16 is applicable for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The new standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The Group is yet to assess AASB 16's full impact, but the change will have a pervasive impact as it will result in the recognition of almost all leases in the consolidated statement of financial position. The Group does not intend to adopt the new standard before its operative date, which means that it would first be applied during the financial year ending 30 June 2020.

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

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

(iv) AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'

The AASB has amended AASB 112 'Income Taxes'. The amendments to AASB 112 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. The amendments do not change the underlying principles for the recognition of deferred tax assets. The amendments are applicable to annual reporting periods beginning on or after 1 January 2017, but are available for early adoption, subject to certain conditions. The Group is yet to assess the amended AASB 112's full impact. The Group does not intend to adopt the revised standard before its operative date, which means that it would first be applied during the financial year ending 30 June 2018.

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

The AASB has amended AASB 107 'Statement of Cash Flows'. The amendments to AASB 107 introduce additional disclosures that will enable users of financial statements to better evaluate the changes in liabilities arising from financing activities. The amendments require disclosure of changes arising from cash flows, such as drawdowns and repayments of borrowings; and non-cash changes, such as acquisitions, disposals and unrealised foreign currency differences. The amendments are applicable to annual reporting periods beginning on or after 1 January 2017, but is available for early adoption, subject to certain conditions. The Group is yet to assess the amended AASB 107's full impact. The Group does not intend to adopt the revised standard before its operative date, which means that it would first be applied during the financial year ending 30 June 2018.

(vi) AASB 9 'Financial Instruments'

AASB 9 'Financial Instruments' addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new standard is applicable to annual reporting periods beginning on or after 1 January 2018, but is available for early adoption. The Group is yet to assess AASB 9's full impact, but at this time it appears it will have limited impact for the Group. The Group does not intend to adopt the new standard before its operative date, which means that it would first be applied during the financial year ending 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 1. Summary of Significant Accounting Policies continued

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

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

The AASB has amended AASB 2 'Share-based Payment'. The amendments to AASB 2 address the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, and the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash settled to equity settled. The amendments are applicable to annual reporting periods beginning on or after 1 January 2018, but is available for early adoption. The Group is yet to assess the amended AASB 2's full impact. The Group does not intend to adopt the revised standard before its operative date, which means that it would first be applied during the financial year ending 30 June 2019.

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

Exploration and evaluation expenditure is carried forward on the basis that exploration and evaluation activities in the areas of interest have not at the end of the reporting period reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

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

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

(b) Share-based Payments

The Group measures the cost of share-based payment transactions with Directors and employees by reference to the fair value of the share options at the date they were granted. Fair value is ascertained using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. The 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 future financial results and equity.

(c) Provision for Restoration

Restoration costs are a normal consequence of the oil and gas industry. In determining an appropriate level of provision, consideration is given to the expected future costs to be incurred, the timing of these expected future costs and the estimated future level of inflation.

The ultimate costs of restoration are uncertain and costs can vary in response to many factors including changes to the relevant legal and legislative requirements, the emergence of new restoration techniques or experience at other fields. The expected timing of expenditure can also change. Changes to any of the estimates could result in a significant change to the level of provisioning required, which would in turn impact future financial results.

(d) Income Tax

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

The Group has not recognised deferred tax assets in respect of Brazilian tax losses and temporary tax differences as the future utilisation of these losses and temporary tax differences is not considered probable at this point in time. Assessing the future utilisation of tax losses and temporary tax differences requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future utilisation of these tax losses and temporary tax differences becomes probable, this could result in significant changes to deferred tax assets recognised, which would in turn impact future financial results.

(e) Joint Arrangements

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

Note 3. Financial Risk Management

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

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

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

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

The Group had no off-statement of financial position financial assets or financial liabilities at either 30 June 2016 or 30 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 3. Financial Risk Management continued

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

	Note	Consolidated	
		2016 \$	2015 \$
Financial assets			
Cash and cash equivalents	10	479,590,366	553,091,340
Receivables	11	3,672,007	3,410,296
Security deposits	13	10,102,910	9,793,133
Total financial assets		493,365,283	566,294,769
Financial liabilities			
Trade and other payables (refer note(a) below)		12,674,242	29,444,827
Total financial liabilities		12,674,242	29,444,827
(a) Trade and other payables above exclude amounts relating to leave liabilities, which are not considered a financial instrument. The reconciliation to the amount in the consolidated statement of financial position is as follows:			
Trade and other payables	18	14,017,434	30,421,131
Less: Leave liabilities		(1,343,192)	(976,304)
		12,674,242	29,444,827

(a) Market Risk

(i) Foreign Exchange Risk

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

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

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

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

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

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

Consolidated	2016				2015			
	AUD \$	USD \$	REAL \$	Total \$	AUD \$	USD \$	REAL \$	Total \$
Financial assets								
Cash and cash equivalents	355,493	467,714,025	11,520,848	479,590,366	3,964,534	524,428,582	24,698,224	553,091,340
Receivables	26,673	2,784,910	860,424	3,672,007	117,524	2,023,155	1,269,617	3,410,296
Security deposits	375,335	9,677,390	50,185	10,102,910	375,035	9,365,844	52,254	9,793,133
Total financial assets	757,501	480,176,325	12,431,457	493,365,283	4,457,093	535,817,581	26,020,095	566,294,769
Financial liabilities								
Trade and other payables	1,209,435	6,706,954	4,757,853	12,674,242	859,853	4,318,116	24,266,858	29,444,827
Total financial liabilities	1,209,435	6,706,954	4,757,853	12,674,242	859,853	4,318,116	24,266,858	29,444,827

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	
	2016 \$	2015 \$	2016 \$	2015 \$
Change in profit (loss) before income tax				
- Improvement in AUD by 10.0%	-	-	(42,738,493)	(47,957,428)
- Decline in AUD by 10.0%	-	-	52,235,936	58,614,635
Change in financial assets				
- Improvement in AUD by 10.0%	(1,130,132)	(2,365,463)	(43,652,393)	(48,710,689)
- Decline in AUD by 10.0%	1,381,273	2,891,122	53,352,925	59,535,287
Change in financial liabilities				
- Improvement in AUD by 10.0%	432,532	2,206,078	609,723	392,556
- Decline in AUD by 10.0%	(528,650)	(2,696,318)	(745,217)	(479,791)
Change in foreign currency translation reserve				
- Improvement in AUD by 10.0%	697,600	159,385	304,177	360,705
- Decline in AUD by 10.0%	(852,623)	(194,804)	(371,772)	(440,861)

(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 2016 and 30 June 2015, there was no borrowing outstanding and there was no interest rate hedging in place.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 3. Financial Risk Management continued

(a) Market Risk continued

(ii) Interest Rate Risk continued

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

2016	Consolidated					
	Weighted Average Interest Rate % p.a.	Floating Interest Rate \$	Fixed Interest Rate \$	Non-interest Bearing \$	Fair Value \$	Carrying Amount \$
Financial assets						
Cash and cash equivalents	0.4	477,610,476	-	1,979,890	479,590,366	479,590,366
Receivables	-	-	-	3,672,007	3,672,007	3,672,007
Security deposits	0.7	4,813	9,988,163	109,934	10,102,910	10,102,910
Total financial assets		477,615,289	9,988,163	5,761,831	493,365,283	493,365,283
Financial liabilities						
Trade and other payables	-	-	-	12,674,242	12,674,242	12,674,242
Total financial liabilities				12,674,242	12,674,242	12,674,242

2015	Consolidated					
	Weighted Average Interest Rate % p.a.	Floating Interest Rate \$	Fixed Interest Rate \$	Non-interest Bearing \$	Fair Value \$	Carrying Amount \$
Financial assets						
Cash and cash equivalents	0.6	549,344,538	-	3,746,802	553,091,340	553,091,340
Receivables	-	-	-	3,410,296	3,410,296	3,410,296
Security deposits	0.3	4,513	9,677,792	110,828	9,793,133	9,793,133
Total financial assets		549,349,051	9,677,792	7,267,926	566,294,769	566,294,769
Financial liabilities						
Trade and other payables	-	-	-	29,444,827	29,444,827	29,444,827
Total financial liabilities				29,444,827	29,444,827	29,444,827

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	
	2016 \$	2015 \$
Change in profit (loss) before income tax		
- Increase of interest rate by 1.0% p.a.	4,776,153	5,493,491
- Decrease of interest rate by 1.0% p.a.	(255,588)	(430,476)
Change in financial assets		
- Increase of interest rate by 1.0% p.a.	4,776,153	5,493,491
- Decrease of interest rate by 1.0% p.a.	(255,588)	(430,476)

(b) Credit Risk

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

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

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

Cash and cash equivalents and security deposit counterparties are limited to high credit quality banks and financial institutions. For banks and financial institutions in Australia, only independently rated counterparties with a minimum rating of A/A2 are accepted. For banks and financial institutions in Brazil and Peru, only independently rated counterparties with a minimum rating of BBB+/BAA1 are accepted. For banks and financial institutions in Brazil and Peru with independently rated counterparties ratings below BBB+/BAA1, exposure cannot exceed the short-term country specific cash requirements. Where commercially practical, the Group seeks to limit the amount of credit exposure to any one bank or financial institution. The Group's credit exposure and credit ratings of its counterparties are monitored on an ongoing basis.

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

The Group is exposed to credit risk in relation to cash and cash equivalents and security deposits held with the National Australia Bank Limited and HSBC Group. The maximum amount of exposure to the National Australia Bank Limited and HSBC Group as at 30 June 2016 was \$466,216,964 (30 June 2015: \$524,171,246) and \$21,659,511 (30 June 2015: \$34,513,510) respectively.

The 30 June 2016 exposure to the HSBC Group included \$11,519,695 held in Brazil. From 1 July 2016, this exposure was transferred to Banco Bradesco SA as a result of the sale of HSBC's business operation in Brazil.

As at 30 June 2016, there were \$Nil (30 June 2015: \$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 \$479,590,366 (30 June 2015: \$553,091,340) that are expected to readily generate cash inflows for managing liquidity risk.

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

The following mechanisms are utilised to manage liquidity risk:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 3. Financial Risk Management continued

(c) Liquidity Risk continued

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

2016	Consolidated		Total \$
	Less than 6 Months \$	6–12 Months \$	
Financial liabilities			
Trade and other payables	12,674,242	-	12,674,242
Total financial liabilities	12,674,242	-	12,674,242
2015	\$	\$	\$
Financial liabilities			
Trade and other payables	29,444,827	-	29,444,827
Total financial liabilities	29,444,827	-	29,444,827

(d) Fair Value Estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 30 June 2016 and 30 June 2015 are presented in the table under Note 3(a)(ii) and can be compared to their carrying values as presented in the consolidated statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values estimated for disclosure purposes are based on information that is subject to judgement, where changes in assumptions may have a material impact on the amounts estimated.

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

Cash and Cash Equivalents

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

Receivables

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

Security Deposits

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

Trade and Other Payables

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

	Note	Consolidated	
		2016 \$	2015 \$
Note 4. Revenue			
Interest income from unrelated entities		1,608,292	2,004,783
Total revenue		1,608,292	2,004,783
Net foreign currency gains		19,061,558	121,290,995
Reversal of provision for restoration	19	2,471,244	-
Reversal of discount unwinding on provision for restoration	19	112,036	-
Gain on divestment of exploration permits WA-315-P and WA-398-P (refer note(a) below)		-	276,673,235
Services revenue from joint operations		342,696	1,237,969
Net gain on disposal of non-current assets		1,914	-
Total other income		21,989,448	399,202,199
 (a) During the previous financial year, Karoon received net proceeds of \$658,929,297 from Origin thereby completing the divestment of the Company's 40% equity interest in exploration permits WA-315-P and WA-398-P.			
Note 5. Expenses			
Loss before income tax includes the following specific expenses:			
Depreciation and amortisation expense:			
- depreciation of plant and equipment	15	969,324	958,814
- amortisation of computer software	16	237,801	207,198
Total depreciation and amortisation expense		1,207,125	1,166,012
Exploration and evaluation expenditure expensed or written-off:			
- exploration and evaluation expenditure expensed		1,508,493	934,112
- exploration and evaluation expenditure written-off	17	148,958,458	28,553,885
Total exploration and evaluation expenditure expensed or written-off		150,466,951	29,487,997
Finance costs:			
- interest expense to unrelated entities		-	113,497
- discount unwinding on provision for restoration	19	-	90,777
- loan establishment fees (refer note(a) below)		-	2,333,750
- bank charges		209,149	1,089,510
Total finance costs		209,149	3,627,534
 (a) During the previous financial year, a USD100 million 'bridge' loan facility between the Company and National Australia Bank Limited was drawn down upon by USD20 million. The facility had an expiry date of 30 November 2014, however, it was voluntarily cancelled during August 2014 after the USD20 million loan outstanding was repaid in full.			
Share-based payments expense	27(e)	3,253,193	3,199,441
Rental expense on operating leases – minimum lease payments		1,869,534	1,865,702
Net loss on disposal of plant and equipment		-	6,044

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

	Note	Consolidated 2016 \$	2015 \$
Note 6. Income Tax			
(a) Income Tax Recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income			
Income tax comprises:			
Current tax		1,930,376	(198,560,453)
Adjustments in respect of current tax of previous financial years		7,617,433	25,191
Deferred tax		34,756,679	82,640,663
Total tax income (expense)		44,304,488	(115,894,599)
The prima facie tax on loss (profit) before income tax is reconciled to tax income (expense) as follows:			
Prima facie tax payable on loss (profit) before income tax, calculated at the Australian tax rate of 30%			
		44,829,250	(104,205,442)
Adjust the tax effect of:			
Share-based payments expense		(975,958)	(959,832)
Other non-deductible items		(1,631,606)	(1,287,990)
Tax losses and temporary tax differences not previously recognised		(6,768,809)	(10,728,729)
Difference in overseas tax rates		105,789	1,262,203
Adjustment for current tax of previous financial years		7,617,433	25,191
Non-assessable income		1,128,389	-
Total tax income (expense)		44,304,488	(115,894,599)
(b) Amounts Recognised Directly In Equity			
Aggregate current and deferred tax arising during the financial year and not recognised in net profit or loss but directly debited or credited in equity:			
Deferred tax – credited directly in contributed equity	20(b)	5,011	-
(c) Current Tax Asset			
Income tax refund receivable		431,059	208,279
Total current tax asset		431,059	208,279
(d) Current Tax Liabilities			
Income tax payable		-	20,776,754
Total current tax liabilities		-	20,776,754

	Consolidated			Balance as at 30 June 2016 \$
	Balance as at 1 July 2015 \$	Charged (Credited) to Profit or Loss \$	Charged (Credited) Directly to Equity \$	
(e) Deferred Tax Balances				
<i>Temporary differences</i>				
Exploration and evaluation expenditure	(56,466,821)	41,718,809	-	(14,748,012)
Provisions and accruals	383,932	173,269	-	557,201
Equity raising transaction costs	1,186,783	(395,112)	5,011	796,682
Unrealised foreign currency gains	(26,544,995)	(6,771,901)	-	(33,316,896)
Farm-out expenditures	61,423	25,281	-	86,704
Other	26,336	6,334	-	32,670
Total temporary differences	(81,353,342)	34,756,680	5,011	(46,591,651)
<i>Unused tax losses</i>				
Tax losses	-	1,935,825	-	1,935,825
Total unused tax losses	-	1,935,825	-	1,935,825
Net deferred tax liabilities	(81,353,342)	36,692,505	5,011	(44,655,826)
Presented in the consolidated statement of financial position as follows:				
Deferred tax liabilities	(81,353,342)			(44,655,826)

	Consolidated	
	2016 \$	2015 \$
Deferred tax liabilities expected to be settled within 12 months	(14,326,266)	(6,305,474)
Deferred tax liabilities expected to be settled after more than 12 months	(30,329,560)	(75,047,868)
Deferred tax liabilities	(44,655,826)	(81,353,342)
(f) Unrecognised Deferred Tax Assets		
A deferred tax asset has not been recognised in the consolidated statement of financial position as the benefits of which will only be realised if the conditions for deductibility set out in Note 1(f) occur:		
Unrecognised temporary tax differences relating to deferred tax assets	-	7,555,584
Tax losses: Brazilian operating losses at a tax rate of 34%	13,284,442	4,731,287
Potential tax income	13,284,442	12,286,871
(g) Unrecognised Taxable Temporary Differences		
Temporary tax differences relating to deferred tax liabilities	(24,798,125)	(22,709,742)
Offset by deferred tax assets relating to operating losses	24,798,125	22,709,742
Total deferred tax liabilities (unrecognised)	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 6. Income Tax continued

PRRT

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

The Group estimates that it has incurred compounded carried forward undeducted PRRT expenditure in excess of accounting carrying values as at 30 June 2016 of \$227,278,736 (2015: \$77,791,871). 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 \$63,633,046 (2015: \$21,781,724).

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

	Consolidated	
	2016	2015
	\$	\$
Note 7. Remuneration of External Auditors		
Remuneration received or due and receivable by the external auditor of Karoon Gas Australia Ltd for:		
(a) PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	144,840	143,350
Total remuneration for audit and other assurance services	144,840	143,350
(ii) Other services		
International tax advice	25,000	-
Agreed upon procedures in relation to the Company's 2014 Annual General Meeting and tax advice	-	9,100
Total remuneration of PricewaterhouseCoopers Australia	169,840	152,450
(b) Related Practices of PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	162,976	186,170
Due diligence services	57,460	-
Total remuneration for audit and other assurance services of related practices	220,436	186,170
(ii) Other services		
International tax and accounting advice	37,405	-
Total remuneration of related practices of PricewaterhouseCoopers Australia	257,841	186,170
Total remuneration of external auditors	427,681	338,620
Note 8. Dividends		
There were no ordinary dividends declared or paid during the financial year by the Group (2015: \$Nil).		
Balance of franking account available for subsequent reporting periods	13,164,770	-
The above amount is calculated from the balance of the Company's franking account as at the end of financial year. Franking credits are based on the Australian tax rate of 30%.		

	Consolidated	
	2016 \$	2015 \$
Note 9. Earnings Per Share		
(Loss) profit for the financial year used to calculate basic and diluted earnings per ordinary share:	(105,126,345)	231,456,873
(a) Basic (loss) profit per ordinary share	(0.4275)	0.9285
(b) Diluted (loss) profit per ordinary share*	(0.4275)	0.9274
* Diluted loss per ordinary share equates to basic loss per ordinary share in the financial year because a loss per ordinary share is not considered dilutive for the purposes of calculating earnings per share pursuant to AASB 133 'Earnings per Share'.		
Weighted average number of ordinary shares on issue during the financial year used in calculating basic earnings per ordinary share:	245,930,828	249,269,972
Weighted average number of potential ordinary shares:	1,320,974	294,569
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per ordinary share (excluding anti-dilutive share options outstanding):	247,251,802	249,564,541
Weighted average number of anti-dilutive share options:	6,371,729	8,074,232
Potential ordinary shares		
Share options and performance rights over unissued ordinary shares of the Company outstanding at the end of the financial year are considered to be potential ordinary shares and have been included in the determination of diluted earnings per ordinary share to the extent to which they are dilutive. The share options and performance rights have not been included in the determination of basic earnings per ordinary share.		
Note 10. Cash and Cash Equivalents		
Cash at banks and on hand (refer note(a) below)	468,189,934	529,169,532
Short-term bank deposits (refer note(b) below)	11,400,432	23,921,808
Total cash and cash equivalents	479,590,366	553,091,340

(a) Cash and Cash Equivalents of Joint Operations

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

(b) Short-term Bank Deposits

Short-term bank deposits are made for varying periods of between one day and 180 days, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term bank deposit rates.

(c) Financial Risk Management

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

	Consolidated	
	2016	2015
	\$	\$
Note 11. Receivables		
Current		
Other receivables	3,672,007	3,410,296
Total current receivables	3,672,007	3,410,296
 (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	3,361,581	3,082,027
Total current inventories	3,361,581	3,082,027
 Non-current		
Casing and other drilling inventory, at cost	38,487,405	33,780,628
Total non-current inventories	38,487,405	33,780,628
 Note 13. Security Deposits		
Current		
Karoon Gas Australia Ltd (refer note(b) below)	370,522	-
Karoon Petróleo & Gas Ltda, KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note(c) below)	50,796	68,242
Total current security deposits	421,318	68,242
 Non-current		
Karoon Gas Australia Ltd (refer note(a) below)	9,617,641	9,307,270
Karoon Gas Australia Ltd (refer note(b) below)	4,813	375,035
KEI (Peru Z38) Pty Ltd, Sucursal del Peru and KEI (Peru 112) Pty Ltd, Sucursal del Peru (2015: KEI (Peru Z38) Pty Ltd, Sucursal del Peru and KEI (Peru 112) Pty Ltd, Sucursal del Peru) (refer note(c) below)	59,138	42,586
Total non-current security deposits	9,681,592	9,724,891

(a) Performance Guarantees

Performance guarantees (via letters of credit) were provided to Peru Petro SA (the Peruvian oil and gas regulator) for Block Z-38 and Block 144 by the Group (refer Note 24) for second and third period work commitments. The letters of credit are fully funded by way of payment of a security deposit, which will be released once the work commitments are met.

(b) Bank Guarantees

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

(c) Bonds

Cash deposits are held as bonds for the Group's compliance with its obligations in respect of agreements for the guarantee (refer Note 24) of payment obligations for various accommodation in Brazil and Peru.

(d) Financial Risk Management

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

		Consolidated	
	Note	2016 \$	2015 \$
Note 14. Other Assets			
Current			
Prepayments		2,055,438	3,643,902
Total current other assets		2,055,438	3,643,902
Note 15. Plant and Equipment			
Plant and equipment			
At cost		6,191,938	5,862,743
Accumulated depreciation		(4,588,722)	(3,561,084)
Total plant and equipment		1,603,216	2,301,659
Reconciliation			
The reconciliation of the carrying amount for plant and equipment is set out below:			
Balance at beginning of financial year		2,301,659	2,979,538
Additions	22	303,850	288,478
Disposals		(1,172)	(6,044)
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(31,797)	(1,499)
Depreciation expense	5	(969,324)	(958,814)
Carrying amount at end of financial year		1,603,216	2,301,659
Note 16. Intangible Assets			
Computer software			
At cost		3,213,908	2,314,055
Accumulated amortisation		(2,097,169)	(1,824,683)
Total intangibles		1,116,739	489,372
Reconciliation			
The reconciliation of the carrying amounts for computer software is set out below:			
Balance at beginning of financial year		489,372	467,256
Additions	22	875,286	214,943
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(10,118)	14,371
Amortisation expense	5	(237,801)	(207,198)
Carrying amount at end of financial year		1,116,739	489,372

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

	Note	Consolidated	
		2016 \$	2015 \$
Note 17. Exploration and Evaluation Expenditure Carried Forward			
Geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs		376,766,598	485,539,123
Reconciliation			
The reconciliation of exploration and evaluation expenditure carried forward is set out below:			
Balance at beginning of financial year		485,539,123	296,389,492
Additions	22	38,164,303	218,417,936
Exploration and evaluation expenditure written-off (refer note(a) below)	5	(148,958,458)	(28,553,885)
Net foreign currency difference on translation of financial statements of foreign subsidiaries		2,021,630	(714,420)
Total exploration and evaluation expenditure carried forward (refer note(b) below)		376,766,598	485,539,123
Intangible		376,766,598	485,539,123

(a) As part of the review of the Group's non-current assets during the financial year, exploration and evaluation expenditure carried forward that was associated with historical Australian exploration and evaluation activities that were no longer continuing and not considered prospective were written-off.

The exploration and evaluation expenditure written-off in the previous financial year related to the Bauna Sul oil discovery in Block S-M-1352. This exploration and evaluation expenditure was written-off due to a limited recoverable resource estimate and timing restrictions on a development decision. During the financial year ended 30 June 2016, the Group's interest in Block S-M-1352 was relinquished.

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

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	
	Note	2016 \$	2015 \$
Note 18. Trade and Other Payables			
Current (unsecured)			
Trade payables		7,051,342	25,279,876
Sundry payables and accrued expenditure		6,461,321	5,141,255
Total current trade and other payables		13,512,663	30,421,131
Non-current (unsecured)			
Sundry payables		504,771	-
Total current trade and other payables		504,771	-
(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 19. Provisions			
Current			
Provision for long service leave (refer note(a) below)		287,448	-
Provision for restoration (refer note(b) below)		-	3,849,062
Total current provisions		287,448	3,849,062
Non-current			
Provision for long service leave (refer note(a) below)		263,864	433,830
Total non-current provisions		263,864	433,830
Reconciliation of provision for restoration			
Balance at beginning of financial year		3,849,062	3,246,546
Reversal of provision for restoration	4	(2,471,244)	-
Unrealised foreign exchange (profit) loss to record the liability at balance date		(838,083)	942,850
Reversal of discount unwinding on provision for restoration	4	(112,036)	-
Discount unwinding on provision for restoration	5	-	90,777
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(427,699)	(431,111)
Total provision for restoration		-	3,849,062

(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).

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

(b) Provision for Restoration

The measurement and recognition criteria relating to restoration obligations are as described in Note 1(r). During the financial year, approval from the ANP was granted accepting an application to relinquish Block S-M-1352 in its current state. As a result, there is no further Brazilian obligation for restoration and accordingly the provision for restoration recorded as a current liability as at 30 June 2015 of \$3,849,062 has been reversed during the financial year and the balance recognised as other income in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

	Consolidated		Consolidated	
	2016 Number	2015 Number	2016 \$	2015 \$
Note 20. Contributed Equity and Reserves Within Equity				
(a) Contributed Equity				
Ordinary shares, fully paid	245,260,124	246,655,739	802,967,815	805,529,759
Total contributed equity			802,967,815	805,529,759

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

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

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

(b) Movement in Ordinary Shares

Date	Details	Note	Number of Ordinary Shares	Issue Price Per Ordinary Share	\$
1 July 2014	Opening balance in previous financial year		255,841,581		836,246,445
	Performance rights conversion	27(d)	211,080		-
	Ordinary shares bought back (on-market) and cancelled	(i)	(9,396,922)		(30,702,361)
	Share buy-back transaction costs				(14,325)
30 June 2015	Balance at end of previous financial year		246,655,739		805,529,759
	Performance rights conversion	27(d)	264,704		-
	Ordinary shares bought back (on-market) and cancelled	(i)	(1,660,319)		(2,564,577)
	Share buy-back transaction costs				(2,378)
	Deferred tax credit recognised directly in equity	6(b)			5,011
30 June 2016	Balance at end of financial year		245,260,124		802,967,815

(i) Share Buy-back (On-market)

The Company's share buy-back commenced on 3 September 2014 and was continued on 3 September 2015 for a further 12 months. The share buy-back lapsed on 2 September 2016.

During the financial year, a total of 1,660,319 ordinary shares (2015: 9,396,922) had been purchased and cancelled at an average price of \$1.55 per share (2015: \$3.27), with prices ranging from \$1.34 to \$1.70 (2015: \$2.88 to \$3.98). The total reduction in contributed equity as a result of the share buy-back and cancellation of ordinary shares was \$2,561,944 (2015: \$30,716,686).

(c) Capital Management

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

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

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

(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 21. Subsidiaries

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

Name	Country of Incorporation or Registration	Business Activities Carried on in	Percentage of Equity and Voting Interests Held	
			2016 %	2015 %
Parent Company:				
Karooon Gas Australia Ltd	Australia	Australia		
Unlisted subsidiaries of Karooon Gas Australia Ltd:				
Karooon Energy International Pty Ltd	Australia	Australia	100	100
Karooon Gas Browse Basin Pty Ltd	Australia	Australia	100	100
Karooon Gas (FPSO) Pty Ltd	Australia	Australia	100	100
Unlisted subsidiaries of Karooon Energy International Pty Ltd:				
KEI (Brazil Santos) Pty Ltd	Australia	Australia	100	100
KEI (Peru 112) Pty Ltd	Australia	Australia	100	100
KEI (Peru Z38) Pty Ltd	Australia	Australia	100	100
Jointly owned unlisted subsidiary of Karooon Energy International Pty Ltd and KEI (Brazil Santos) Pty Ltd:				
Karooon Petróleo & Gas Ltda	Brazil	Brazil	100	100
Branch of KEI (Peru 112) Pty Ltd:				
KEI (Peru 112) Pty Ltd, Sucursal del Peru	Peru	Peru	100	100
Branch of KEI (Peru Z38) Pty Ltd:				
KEI (Peru Z38) Pty Ltd, Sucursal del Peru	Peru	Peru	100	100

Note 22. Segment Information

(a) Description of Segments

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

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

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

- Australia – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in two offshore permit areas: WA-314-P and WA-482-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 (2015: six offshore Blocks: Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166 and Block S-M-1352); and
- Peru – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in two Blocks: Block 144 (onshore) and Block Z-38 (offshore).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 22. Segment Information continued

(a) Description of Segments continued

The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

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

Employee benefits 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

	Australia	Brazil	Peru	All Other Segments	Consolidated
	\$	\$	\$	\$	\$
Segment Performance					
Result for financial year ended 30 June 2016					
Segment revenue (interest income from unrelated entities)	215,376	1,392,610	306	-	1,608,292
Other income	18,335,745	3,821,374	(167,671)	-	21,989,448
Depreciation and amortisation expense	(389,663)	(589,457)	(228,005)	-	(1,207,125)
Employee benefits expense (net) [^]	(8,729,354)	(1,954,893)	(1,204,499)	-	(11,888,746)
Exploration and evaluation expenditure expensed or written-off	(150,019,729)	(341,043)	(41,011)	(65,168)	(150,466,951)
Business development and other project costs	(136,026)	(1,538,220)	-	-	(1,674,246)
Finance costs	(54,454)	(139,401)	(15,294)	-	(209,149)
Property costs	(755,324)	(1,099,382)	(345,193)	-	(2,199,899)
Administration and other operating expenses	(3,796,738)	(614,104)	(971,615)	-	(5,382,457)
Loss before income tax	(145,330,167)	(1,062,516)	(2,972,982)	(65,168)	(149,430,833)
Tax income	44,304,488	-	-	-	44,304,488
Loss for financial year	(101,025,679)	(1,062,516)	(2,972,982)	(65,168)	(105,126,345)
Result for financial year ended 30 June 2015					
Segment revenue (interest income from unrelated entities)	296,075	1,708,650	58	-	2,004,783
Other income	399,302,799	299,013	(399,613)	-	399,202,199
Depreciation and amortisation expense	(480,560)	(488,174)	(197,278)	-	(1,166,012)
Employee benefits expense (net) ^{^^}	(7,757,476)	(1,999,247)	(1,206,052)	-	(10,962,775)
Exploration and evaluation expenditure expensed or written-off	(359,674)	(28,969,083)	(21,123)	(138,117)	(29,487,997)
Finance costs	(2,708,957)	(902,528)	(16,049)	-	(3,627,534)
Property costs	(716,588)	(1,161,901)	(303,131)	-	(2,181,620)
Administration and other operating expenses	(4,889,373)	(485,686)	(1,054,513)	-	(6,429,572)
Profit (loss) before income tax	382,686,246	(31,998,956)	(3,197,701)	(138,117)	347,351,472
Tax expense	(115,894,599)	-	-	-	(115,894,599)
Profit (loss) for financial year	266,791,647	(31,998,956)	(3,197,701)	(138,117)	231,456,873

[^] Includes non-cash share-based payments expense of \$2,537,456 (Australia), \$499,340 (Brazil) and \$216,397 (Peru).

^{^^} Includes non-cash share-based payments expense of \$2,328,333 (Australia), \$578,735 (Brazil) and \$292,373 (Peru).

	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
Segment Assets					
As at 30 June 2016					
Segment asset information					
Cash and cash equivalents	466,316,880	11,558,411	1,715,075	-	479,590,366
Exploration and evaluation expenditure carried forward	49,160,039	260,521,706	67,084,853	-	376,766,598
Security deposits	375,335	50,185	9,677,390	-	10,102,910
Inventories	15,197	15,706,892	26,126,897	-	41,848,986
Other	1,858,827	3,529,032	3,490,600	-	8,878,459
Segment assets	517,726,278	291,366,226	108,094,815	-	917,187,319

As at 30 June 2015

Segment asset information

Cash and cash equivalents	525,484,989	24,736,253	2,870,098	-	553,091,340
Exploration and evaluation expenditure carried forward	188,278,259	238,909,021	58,351,843	-	485,539,123
Security deposits	375,035	52,254	9,365,844	-	9,793,133
Inventories	329,976	11,846,087	24,686,592	-	36,862,655
Other	2,257,117	4,616,338	3,180,053	-	10,053,508
Segment assets	716,725,376	280,159,953	98,454,430	-	1,095,339,759

	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
Segment Liabilities					
As at 30 June 2016					
Segment liability information					
Trade and other payables	7,466,521	5,604,969	945,944	-	14,017,434
Deferred tax liabilities	44,655,826	-	-	-	44,655,826
Provisions	551,312	-	-	-	551,312
Segment liabilities	52,673,659	5,604,969	945,944	-	59,224,572

As at 30 June 2015

Segment liability information

Trade and other payables	4,511,120	24,936,893	973,118	-	30,421,131
Current tax liabilities	20,776,754	-	-	-	20,776,754
Deferred tax liabilities	81,353,342	-	-	-	81,353,342
Provisions	433,830	3,849,062	-	-	4,282,892
Segment liabilities	107,075,046	28,785,955	973,118	-	136,834,119

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 22. Segment Information continued

(c) Other Segment Information

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

	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
Financial year ended 30 June 2016					
Plant and equipment	236,517	49,321	18,012	-	303,850
Intangible assets	72,741	782,588	19,957	-	875,286
Exploration and evaluation expenditure carried forward	9,840,238	21,250,949	7,073,116	-	38,164,303
Financial year ended 30 June 2015					
Plant and equipment	89,569	172,552	26,357	-	288,478
Intangible assets	122,071	32,250	60,622	-	214,943
Exploration and evaluation expenditure carried forward	18,454,755	193,221,268	6,741,913	-	218,417,936

Note 23. Joint Operations

The Group has an interest in the following joint operations as at 30 June 2016 as follows:

Exploration Permit	Unincorporated Interest 2016 %	Unincorporated Interest 2015 %	Principal Activities	Operator of Joint Operation
WA-482-P	50	50	Exploration and evaluation	Quadrant
Block Z-38	75 [^]	75 [^]	Exploration and evaluation	KEI (Peru Z38) Pty Ltd, Sucursal del Peru
Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1166	65	65	Exploration and evaluation	Karoon Petróleo & Gas Ltda
Block S-M-1352	-	20 [#]	Exploration and evaluation	Petróbras

[^] The Group's 75% Block Z-38 equity interest is subject to completion of farm-in obligations. Under the terms of the farm-in, Karoon is currently funding 100% of all exploration expenditure.

[#] During the financial year, an application to relinquish Block S-M-1352 in good standing was approved by the ANP.

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

	Consolidated	
	2016 \$	2015 \$
Cash and cash equivalents	3,294,255	20,720,906
Receivables (current)	788,597	1,029,551
Inventories (current)	3,361,580	3,082,027
Other assets (current)	410,526	1,991,076
Inventories (non-current)	12,360,509	9,094,036
Exploration and evaluation expenditure carried forward (non-current)	359,410,723	320,891,872
Trade and other payables (current)	(4,038,793)	(23,643,527)
Provision for restoration (current)	-	(3,849,062)
Share of net assets employed in joint operations	375,587,397	329,316,879
Other income	3,961,596	278,422,359
Exploration and evaluation expenditure expensed or written-off	-	(28,553,885)
Discount unwinding on provision for restoration	-	(90,777)

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

Consolidated	
2016	2015
\$	\$

Note 24. Contingent Liabilities and Contingent Assets

(a) Contingent Liabilities

The Group has contingent liabilities as at 30 June 2016 that may become payable in respect of:

(i) Performance guarantees (via letters of credit) were provided to Peru Petro SA (the Peruvian oil and gas regulator) for Block Z-38 and Block 144 by the Group for second and third period work commitments. The Directors are of the opinion that the work commitments will be satisfied for both Blocks. The letters of credit are fully funded by way of payment of security deposits (refer Note 13), which will be released once the work commitments are met.	9,617,641	9,307,270
(ii) Bank guarantees were provided in respect of operating lease rental agreements for the Group. These guarantees may give rise to liabilities in the Group if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	375,335	375,035
(iii) Cash deposits (refer Note 13) are held as bonds for the Group's compliance with its obligations to third party suppliers in respect of agreements for the guarantee of payment obligations for various accommodation in Brazil and Peru.	109,934	110,828

(iv) Joint Operations

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

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

(v) Brazilian Local Content

The Concession Contracts for Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 require Karoon Petróleo & Gas Ltda to acquire a minimum proportion of goods and services from Brazilian suppliers, with the objective to stimulate industrial development, promote and diversify the Brazilian economy, encourage advanced technology and develop local capabilities. The minimum Brazilian local content requirement under the Concession Contracts during the exploration and appraisal phase is 55%. If Karoon Petróleo & Gas Ltda fails to comply with this minimum requirement, Karoon Petróleo & Gas Ltda may be subject to a fine by the ANP.

It is not practical to estimate a potential shortfall in meeting the local content requirement as at 30 June 2016, nor the financial effect of any potential fine by the ANP.

(b) Contingent Assets

The Group has no contingent assets as at 30 June 2016 (30 June 2015: \$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

	Consolidated	
	2016	2015
	\$	\$
Note 25. Commitments		
(a) Capital Expenditure Commitments		
Contracts and/or signed Authorities for Expenditure for capital expenditure in relation to assets not provided for in the consolidated financial statements and payable:		
<i>Drilling operations</i>		
Not later than one year	16,123,176	7,615,568
Total capital expenditure commitments	16,123,176	7,615,568

(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	1,826,221	2,039,842
Later than one year but not later than five years	85,859	579,978
Total operating lease rental commitments	1,912,080	2,619,820

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

	Consolidated	
	2016	2015
	\$	\$
(c) Exploration Expenditure Commitments		
The Group has commitments for exploration expenditure arising from obligations to government to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration tenements WA-314-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144 not provided for in the consolidated financial statements and payable. Included in exploration expenditure commitments are \$253,472,031 (30 June 2015: \$143,372,395) of commitments that relate to the non-guaranteed work commitments:		
Not later than one year	-	7,514,391
Later than one year but not later than five years	556,673,149	354,049,478
Total exploration expenditure commitments	556,673,149	361,563,869

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

Not later than one year	-	7,514,391
Later than one year but not later than five years	485,710,073	328,268,229
Total joint operation exploration expenditure commitments	485,710,073	335,782,620

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.

	Consolidated	
	2016	2015
	\$	\$
Note 26. Reconciliation to the Consolidated Statement of Cash Flows		
Reconciliation of Loss for Financial Year to Net Cash Flows Used In Operating Activities		
(Loss) profit for financial year	(105,126,345)	231,456,873
Add (subtract)		
Non-cash items included in (loss) profit for financial year:		
Depreciation of plant and equipment and amortisation of computer software	1,207,125	1,166,012
Reversal of provision for restoration	(2,471,244)	-
Reversal of discount unwinding on provision for restoration	(112,036)	-
Discount unwinding on provision for restoration	-	90,777
Non-cash employee benefits expense: share-based payments expense	3,253,193	3,199,441
Net foreign currency gains	(14,237,255)	(116,618,518)
Items classified as investing/financing activities:		
Net (gain) loss on disposal of non-current assets	(1,914)	6,044
Exploration and evaluation expenditure written-off	148,958,458	28,553,885
Net foreign currency gains	(4,824,303)	(4,672,477)
Gain on divestment of exploration permits WA-315-P and WA-398-P	-	(276,673,235)
Change in operating assets and liabilities:		
(Increase) decrease in assets		
Receivables – current	(640,536)	(301,362)
Current tax asset	(222,430)	2,367,681
Deferred tax assets	-	13,741,402
Other assets	(419,590)	2,237,468
Increase (decrease) in liabilities		
Trade and other payables – current	274,088	(661,815)
Trade and other payables – non-current	504,771	-
Provisions – current	287,448	-
Provisions – non-current	(169,966)	10,432
Current tax liabilities	(20,776,754)	20,776,754
Deferred tax liabilities	(36,692,505)	81,353,342
Net cash flows used in operating activities	(31,209,795)	(13,967,296)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 27. Share-based Payments

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

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

The Company currently has 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 20 days of trading before the ESOP options were offered plus a premium to the market price. When exercisable, each ESOP option is convertible into one ordinary share of the Company.

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

If there is a change of control of the Company:

- for all unexercised Karoon Gas Australia 2009 Employee Share Option Plan options, they become immediately exercisable; and
- for all unexercised Karoon Gas Australia 2012 Employee Share Option Plan options, a percentage amount of unvested ESOP options may vest on the basis of the pro-rata achievement of predetermined 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, the Group granted 981,818 ESOP options (2015: 848,620) over unissued ordinary shares in the Company to Directors. Share options issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

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

	2016 Number	Consolidated 2016 Weighted Average Exercise Price	2015 Number	Consolidated 2015 Weighted Average Exercise Price
Balance at beginning of financial year	6,751,143	\$5.73	5,107,466	\$7.59
Granted during financial year	2,058,324	\$3.04	3,010,710	\$4.06
Exercised during financial year	-	-	-	-
Cancelled during financial year	(45,106)	\$4.13	(442,033)	\$7.33
Expired during financial year	(1,800,000)	\$7.30	(925,000)	\$9.77
Forfeited during financial year	(1,092,251)	\$6.85	-	-
Balance at end of financial year	5,872,110	\$4.11	6,751,143	\$5.73
Exercisable at end of financial year	-	-	1,800,000	\$7.30

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

The weighted average fair value of ESOP options granted during the financial year was \$0.57 (2015: \$1.12).

ESOP options outstanding as at 30 June 2016 had a range of exercise prices from \$3.04 to \$6.74 (30 June 2015: range of exercise prices from \$4.06 to \$7.30) with a weighted average remaining contractual life of 803 days (30 June 2015: 696 days).

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

Grant Date	Expiry Date	Exercise Price Per ESOP Option	Number
9 August 2013	30 June 2017	\$6.74	745,183
1 November 2013	30 June 2017	\$6.74	150,121
22 August 2014	30 June 2018	\$4.06	1,104,049
29 August 2014	30 June 2018	\$4.06	548,232
3 November 2014	30 June 2018	\$4.06	848,620
17 February 2015	30 June 2018	\$4.06	370,731
23 January 2015	30 December 2018	\$4.06	56,604
9 October 2015	30 June 2019	\$3.04	1,066,752
30 October 2015	30 June 2019	\$3.04	981,818
Total ESOP options			5,872,110

(b) Other Share Options

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

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

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

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

	Consolidated 2016		Consolidated 2015	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance at beginning of financial year	600,000	\$9.60	2,300,000	\$9.76
Granted during financial year	-	-	-	-
Exercised during financial year	-	-	-	-
Cancelled during financial year	-	-	-	-
Expired during financial year	(400,000)	\$10.98	(1,700,000)	\$9.81
Forfeited during financial year	(200,000)	\$6.85	-	-
Balance at end of financial year	-	-	600,000	\$9.60
Exercisable at end of financial year	-	-	400,000	\$10.98

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 27. Share-based Payments continued

(c) Fair Value of Share Options

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

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

	2016	2015
Weighted average exercise price	\$3.04	\$4.06
Weighted average life of share options	1,347 days	1,364 days
Weighted average share price	\$1.93	\$3.33
Expected share price volatility	55%	48%
Risk free interest rate	2.29%	2.98%
Weighted average share option value	\$0.57	\$1.12

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

(d) Performance Rights Plan ('PRP')

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

Performance rights granted carry no dividend or voting rights.

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

During the financial year, the Group granted 284,834 performance rights (2015: Nil) over unissued ordinary shares in the Company to Executive Directors. Performance rights issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

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

	Consolidated	
	2016	2015
	Number	Number
Balance at beginning of financial year	294,569	668,425
Granted during financial year	1,810,055	-
Vested and converted during financial year	(264,704)	(211,080)
Cancelled during financial year	(47,522)	(23,388)
Forfeited during financial year	-	(139,388)
Balance at end of financial year	1,792,398	294,569

There were 264,704 (2015: 211,080) performance rights vested during the financial year, which were converted into 264,704 (2015: 211,080) fully paid ordinary shares.

The weighted average fair value of performance rights granted during the financial year was \$2.00 (2015: \$5.12). The fair value of the performance rights at grant date was based on the closing market price of the Company's ordinary shares on that date.

Performance rights outstanding as at 30 June 2016 had a weighted average remaining contractual life of 735 days (30 June 2015: 344 days).

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

Grant Date	Expiry Date	Number
9 October 2015	30 June 2017	321,483
9 October 2015	30 June 2018	597,104
9 October 2015	30 June 2019	471,371
30 October 2015	30 June 2017	146,374
30 October 2015	30 June 2019	138,460
14 December 2015	30 June 2017	53,424
18 December 2015	30 June 2017	64,182
Total performance rights		1,792,398

(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	
	2016	2015
	\$	\$
Share options issued under ESOP	2,057,814	1,860,510
Other share options	35,630	86,079
Performance rights issued under PRP	1,159,749	1,252,852
Total share-based payments expense (non-cash)	3,253,193	3,199,441

Note 28. Related Party Transactions

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

(a) Parent Company

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

(b) Subsidiaries

Interests in subsidiaries are set out in Note 21.

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

Other transactions that occurred were provision of funding by the Parent Company to its overseas subsidiaries via an increase in contributed equity and intercompany loans to the Australian subsidiaries. The intercompany loans provided are at a Nil% interest rate (2015: Nil%) and no fixed term for repayment and therefore will not be repaid within 12 months. Loans are unsecured and are repayable in cash.

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

The above transactions are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 28. Related Party Transactions continued

(c) Remuneration of Key Management Personnel

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

	Consolidated	
	2016	2015
	\$	\$
Short-term employee benefits	3,524,575	3,460,969
Post-employment benefits	184,511	286,972
Long-term employee benefits (non-cash)	46,200	12,243
Share-based payments expense (non-cash)	1,430,964	1,216,333
Total key management personnel remuneration	5,186,250	4,976,517

Detailed remuneration disclosures for the Directors and other key management personnel are provided in Section 5 of the audited Remuneration Report on pages 50 to 51.

In addition to the above, the Group is committed to pay the Executive Directors and other key management personnel up to \$3,204,451 (2015: \$2,724,604) in the event their role is fundamentally reduced upon a change in control of the Group.

Apart from the details disclosed in this note, no Director or other key management personnel has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' or other key management personnel interests subsisting as at 30 June 2016.

(d) Superannuation Contributions

During the financial year, the Group contributed to accumulation type benefit funds administered by external fund managers or an employee's self-managed superannuation fund. The funds cover all Australian domiciled employees and Directors of the Company. The current contribution rate is 9.5% p.a. (2015: 9.5% p.a.) of employee cash remuneration up to a cap of \$19,308 (2015: \$18,783). Contributions to superannuation funds, on behalf of Directors and employees, during the financial year by the Group amounted to \$523,295 (2015: \$503,606).

(e) Other Related Party Transactions Within the Group

Mr Clark Davey, a Non-Executive Director, has an interest in Anderson Park Tax Pty Ltd. During the previous financial year, Anderson Park Tax Pty Ltd provided taxation services to the Group. The value of these transactions during the previous financial year in the Group was \$1,908 (2016: \$Nil). The minor amount and nature of this transaction in the previous financial year did not compromise Mr Davey's independence. Mr Davey was considered the most appropriate person to complete the work given his knowledge of the subject matter and the need to maintain confidentiality.

During the financial year, Mr Jose Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda that provided business and geology consulting services to the Group. The value of these transactions during the financial year in the Group was \$341,492 (2015: \$308,275). The balance outstanding included in current trade and other payables is \$60,363 (2015: \$27,058). Given Karoon's relative size to other operators in Brazil, the consulting services provided by Net Pay Óleo & Gás Consultoria Ltda are critical to Karoon's ability to operate within the Brazilian oil industry.

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director, was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration during the financial year was \$169,513 (2015: \$267,481), which includes social security and indemnity fund contributions of \$12,188 (2015: \$45,610). Ms Barbosa has been an employee of the Company since 2011, and has a comprehensive understanding of the Brazilian legal and regulatory framework.

During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a key management person), was employed by the Group as the Community Relations and Social Projects Manager in South America. The total value of her remuneration during the financial year was \$139,605 (2015: \$253,262), which includes social security and indemnity fund contributions of \$11,336 (2015: \$46,486). Ms Sayao is a key member of the South American management team. It is through her efforts that Karoon has one of the most respected community social responsibility programs in Peru, a key component of the Company's overall success in Peru. The Brazilian and Peruvian regulatory and business environments require transparent and clear communication on social and environmental issues with local and federal governments, it is not possible to conduct day-to-day business activities without these services.

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

During the financial year and the previous financial year, Mr Mark Smith, an Executive Director, had an interest in IERS (Australia) Pty Ltd, which has an ongoing informal agreement with the Group to provide geophysical fault seal analysis software. This agreement 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	
	2016	2015
	\$	\$
Note 29. 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	467,526,648	525,385,528
Non-current assets	327,913,001	342,373,389
Total assets	795,439,649	867,758,917
Current liabilities	2,919,518	21,946,586
Non-current liabilities	33,888,904	25,366,130
Total liabilities	36,808,422	47,312,716
Net assets	758,631,227	820,446,201
Contributed equity	802,967,815	805,529,759
Accumulated losses	(84,526,464)	(22,020,241)
Share-based payments reserve	40,189,876	36,936,683
Total equity	758,631,227	820,446,201
(Loss) profit for financial year	(3,344,417)	83,696,403
Total comprehensive (loss) profit for financial year	(3,344,417)	83,696,403
(b) Contingent Liabilities of Parent Company		
(i) Bank guarantees were provided in respect of operating lease rental agreements. These guarantees may give rise to liabilities in the Parent Company if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	375,335	375,035
(ii) Performance guarantees (via letters of credit) were provided to Peru Petro SA (the Peruvian oil and gas regulator) for Block Z-38 and Block 144 by the Parent Company for second and third period work commitments. The Directors are of the opinion that the work commitments will be satisfied for both Blocks. The letters of credit are fully funded by way of payment of security deposits (refer Note 13), which will be released once the work commitments are met.	9,617,641	9,307,270
(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.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (continued)

Note 30. Subsequent Events

The Annual Report was authorised for issue by the Board of Directors on 28 September 2016. The Board of Directors has the power to amend and reissue the consolidated financial statements and notes.

Since 30 June 2016, the following material events have occurred:

(a) Share Buy-back (On-market)

During July 2016 a total of 514,945 Karoon ordinary shares were bought back at an average price of \$1.30 per share and cancelled through the Company's on-market share buy-back program. The share buy-back lapsed on 2 September 2016.

(b) Purchase of Pacific's 35% Equity Interest

During September 2016 Karoon entered into a binding Sale and Purchase Agreement (the 'Agreement') for the purchase of Pacific's 35% equity interest in Santos Basin exploration blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 ('the Blocks'). As a result of this transaction Karoon will hold a 100% interest in the Blocks, including the Echidna and Kangaroo light oil discoveries.

Under the terms of the Agreement, Karoon will pay an upfront cash payment of US\$15.5 million payable on completion and a deferred contingent payment of US\$5 million payable upon first production reaching a minimum of 1 million barrels of oil equivalents from the Blocks. The Agreement remains conditional upon, among other things, approval from the ANP and an approval order from the Superior Court of Justice in Ontario.

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 62 to 106, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with relevant Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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


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

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

On behalf of the Directors:



Dr David Klingner
Independent Non-Executive Chairman



Mr Robert Hosking
Managing Director

28 September 2016

INDEPENDENT AUDITOR'S REPORT



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

Report on the Financial Report

We have audited the accompanying financial report of Karoo Gas Australia Ltd (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, 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 Karoo 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 consolidated entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.

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 2016 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

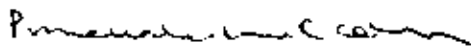
We have audited the Remuneration Report included in pages 35 to 59 of the Directors' Report for the financial year ended 30 June 2016. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 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 2016, 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 2016 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
28 September 2016

ADDITIONAL SECURITIES EXCHANGE INFORMATION

Additional information required by the ASX Listing Rules and not disclosed elsewhere in the Annual Report is set out below. The information was applicable for the Company as at 22 September 2016.

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	2,756	1,257,947
1,001 to 5,000	3,361	9,324,091
5,001 to 10,000	1,335	9,965,167
10,001 to 100,000	1,378	36,606,547
More than 100,000	144	187,785,053
Total	8,974	244,938,805

There were 1,304 shareholders holding less than a marketable parcel of ordinary shares to the value of \$500.

Substantial Shareholders

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

Shareholder	Number Held	Fully Paid Ordinary Shares % of Issued Ordinary Shares
Wellington Management Group, LLP and its related bodies corporate	33,762,190	13.78
Talbot Group Holdings Pty Ltd	26,358,356	10.76
Henderson Global Investors Limited	18,325,431	7.48
Total	78,445,977	32.02

Twenty Largest Shareholders

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

Shareholder	Number Held	Fully Paid Ordinary Shares % of Issued Ordinary Shares
1 HSBC Custody Nominees (Australia) Limited	52,129,860	21.28
2 J P Morgan Nominees Australia Limited	27,907,400	11.39
3 Talbot Group Holdings Pty Ltd <Talbot Equities A/C>	15,317,043	6.25
4 BNP Paribas Noms Pty Ltd <DRP>	11,899,425	4.86
5 Talbot Group Investments Pty Ltd	11,000,313	4.49
6 Ropat Nominees Pty Ltd	9,210,022	3.76
7 Citicorp Nominees Pty Limited	8,277,266	3.38
8 National Nominees Limited	6,729,250	2.75
9 New Guinea Energy Ltd	2,677,356	1.09
10 UBS Nominees Pty Ltd	1,986,884	0.81
11 HSBC Custody Nominees (Australia) Limited <ST A/C>	1,647,112	0.67
12 National Nominees Limited <DB A/C>	1,573,571	0.64
13 CS Fourth Nominees Pty Limited <HSBC Cust Nom Au Ltd 11 A/C>	1,465,232	0.60
14 Mr Mark Alexander Smith	1,407,037	0.57
15 IERS (Australia) Pty Ltd <Smith Family Investment A/C>	1,271,500	0.52
16 ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	1,251,779	0.51
17 Mrs Mara Spong	1,127,888	0.46
18 Ms Jianmei Chen	930,000	0.38
19 Mrs Pauline Frolley	770,746	0.31
20 CTS Funds Pty Ltd <Civic Super Fund A/C>	718,201	0.29
Total	159,297,885	65.04

Unlisted Equity Securities: Share Options and Performance Rights

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

	Number of Holders	Number of Unlisted Share Options and Performance Rights on Issue
Share options issued pursuant to Karoon Gas Australia 2012 Employee Share Option Plan	83	4,976,806
Performance rights issued pursuant to Company's PRP	68	1,406,300
Total	151	6,383,106

Voting Rights

(a) Ordinary Shares, Fully Paid

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

(b) Unlisted Share Options and Performance Rights

No voting rights.

Other Information

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

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

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

Schedule of Interests in Petroleum Tenements

Exploration Permit	Basin	% Interest Held
WA-314-P	Browse, Australia	100 [#]
WA-482-P	Carnarvon, Australia	50 [^]
Block S-M-1037	Santos, Brazil	100 ^{^^}
Block S-M-1101	Santos, Brazil	100 ^{^^}
Block S-M-1102	Santos, Brazil	100 ^{^^}
Block S-M-1165	Santos, Brazil	100 ^{^^}
Block S-M-1166	Santos, Brazil	100 ^{^^}
Block 144	Marañón, Peru	100
Block Z-38	Tumbes, Peru	75 ^{^^^}

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

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

^{^^} The Group's 100% ownership interest is subject to obtaining regulatory approvals and an approval order from the Superior Court of Justice in Ontario.

^{^^^} The Group's 75% Block Z-38 equity interest is subject to completion of farm-in obligations.

GLOSSARY OF TERMS

Term	Definition
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
\$ or cents	Units of Australian currency.
AASB	Australian Accounting Standards Board.
amplitude anomaly	A change in seismic amplitude that may represent a change in subsurface properties, such as the presence of hydrocarbons or improved reservoir.
ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
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.
AVO	Amplitude versus offset.
barrel or bbl	Barrel of oil, inclusive of condensate. A quantity of 42 United States gallons; equivalent to approximately 159 litres.
basin	A natural depression on the Earth's surface in which sediments, eroded from higher surrounding ground levels, accumulated and were preserved.
Bcf	Billion cubic feet (1,000,000,000 cubic feet); equivalent to approximately 28.3 million cubic metres.
Bcfe	Billion cubic feet equivalent.
block	A licence or concession area. It may be almost any size or shape, although usually part of a grid pattern.
boe	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 standard cubic feet per barrel and not price equivalence at the time.
BOP	Blowout preventer.
BTU	British Thermal Unit. The unit of measurement of the quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit, equivalent to 1055.056 joules.
CDP	Carbon Disclosure Project.
CO₂	Carbon dioxide.
Company or Parent Company	Karoon Gas Australia Ltd.
condensate	Hydrocarbons that are predominantly pentane and heavier compounds that are in a gas phase in the reservoir and that separate out from natural gas at the well head and condense to liquid at lower pressures and temperatures.
ConocoPhillips	ConocoPhillips (Browse Basin) Pty Ltd.

Term	Definition
contingent resources	<p>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).</p> <p>1C- Denotes low estimate scenario of contingent resources.</p> <p>2C- Denotes best estimate scenario of contingent resources.</p> <p>3C- Denotes high estimate scenario of contingent resources.</p>
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.
DSEWPac	Department of Sustainability, Environment, Water, Population and Communities in Peru.
DST	Drill stem test.
economically recoverable reserves	The estimated quantity of hydrocarbons in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions.
EIA	Environmental Impact Assessment. A report on the study of the effect of proposed works on the local people and environment.
E&P	Exploration and production.
EPS	Early production system.
ESOP	Karoon Gas Australia 2009 Employee Share Option Plan and Karoon Gas Australia 2012 Employee Share Option Plan.
EWT	Extended well test.
exploration	The process of identifying, discovering and testing prospective hydrocarbon regions and structures, mainly by interpreting regional and specific geochemical, geological, geophysical survey data and drilling.
farm-in and farm-out	A commercial agreement in which an incoming joint operation participant (the 'farmee') earns an interest in an exploration tenement by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the exploration tenement (the 'farmor') pays a reduced contribution. The interest received by a farmee is a farm-in while the interest transferred by the farmor is a farm-out.
FBT	Fringe Benefits Tax in Australia.
FEED	Front End Engineering and Design.
FID	Final Investment Decision.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area although it may refer to both the surface and underground productive formation.
financial year	Financial year ended 30 June 2016.
FPSO	Floating production, storage and off-loading facility.

GLOSSARY OF TERMS

continued

Term	Definition
G&G	Geological and geophysical.
GOR	Gas to oil ratio.
GST	Goods and Services Tax in Australia.
H₂S	Hydrogen sulfide.
HSE	Health, safety and environment.
HSSEMS	Health, Safety, Security and Environment Management System.
hydrocarbon	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
Karoon or Group	Karoon Gas Australia Ltd and its subsidiaries.
kms	Kilometres.
lead	A potential hydrocarbon target that has been identified but requires further evaluation before it is drill ready, at which point it becomes a prospect.
IIAP	Peruvian Amazon Research Institute.
LNG	Liquefied natural gas.
LPG	Liquid petroleum gas.
LTI	Long-term incentive.
LWD	Logging while drilling.
m	Metres.
market capitalisation	The product of a company's share price multiplied by the total number of ordinary shares issued by the company.
migration	Hydrocarbons are often found in formations other than those in which their organic source was deposited. This movement often covers considerable distances and is known as migration.
mm	Million.
mmbbls	Millions of barrels (1,000,000 barrels).
mmscf	Millions of standard cubic feet.
mmscf/d	Millions of standard cubic feet per day; equivalent to 28,317 cubic metres per day.
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.
ms	Millisecond.

Term	Definition
NOPTA	National Offshore Petroleum Titles Administrator.
Operator	One joint operation participant that has been appointed to carry out all operations on behalf of all the joint operation participants.
ordinary shares	The ordinary shares in the capital of Karoon Gas Australia Ltd.
Origin	Origin Energy Browse Pty Ltd.
OWC	Oil-water-contact.
p.a.	Per annum.
Pacific	Pacific Exploration and Production Corp.
PAD	Discovery Appraisal Plan (Plano de Avaliação de Descobertas).
performance rights	Performance rights issued under the PRP.
permit	A hydrocarbon tenement, lease, licence, concession or block.
Petróbras	Petróleo Brasileiro SA.
play	A trend within a prospective basin that has common geologic elements containing one or more fields, prospects or leads with common characteristics.
PRE	Pacific Brasil Exploração e Produção de Óleo e Gás Ltda. A subsidiary of Pacific Exploration and Production Corp.
previous financial year	Financial year ended 30 June 2015.
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.
PRP	Karoon Gas Australia 2012 Performance Rights Plan.
prospective resource	<p>Those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.</p> <p>Low estimate (P90): P90 refers to a 90% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded.</p> <p>Median estimate (P50): P50 refers to a 50% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded.</p> <p>High estimate (P10): P10 refers to a 10% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded.</p> <p>Mean estimate (Mean): Mean is the expected value, equal to the sum of the values in that distribution divided by the number of values.</p>
prospectivity	Referring to the likelihood of finding commercial hydrocarbons.
PRRT	Petroleum Resource Rent Tax in Australia.
psia	Pounds per square inch absolute.
OMS	Operating Management System.
Quadrant	Quadrant Energy Australia Limited.

GLOSSARY OF TERMS

continued

Term	Definition
REAL	Brazilian currency.
recoverable gas	An estimated measure of the total amount of gas that could be brought to surface from a given reservoir. In a good quality reservoir this is usually in the order of 70-80% of the estimated gas-in-place.
reserves	Quantities of economically recoverable hydrocarbons estimated to be present within a trap.
reservoir	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
rig	The equipment needed for drilling a well. It includes the onshore and offshore vehicles, mobile platforms or vessel on which the equipment is stored.
risk	Prospect risk or geologic risk is the assessed chance that the drilling of the prospect will be successful in finding significant volumes of hydrocarbons. The risk is calculated by multiplying the chance of success of each of the petroleum system elements involved in the prospect.
Rotary Table	A flat plate in the drill floor that is turned mechanically at varying speeds and directions imparting the rotary action to the drill string that passes through its centre.
seismic survey	A type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near vertical plane back to the surface from subsurface boundaries. This data is typically used to determine the depths and form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
SIP	Social Investment Plan.
SPE PRMS standards	Society of Petroleum Engineers Petroleum Resource Management System Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet to be discovered accumulations, resource evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resource management system provides a consistent approach to estimating petroleum quantities, evaluating development projects and presenting results within a comprehensive classification framework.
spud	To start drilling a new well.
STI	Short-term incentive.
tcf	Trillion cubic feet (1,000,000,000,000 cubic feet).
tcfe	Trillion cubic feet equivalent.
trap	A formation in the Earth's subsurface that prevents the onward migration of hydrocarbons.
TRIR	Total Recordable Incident Rate.
TSR	Total shareholder return.
unrisked	A risk value has not been applied to an estimate of hydrocarbon volume either in place or recoverable.
USD or US\$	United States dollars.

CORPORATE DIRECTORY

Board of Directors

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

Company Secretary

Mr Scott Hosking

Audit Committee Members

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

Nomination Committee Members

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

Remuneration Committee Members

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

Risk and Governance Committee

Mr Peter Turnbull (Chairman of Committee)
Dr David Klingner
Ms Luciana Rachid
Mr Clark Davey
Mr Bernard Wheelahan

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Share Registrar

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

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:

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

Time 11.00am Melbourne time
(registration opens at 10:00am)

Date Wednesday 30 November 2016

