Karoon Energy

21 September 2020

Company Announcements Office
ASX Limited

Dear Sir / Madam

Annual Report 2020

In accordance with the ASX Listing Rules, Karoon Energy Ltd releases its 2020 Annual Report to the market.

This announcement has been authorised by the Board of Directors.

Yours faithfully

Nick Kennedy
Company Secretary

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ANNUAL REPORT
2020

Karoon
Energy

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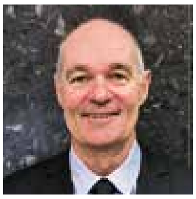
Our vision

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

Chairman & Managing Director's review

Brazil has proven reserves of over 15 billion barrels of oil equivalent, most of the oil equivalent is offshore and around 60%–70% of oil production is in pre-salt offshore Brazil.



Mr Bruce Phillips
Independent Non-Executive Chairman

Mr Robert Hosking
Managing Director

A challenging year leads to a transformational year

The financial year started uneventfully for energy markets but ended with considerable uncertainty when the COVID-19 pandemic caused major disruptions to operations and markets globally. The oil and gas sectors were particularly hard hit, with oil prices falling nearly 80% during the last quarter of the financial year. As a consequence, major asset impairments or write-offs have been a key feature of financial reporting for the vast majority of global oil and gas entities in recent times.

Given these unprecedented challenges we are pleased that Karoon emerged from the difficult year in a strong financial position, enabling the Company to position itself to achieve its core strategic goal of transitioning from a pure exploration company to an international exploration and production (E&P) entity through the pending acquisition of Concession BM-S-40 containing the producing Baúna light oil field and the undeveloped Patola oil discovery ('Baúna').

Upon completion of the Baúna transaction, Karoon will be in an even stronger position, producing approximately 16,000 barrels of oil per day (bopd), holding 2P reserves of 46.8 million barrels of oil (mmbbls) and total 2C resources of more than 100 mmbbls[1] with no debt. Strategically Baúna will provide Karoon with material oil production to generate the cash flow and balance sheet flexibility to support future growth.

Strategy

The path to achieving this position has not been easy, with the dramatic impact of the pandemic and the collapse in oil prices leading the Board and management to undertake a major review of the Company's future strategy in the second half of the 2020 financial year. With the assistance of external advisers, a review investigated the best use of the Company's considerable cash reserves to evaluate the optimal investment outcome for shareholders. The review analysed a revised Baúna transaction, other international asset acquisitions, corporate mergers, new renewable energy investments, and capital management initiatives.

The clear conclusion of the review was to proceed with our Southern Santos Basin strategy, the first step being a revised transaction to acquire Baúna.

In the short term, Karoon's strategic path is now clearly to complete the Baúna transaction and thereafter move quickly to boost production by implementing a workover plan on existing wells and developing the nearby Patola oil discovery. Together these activities are expected to boost stabilised production from around 16,000 bopd currently to around 25,000 to 30,000 bopd per day following the operational campaign.

In the medium term, the cash flow from Baúna will assist in funding a potential development of the Company's nearby Neon and Goiá oil discoveries. The first step in this process is to drill a control well in the Neon discovery, planned to be timed synergistically with the Baúna/Patola work program. The cash flow from these Santos Basin assets can then be used to pursue further production acquisitions, appraisal opportunities and focused exploration.

In the long term, Karoon also recognises that its focus will need to expand to energy markets beyond traditional oil and gas. Karoon continually considers the inclusion of renewable energy assets in its portfolio with overall focus and rigour on their potential financial returns for shareholders.

Why is Brazil so important to Karoon?

The acquisition of Baúna firmly focusses Karoon's portfolio in Brazil, which is a key global energy player and leading producer of crude oil and gas. Brazil is the ninth largest oil producer in the world and the largest producer in Latin America. Brazil is also the seventh largest consumer of energy worldwide.

Brazil has proven reserves of over 15 billion barrels of oil equivalent, most of the oil equivalent is offshore and around 60%-70% of oil production is in pre-salt offshore Brazil, which is one of the best oil plays in the world. Brazil is currently producing around 4 million barrels per day of oil equivalent, with 3.1 million barrels of crude oil per day. Earlier this year this was forecast to increase to 4.8 million barrels of crude oil per day by 2028.

Approximately half of Brazil's oil production is exported, primarily to Asia (77%), and due to the low sulphur content the top Brazilian crudes are sold at a US$3 to US$7 premium to Brent oil.

1. ASX announcements' "AGR Baúna Competent Person Report Update", 27 February 2020 and "Resources Update", 8 May 2018. Karoon is not aware of any new information or data that materially affects these resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

While the global oil industry has been impacted by price volatility and the COVID-19 pandemic in 2020, the Brazilian regulator ANP (Agência Nacional do Petróleo, Gás Natural e Biocombustíveis) has already announced initiatives to kick start the post COVID-19 industry recovery. These include improving bid round attractiveness and supporting the Petrobras divestment program. There is also an increased focus on natural gas with a government program aimed at developing an open, competitive, and dynamic natural gas market.

Karoon's existing strong presence in Brazil, along with the cash flow generated through the Baúna acquisition puts the Company in an enviable position to take advantage of the outstanding opportunities in Brazil for future investment and growth, particularly through the ongoing Petrobras divestment program which will bring increased transparency and competitiveness to the oil and gas industry in Brazil.

Baúna Oil Production Asset, Santos Basin, Brazil

Karoon first achieved success with the Baúna acquisition in July 2019, with a headline price of US$665 million. The purchase was to be funded using a combination of existing cash reserves, operating cash flow generated from Baúna production from 1 January 2019 plus debt financing and new equity.

Karoon undertook its first capital raise in seven years during October and November 2019, successfully raising A$284 million to fund the Baúna acquisition. Shortly thereafter the COVID-19 pandemic and oil price crash led the Company to conduct a strategic review of its future options. As previously stated, the clear conclusion was that a revised Baúna transaction would be the best outcome for our shareholders and the management team worked tirelessly to achieve this goal.

During July 2020, Karoon announced the successful renegotiation of the Baúna Sale and Purchase Agreement for the same headline price but on terms that enable the purchase to be fully funded without debt financing. The terms include a US$380 million firm 'purchase price', which after production cash flow adjustments from 1 January 2019 and the previously paid deposit, leaves approximately US$150 million to pay at financial close and a further firm payment of approximately US$50 million 18 months after financial close. Additional 'contingent payments' of up to, in aggregate, US$285 million are due if the annual average Brent oil price rises to between US$50 to US$70 per barrel in respect of calendar years 2022 to 2026.

This is a significant achievement in a time of global turmoil and delivers an excellent outcome for shareholders. Expected closure, including Brazil government regulatory approvals, FPSO contracts and payment to Petrobras is expected around the end of the third quarter calendar year 2020.

The additional time in finalising the acquisition has been well utilised by Karoon's technical teams to further strengthen the Company's knowledge of Baúna and Karoon's other Santos Basin assets and develop forward work programs. This has included an increase in reserves resulting from a review conducted by independent experts AGR during January 2020 and significant progress toward a final investment decision ('FID') for the Patola development, which is alone expected to boost Baúna's current production by more than 10,000 bopd.

Karoon can now execute its strategic plan for the Southern Santos Basin, including a workover plan for Baúna to expand production through intervention on four wells, plus developing the Patola discovery and progressing the potential development of Karoon's nearby other existing discoveries at Neon and Goiá.

Exploration and Development studies continue Brazil Santos Basin, Blocks S-M-1037, S-M-1101

Conceptual engineering studies of utilising a redeployed Floating Production, Storage and Offloading facility ('FPSO') for a future field development of the Neon discovery are ongoing. A development plan for Neon includes a control well to de-risk and prove-up the economic potential of a project, with expected production on success of the control well of approximately 25,000 to 28,000 bopd. Once complete, Karoon will evaluate these FPSO studies and incorporate the results into the strategic planning for the Neon project.

Santos Basin, Block S-M-1537

The reservoir in the main prospect in Block S-M-1537, Clorita, is expected to comprise of Oligocene turbidite sands with high porosity and permeability as seen in the nearby producing Baúna and Piracaba fields. Karoon's learnings from the technical work on Baúna will therefore prove beneficial to our evaluation of Clorita. Geotechnical studies are ongoing to address remaining risk elements in the prospect.

"Karoon undertook its first capital raise in seven years during October and November 2019, successfully raising A$284 million to fund the Baúna acquisition."

Chairman & Managing Director's review

Brazil Farm-out potential

With a range of production, nearfield development, appraisal and exploration assets owned 100% by Karoon in the Santos Basin hub, an improving oil price will lead to good potential for a balanced farm-out program of portions of these assets to better fund and accelerate production and cash flow growth.

Peru Tumbes Basin, Block Z-38

Unfortunately, the Marina-1 exploration well drilling campaign conducted during the first quarter of calendar year 2020 did not deliver the forecast geotechnical results, with no oil discovered.

Due to delays in the drilling of the well in the current exploration phase, a six-month extension was requested and granted, extending the end of the current third period to December 2020. In addition, due to the temporary closure of Karoon's Peru office due to the COVID-19 lock down and quarantine requirements declared by the Peruvian Government, Karoon has been granted force majeure in respect of the licence agreement for Block Z-38, effective from 16 March 2020 until such time as relevant lockdown restrictions are removed.

Irrespective, evaluation of the technical data collected during the Marina-1 drilling campaign has been ongoing and is now nearing completion. There will need to be significant encouragement from the results for Karoon to allocate further capital to Peru given the competing investment opportunities in the Company's asset portfolio.

Australia Northern Carnarvon Basin, Permit WA-482-P

After extensive evaluation on the permit during the primary term Karoon was able to retain what we believe to be the most prospective areas of the permit, relinquishing approximately 50% of the area during March 2019. Following its acquisition of Quadrant, Santos has been Karoon's partner in the permit since 2019. Santos has demonstrated its confidence in the Northern Carnarvon Basin through its recent investments in the area and brings the latest technologies and geological concepts for the basin to the permit.

Seismic reprocessing of the existing database of 3D seismic continues, following which Karoon will be well placed to determine the remaining economic potential of the permit.

Ceduna Sub-basin, Great Australian Bight, Permit EPP46

Karoon submitted a formal request to withdraw from the permit to the regulatory authorities during the December quarter 2019. The final decision of the Joint Authority is currently pending.

Corporate transformation

As Karoon transitions from an oil and gas explorer to an E&P company the Board and management have been completing the reshaping and building of a highly skilled, efficient, and agile organisation.

During the year, the significant decision was made to voluntarily change our accounting policy for Exploration and Evaluation expenditure to adopt the 'Successful Efforts' accounting policy. Successful Efforts is more commonly used by our peer group and will, therefore, improve the comparability of Karoon's financial results. It will also provide greater transparency to the financial performance and position of the Company and improve capital allocation and operational decision-making going forward. Karoon also adopted lower forward oil prices for impairment testing, which is reflective of the current uncertain economic environment, providing greater rigor of remaining capitalised exploration expenditure.

Corporate cost reductions have continued through staff redundancies, office closures and consolidations, particularly in Peru and Australia. Contemporaneously it has been imperative to build on our core team of highly capable professional and technical experts in Brazil to ensure we have the knowledge and experience needed to safely, responsibly and cost effectively operate all assets in our portfolio.

Karoon is also re-structuring its Board of Directors, Board committees and its corporate policies commensurate with the transition to a production operating entity. Three long term Directors are retiring, creating the opportunity for contemporary production and development expertise to be added to the Board in the short term to provide oversight of asset operations and the future growth of the company.

Most significant is the previously announced retirement at the 2020 AGM of our founder and long-standing Managing Director, Robert Hosking. From the Board's perspective we acknowledge the significant contribution Bob has made through his vision and leadership. During his tenure Karoon has grown from a small Australian explorer with a market cap of $8 million in 2004 to a global E&P company with a market cap of over $400 million in 2020. We thank Bob for his outstanding efforts and wish him well in his retirement.

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

Mr Bruce J. Phillips
Chairman of the Board

Mr Robert Hosking
Managing Director

Karoon Energy – Towards Production

Our History

Karoon Energy Ltd ('Karoon' or 'the Company') was incorporated during November 2003, listing on the Australian Securities Exchange during June 2004 with a market capitalisation of $8 million and an issue price of $0.20 per ordinary share. Karoon was founded by Managing Director Mr Robert Hosking and former Exploration Director Mr Mark Smith, who remains a geoscience advisor to the Company.

Karoon was built on a bold ambition with a vision to grow into a global exploration and production company with long-term oil production and a highly prospective exploration portfolio providing a platform for growth. Karoon is geologically focused, targeting proven hydrocarbon provinces that provide high impact exploration opportunities with world class potential.

Shortly after listing, Karoon made its first significant strategic move and acquired acreage in one of Australia's emerging LNG provinces, the Browse Basin. Over the next decade, the region saw an unprecedented level of LNG activity during which time Karoon discovered the multi-TCF Poseidon gas discovery (2009). Poseidon was subsequently sold by Karoon during June 2014 for US$600 million and contingent milestone consideration of up to US$200 million.

During 2008, Karoon sought to broaden its exploration portfolio and was attracted to the Santos Basin, offshore Brazil, by the geology, at the same time as major pre-salt discoveries were being made in Brazil. Karoon secured a footprint with 5 offshore exploration Blocks during Bid Round 9 and subsequently made 3 oil discoveries between 2012 and 2015, with the Neon and Goiá light oil discoveries providing a potential future strategic growth opportunity.

Following the supply-led downturn in the global oil markets during 2015 and 2016, Karoon turned its efforts to capitalise on widespread industry divestments and sought to acquire a foundation production asset for growth. Karoon focused its efforts on the regions where it had built a strong knowledge base and had an existing footprint, being Brazil, Peru and Australia.

While Karoon has historically driven value through implementation of its geotechnical expertise to identify prospective opportunities, following the divestment of the Poseidon gas discovery, the strategy shifted focus to the acquisition of a production asset to provide a platform for future growth.

During July 2019, Karoon advanced towards its strategic goal of acquiring a high quality, production asset by entering into a sale and purchase agreement ('SPA') to acquire a 100% operated interest in Concession BM-S-40 containing the producing Baúna light oil field and the undeveloped Patola oil discovery located in Santos Basin, offshore Brazil, for a headline consideration of US$665 million.

Early in 2020, crude oil prices collapsed with the Brent oil price falling over 65% for the March 2020 quarter, as consumer demand fell due to the continued spread of the coronavirus pandemic. Despite the impact of the pandemic on energy markets in the short term, Karoon remained committed to working towards completing the acquisition of Baúna, but only on acceptable terms for shareholders. The Board initiated a strategic review during the March 2020 quarter to evaluate whether strategic alternatives could deliver a superior outcome for shareholders in a post-pandemic world.

The results of the strategic review were announced during July 2020 together with an agreement to amend the SPA to acquire Baúna. The primary conclusion of the review was that pursuing Karoon's stated southern Santos Basin Brazil strategy provided the best outcome for shareholders. On completion, this acquisition will transform Karoon, providing a solid foundation for future growth and complement its 'Three Pillar' corporate strategy.

Our Strategy

Karoon's corporate strategy is focused on 'Three Pillars' targeting production, development and exploration opportunities in proven petroleum systems where Karoon possesses strong technical knowledge of the geology and regulatory environment.

Pillar 1	Pillar 2	Pillar 3
Secure a quality production asset	**Realise value from development projects**	**Exploration led growth**
Baúna delivers a platform for growth with potential for synergies with Karoon's existing Brazil footprint.	*A potential Neon Phase 1 development will benefit from efficiencies and cost savings by being sequenced with Baúna.*	*While production and development is the near term focus, medium term exploration will target strategic opportunities.*

Highlights

Baúna acquisition highlights

Signed a binding SPA to acquire Baúna announced during July 2019.

Successfully completed a $284 million equity capital raising consisting of a shareholder entitlement and an institutional share placement during October and November 2019.

Completed an oil marketing agreement with Shell Western Trading and Supply Limited, a member of the Royal Dutch Shell Plc group, to market Baúna crude.

Signed a binding amendment to the SPA for Baúna announced 27 July 2020 for firm consideration of US$380 million and contingent consideration of US$285 million.

Baúna's production during July 2020 was approximately 16,000 bopd with potential production growth to 25,000 to 30,000 bopd[1], total 2P reserves of 46.8 MMbbls and 2C contingent resources of ∼20 MMbbls[2]. The acquisition should propel Karoon into a position within the ranks of mid-tier ASX oil producers.

During August 2020, Karoon received a new environmental licence from the Brazilian environmental agency, the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis ('IBAMA').

Built an experienced project operations team and entered into long-term contracts with vendors for the transfer of operatorship of Baúna, including the completion of the final Operating Management System ('OMS').

Strategic review highlights

COVID-19 pandemic during first quarter 2020 and oil price collapse led to Karoon commencing an evaluation of strategic alternatives to deliver the best outcome to shareholders in a post COVID-19 world.

Utilising external advice, various opportunities were considered within Australia and abroad, including a return of capital to shareholders. This strategic review concluded that pursuing Karoon's southern Santos Basin strategy in Brazil provided the best outcome for shareholders and provided the best opportunity to deliver value today and in the future.

Other highlights

Pre-development planning and engineering evaluation work continued on Neon and Goiá, including the assessment of available production facilities. This work was driven by utilising Karoon's in-house expertise and is crucial to realising future value through de-risking a potential development after Baúna and Patola work is complete.

The Karoon operated Marina-1 exploration well, Block Z-38, Tumbes Basin offshore Peru, was drilled during the March 2020 quarter to a depth of 3021m Measured Depth ('MD'). The well was drilled on time with no safety incidents. No material hydrocarbons were encountered, and the well was plugged and abandoned.

1. Following proposed well workovers to replace/install pumps and the drilling and tie-in of the Patola field.
2. The reserves and contingent resource volume estimates presented for Bauna were disclosed in the 27 February 2020 ASX Announcement "Bauna Oil Reserves Upgrade and Contingent Resource Competent Persons Report Summary". The reserves are as a result of stochastic summation of individual well reserves; and not arithmetic sum of the individual well reserves. Karoon is not aware of any new information or data that materially affects these resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

Karoon's Footprint – South American and Australia

Resource Summary

Management Assessment of Contingent and Prospective Resources

Net Contingent Resource (mmbbls)							
Discovery	**Block**	**Basin, Country**	**Interest**	**Type**	**1C**	**2C**	**3C**
Neon	S-M-1037	Santos, Brazil	100%	Oil	30	55	92
Goiá	S-M-1101	Santos, Brazil	100%	Oil	16	27	46
Total					46	82	138

Net Unrisked Protective Resource (mmbbls)						
Basin, Country	**Block/Permit**	**Interest**	**Type**	**Low**	**Best**	**High**
Northern Carnavon, Australia	WA-482-P	50%	Oil	445	1,398	3,727
Total				445	1,398	3,727

The Neon and Goiá contingent resource volume estimates were assessed by Karoon's Engineering Manager, Mr Lino Barro, and are based on seismic survey data, geological and engineering well data and other regional geological and engineering information. They are prepared on a probabilistic basis in accordance with the Petroleum Resources Management System approved by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers.

The discovered contingent resources are categorised as contingent because further evaluation is required to confirm commerciality.

The contingent and prospective resource volume estimates presented were disclosed in the 8 May 2018 ASX announcement 'Resources Update'. Post drilling the Marina-1 exploration well in Peru, the previously disclosed prospective resources for Block Z-38 are in the process of being redetermined and are thus not reported.

Karoon is not aware of any new information or data that materially affects these resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

Prospective Resources Cautionary Statement

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

Strengths and Risks

Strengths

On track to secure material production and revenues.

Sound financial position with future reserves, oil production and no bank debt.

Organic production growth opportunities at Patola, Neon and Goiá.

Highly qualified and experienced personnel to manage the transition to production.

Demonstrated ability to create and develop strategic partnerships with industry participants.

Proven track record of monetising exploration and appraisal assets.

Track record of successfully operating 3 exploration and appraisal drilling campaigns in Brazil and Peru, drilling a total of 7 wells plus 2 side-tracks.

Karoon maintained its excellent safety record with 0.00 Total Recordable Incident Rate ('TRIR') per 200,000-man hours for the Marina-1 drilling program.

Specific Risks

Financial close of the Baúna acquisition remains subject to conditions precedent, which may not be forthcoming. There is a risk that the Bauna transaction may not reach financial close.

Geological evaluation relies on the interpretation of complex and often uncertain data, which might not lead to a fully accurate outcome.

Operating risks, such as adverse weather conditions, mechanical failures, equipment, and personnel availability and permitting delays, can have economic implications.

Insurance coverage may be insufficient to cover all risks associated with oil and gas exploration, evaluation and production.

Volatile market conditions for oil and gas may affect the company's ability to attract capital or generate sufficient free cash flow, which may cause a variable return on its operations.

The business requires substantial capital investment and maintenance expenditures, which may be financially onerous and require external debt or future equity funding.

The outcome of farm-out discussions and processes are uncertain.

Exchange rate fluctuations in United States dollars and Brazilian REALS.

Social, political and geographical risks associated with multi-national operations.

Environmental damage associated with field operations.

Global Pandemic risk may affect the scale, nature and returns available.

Karoon operates in an industry which relies on volatile commodity markets which are further exposed to global economic conditions.

Specific risks of not satisfying outstanding work programmes or farm-in obligations.

Global climate change policy may affect Karoon's ability to attract capital or generate sufficient free cash flow.

Operations review

For the financial year ended 30 June 2020

SANTOS BASIN, BRAZIL

The basin has developed as one of the world's premier petroleum provinces with more petroleum reserves than any other Brazilian Basin, although it still remains relatively under-explored.

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

Since Karoon's entry into the Santos Basin, offshore Brazil during 2008, the basin has developed as one of the world's premier petroleum provinces with more petroleum reserves than any other Brazilian Basin, although it still remains relatively under-explored.

Karoon has developed over a decade of operational experience in Brazil, successfully operating two exploration and appraisal drilling campaigns resulting in 3 oil discoveries (Neon, Goiá and Bilby), with a safety record or TRIR of less than 1 per 200,000 man hours worked. Karoon expanded its exploration acreage in the area during 2017 through Bid Round 14 with the acquisition of exploration Block S-M-1537 containing the Clorita Prospect, interpreted to contain the same high porosity and permeability Oligocene reservoir formation as the Baúna Field.

Following the sale of the multi-tcf Poseidon gas discovery in Australia, capital expenditure has been largely focused in Brazil on the appraisal of Karoon's discoveries and a potential development in the Santos Basin. Delivering the southern Santos Basin strategy has continued to be the cornerstone of Karoon's core strategy since 2015. The announcement of the Baúna acquisition, through signing of a SPA during July 2019, and its renegotiation announced during July 2020 has led to the southern Santos Basin becoming Karoon's focus area. Karoon's team brings significant operational experience and is well equipped to optimise production from Baúna. The field's proximity to Karoon's existing southern Santos Basin acreage holding at the Neon and Goiá oil discoveries, provides access to operational and logistical synergies. Leveraging work programs across the Karoon asset base by using the same shore base and shared services will offer significant advantages in any development of Neon and Goiá. The Baúna acquisition is being made through Karoon's wholly owned subsidiary of Karoon Petroleo e Gas Ltda, enabling the utilisation of existing carry forward tax losses and operational integration with the existing portfolio. With the southern Santos Basin assets being held 100% by Karoon it allows flexibility for funding of future developments via farm-out on a portfolio basis, sell down or debt.

Concession BM-S-40, Baúna

Baúna is located in concession BM-S-40, in the southern Santos Basin and comprises the Baúna and Piracaba light oil fields and the undeveloped Patola oil discovery. It is located 50-60km from Karoon's Neon and Goiá discoveries to the east and the Clorita exploration block is 50km to the south. Production from Baúna during July 2020 was approximately 16,000 bopd from 6 oil production wells, with 3 water injection wells and 1 gas injection well from the two separate reservoirs (Baúna and Piracaba). The Patola oil field has a discovery well drilled but is undeveloped. All wells are subsea completions and are tied back to the floating production storage and offloading ('FPSO') vessel the "Cidade de Itajai". The FPSO has a processing capacity of 80,000 bopd and a storage capacity of ~600,000 bbls. The FPSO is currently only utilising around 46% of its processing capacity and there are identified growth opportunities through production well interventions to increase the flow rate and the development of the Patola oil discovery.

The Baúna Oligocene reservoirs offer excellent geological characteristics for production with excellent porosity and permeability (over 30% porosity and 2-6 Darcy respectively) with 10-40m net pay and laterally extensive sandstone reservoirs providing strong aquifer support and high recovery factors. The reservoirs occur around 2000m deep in combined stratigraphic and structural traps with a good seismic response on high quality 3D seismic data, making them well understood.

Baúna's cumulative oil production to 1 January 2020 is approximately 127MMbbls. During February 2020, a competent person's report was completed by AGR Petroleum Services Reservoir Management Services ('AGR') estimating the reserves and contingent resources for Concession BM-S-40. AGR estimated 2P reserves of 46.8 MMbbls as at 1 January 2020, based on a US$65.00/bbl oil price scenario. The gross 2C contingent resource estimate was 19.8 MMbbls as at 1 January 2020. Production for calendar year 2019 was 6.94 MMbbls oil, or 19,000 bopd. After accounting for field production through 2019, these results represent a net increase in reserves of 4.0MMbbls, 1.2MMbbls and 0.8MMbbls at 1P, 2P & 3P levels respectively. AGR's revised Contingent Resource assessment represents increases of 0.7MMbbls, 1.0MMbbls and 1.2MMbbls respectively at 1C, 2C & 3C levels. Karoon has matured plans to enhance production from the field through intervention work in four of the six production wells. The planned workover campaign is considered routine field management and would consist of replacing 2 of the 3 failed downhole electronic submersible pumps in production wells, installing gas-lift and re-opening a previously shut-in reservoir zone.

The Patola oil discovery well, SPS-91, confirmed the same high oil quality and reservoir characteristics as the Baúna and Piracaba reservoirs, with a similar seismic response defining the discovery extent. The opportunity now exists to utilise existing FPSO capacity and develop the discovery through 2 vertical production wells plus a tie-back to the FPSO being planned for calendar year 2022. The high-quality reservoir identified in Patola has the potential to bring significant initial flow rates of over 10,000 bopd incremental production and incremental reserves to Baúna.

Karoon is targeting an average production rate of 25,000 to 30,000 bopd through a combination of these well interventions and the development of the Patola oil discovery. The Patola development would be funded through field cash flows, existing cash and/or possible debt finance.

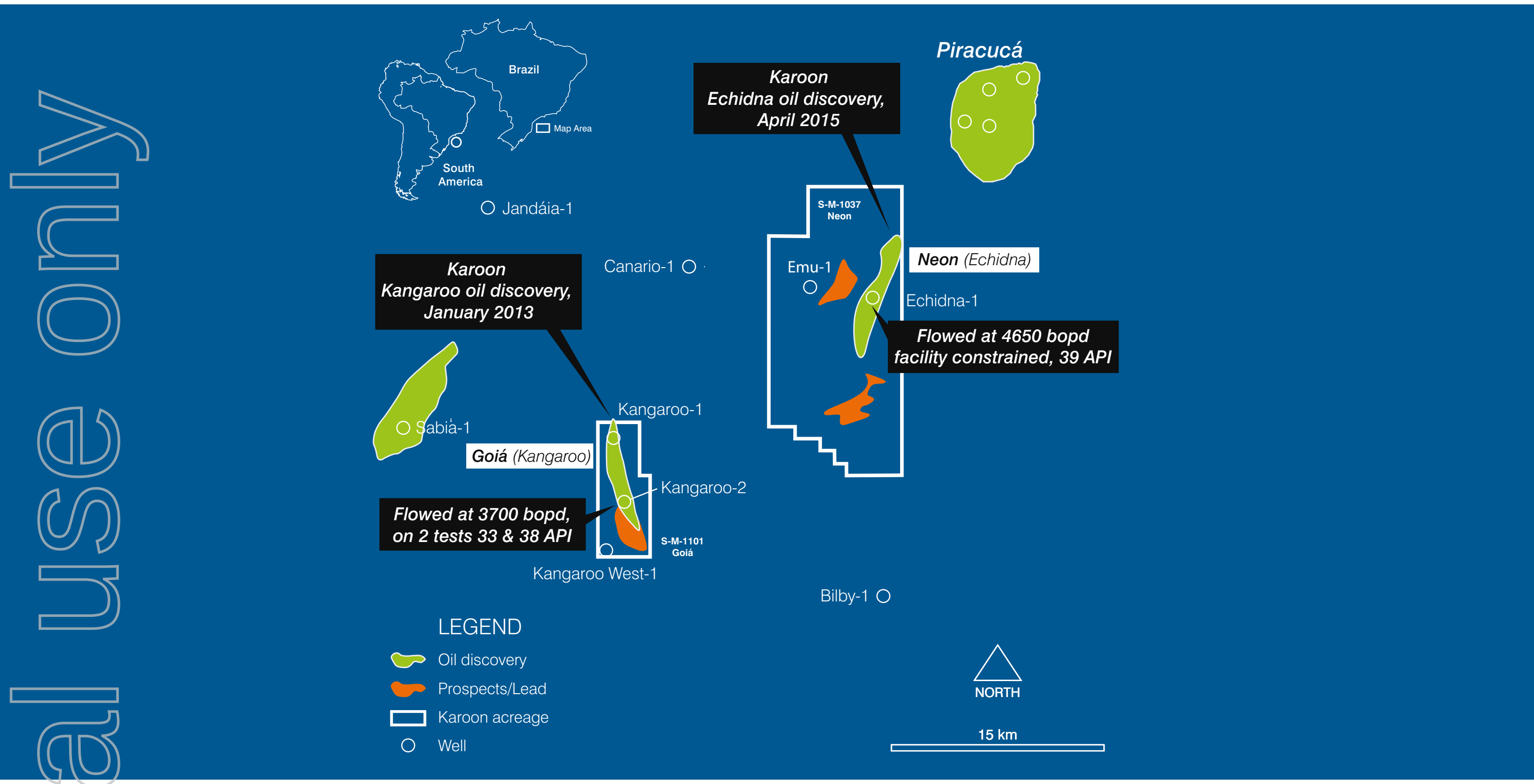
As Karoon transitions to operatorship of Baúna, it is well placed given its decade of operations in Brazil, its Class A Operator status and the retention of experienced production personnel. During the year Karoon built and established a specialised, experienced project operations team to ensure effective project management and put in place long term contracts with vendors. An Operating Management System ('OMS') was developed with a third-party and an operational readiness was undertaken by Wood Group prior to the Brazilian regulators' operational audits and ahead of a transfer of Operatorship.

Karoon's new Brazilian business is now realising the first of its three-pillar corporate strategy, with a foundation high quality cash generating production asset.

At the time of releasing this annual report, Karoon has meaningfully progressed toward completing the key conditions precedent to the acquisition of Bauna, including the recent issuance of a new environmental licence to Karoon by the Brazilian environmental agency, IBAMA.

Operations review (CONTINUED)

For the financial year ended 30 June 2020



The remaining key regulatory/third party conditions precedent to closing under the SPA, are as follows:

(a) final Brazilian oil and gas regulatory approval from the ANP; and

(b) assignment of the FPSO charter and service contracts.

Under the SPA, Karoon will not be the license holder of the Baúna asset until completion of the transaction.

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

The Baúna acquisition provides synergies to promote the development of the nearby Neon and Goiá discoveries located 50-60 km to the east. The access to operational and logistical synergies through shared shore base and services allow Karoon to continue to work towards delivering its operational plan to expand its production footprint initially to Neon. The Neon and Goiá discoveries have a 2C contingent resource of 82MMbbls. Potential operational and logistical cost savings from shared shore base, supply ships, helicopters and project management personnel add to the overall value of Karoon's regional assets.

During the year, following consultation with the ANP, Karoon submitted a joint development plan to the ANP for the Neon and Goiá oil fields to replace the application for individual plans. This submission does not mean Karoon has reached, nor is compelled to reach a final investment decision to proceed into a development of the fields. Prior to a final investment decision being reached, Karoon anticipates drilling a Neon control well to assist with delineating the southern region of the field, confirming reservoir quality and assisting with the planning and design of both development wells and infrastructure. Karoon is evaluating options to drill the control well on the Neon Field during the planned Baúna workover and Patola development program in early calendar year 2022, taking advantage of rig synergies and reducing the cost to de-risk a development. Peak production of any Neon development could be in the range of 25,000 to 28,000 bopd.

A first phase of a development on Neon would propose to utilise two extended horizontal production wells and a gas injection well, targeting only the Paleocene reservoirs initially. Subsequent potential development phases and tie ins could result in significant incremental resources to the project with the potential to include other reservoirs in Neon, the Goiá oil discovery and nearby prospects within the blocks. Well deliverability on the Neon Field remains attractive with the discovery well flowing at 4650 bopd on DST (facility constrained). Karoon commenced conceptual engineering studies with FPSO's owners to evaluate the possibility of utilising a redeployed production system for a future development of the Neon oil discovery. Results of the study and forward planning are ongoing and form part of the broader strategic and operational planning for the region.

Block S-M-1537

Block S-M-1537 was acquired in the ANP 14th Bid Round. The exploration phase in respect of the Block is seven years with firm commitments to be completed by January 2025. The minimum work program consists of seismic acquisition or licencing of multiclient data and geological studies.

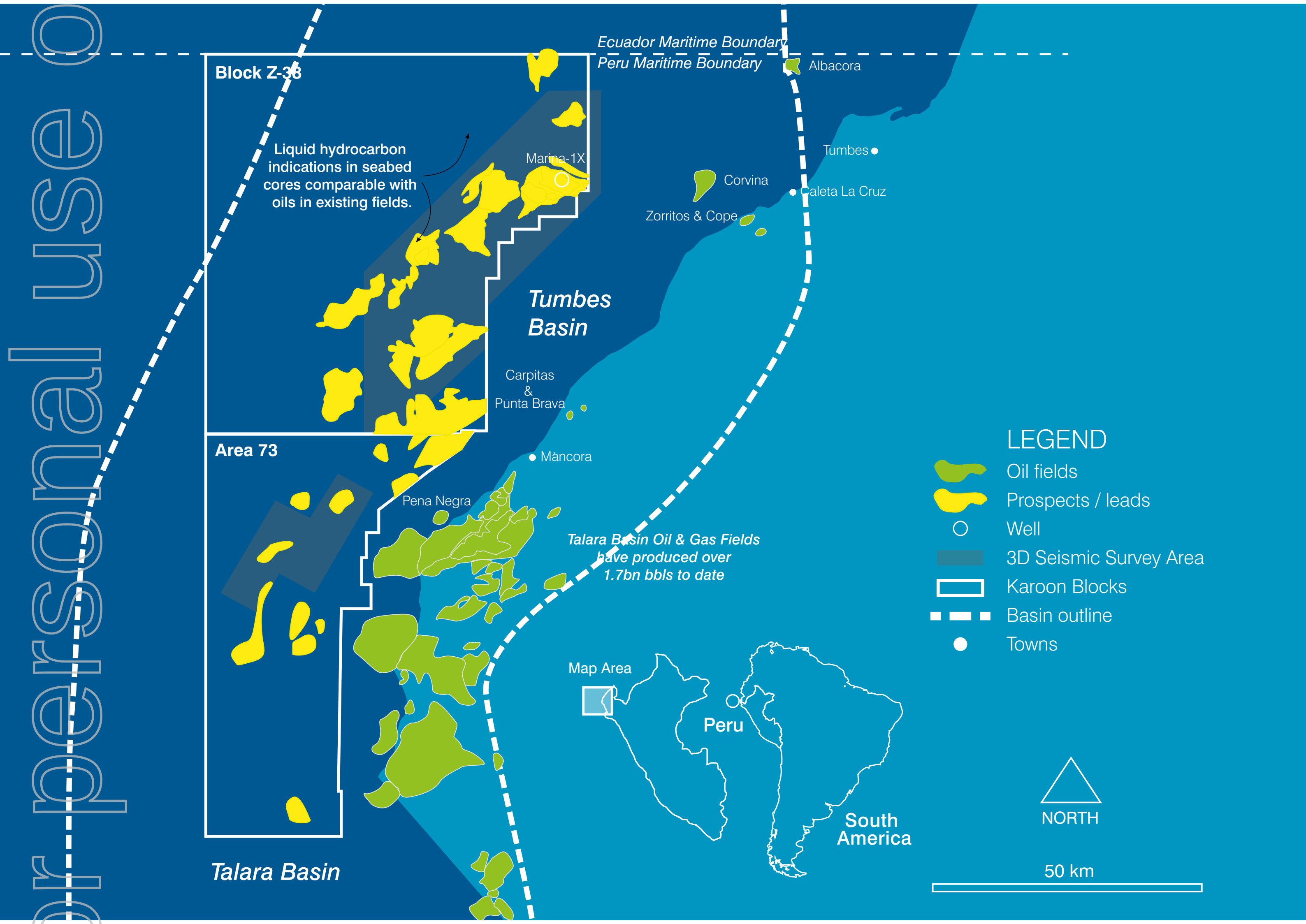
The Block was acquired as part of the southern Santos Basin strategy, focussing on the prolific Oligocene reservoirs interpreted to be present analogous to those in the Baúna Field 50km to the north. Advanced seismic Amplitude versus Offset ('AVO') studies are being undertaken to de-risk the Clorita Prospect present in the Block. The objective is to farm-out an equity interest prior to committing to drilling an exploration well on the prospect.

Operations review (CONTINUED)

For the financial year ended 30 June 2020

TUMBES BASIN AND TALARA BASIN, PERU

The Marina-1 well was drilled on time and with a TRIR of 0.00 per 200,000 man hours and no environmental incidents.



Key Statistics		
Blocks:	Z-38	Area 73
Interest:	40%*	100%
Operator:	Karoon	Karoon
Gross Acreage:	4,750 sq km	2,489 sq km
Water Depth:	200 to 2,000 metres	200 to 2000 metres
Type:	Oil	Oil
Status:	Exploration phase	Technical Evaluation Agreement ('TEA')

* Karoon's farm-in obligations to Pitkin Petroleum are to be completed.

Since entering offshore Peru during 2008, at the same time Karoon entered the Santos Basin in Brazil, Karoon has worked to ascertain the petroleum potential of Block Z-38 through exploration drilling. After entering the Block, Karoon invested in a high quality dataset of 2D and 3D seismic and a drop core survey to de-risk a seaward extension of the Tumbes Basin, which contains a proven petroleum system inshore, which together with the nearby Talara Basin has produced over 1.7 B bbls of oil to date. Historically there had been little interest in exploring the seaward extensions of these two basins. Karoon's interest was acquired through a farm-in to acquire an initial 20% interest, increasing the interest to 75% over time and assuming operatorship, subject to completion of farm-in obligations with Pitkin Petroleum. The Block is located 10 km off the coast of Peru and covers an area of 4,750 sq km.

To share the risk on drilling the first exploration well in the Block, Karoon successfully farmed out a 35% equity interest to Tullow Peru Ltd, a subsidiary of Tullow Oil plc ('Tullow') during January 2018, with assignment of the interest finally received during May 2019. Tullow is an independent exploration and production company focused on Africa and South America with interests across 15 countries. The farm-out endorsed the work that Karoon achieved in demonstrating the Block's prospectivity. This left Karoon with a 40% operated interest.

Prior to drilling Marina-1, Karoon increased its exposure to the plays identified in Block Z-38 through a TEA on offshore Area 73, adjacent and to the south of Block Z-38. The TEA was signed on 12 December 2018 for a period of 18 months, which was subsequently extended to 31 December 2020. The obligations under the Area 73 agreement are for seismic reprocessing and interpretation, and geological studies.

The TEA provides a right to negotiate a license contract with Perupetro in respect of the whole area or one portion of the Area for a referenced minimum work program. Area 73 has a northern part contiguous with Block Z-38 which shows a continuation of the Tumbes Basin and several prospects and leads have already been identified.

During the year, the Stena Forth drillship was contracted to drill the first exploration well in the Block, the Marina-1 well. On 26 January 2020, drilling commenced on the Marina-1 exploration well, which was drilled to a depth of 3021m MD and subsequently plugged and abandoned. Results from the primary Tumbes Formation targets indicated that the well encountered thin water bearing sands with no oil and only minor gas shows. Early assessment indicates that failure of the Marina-1 is associated with lack of effective hydrocarbon migration and poor reservoir development at this location.

The Marina-1 well was drilled on time and with a TRIR of 0.00 per 200,000 man hours and no environmental incidents. The well result provided much data for the previously undrilled Block and a calibration point for the 3D seismic data acquired by Karoon during 2010.

The drilling of the Marina-1 well and some 2D seismic processing has fulfilled the Third Period exploration term work obligations, with no further work program obligations in the current phase.

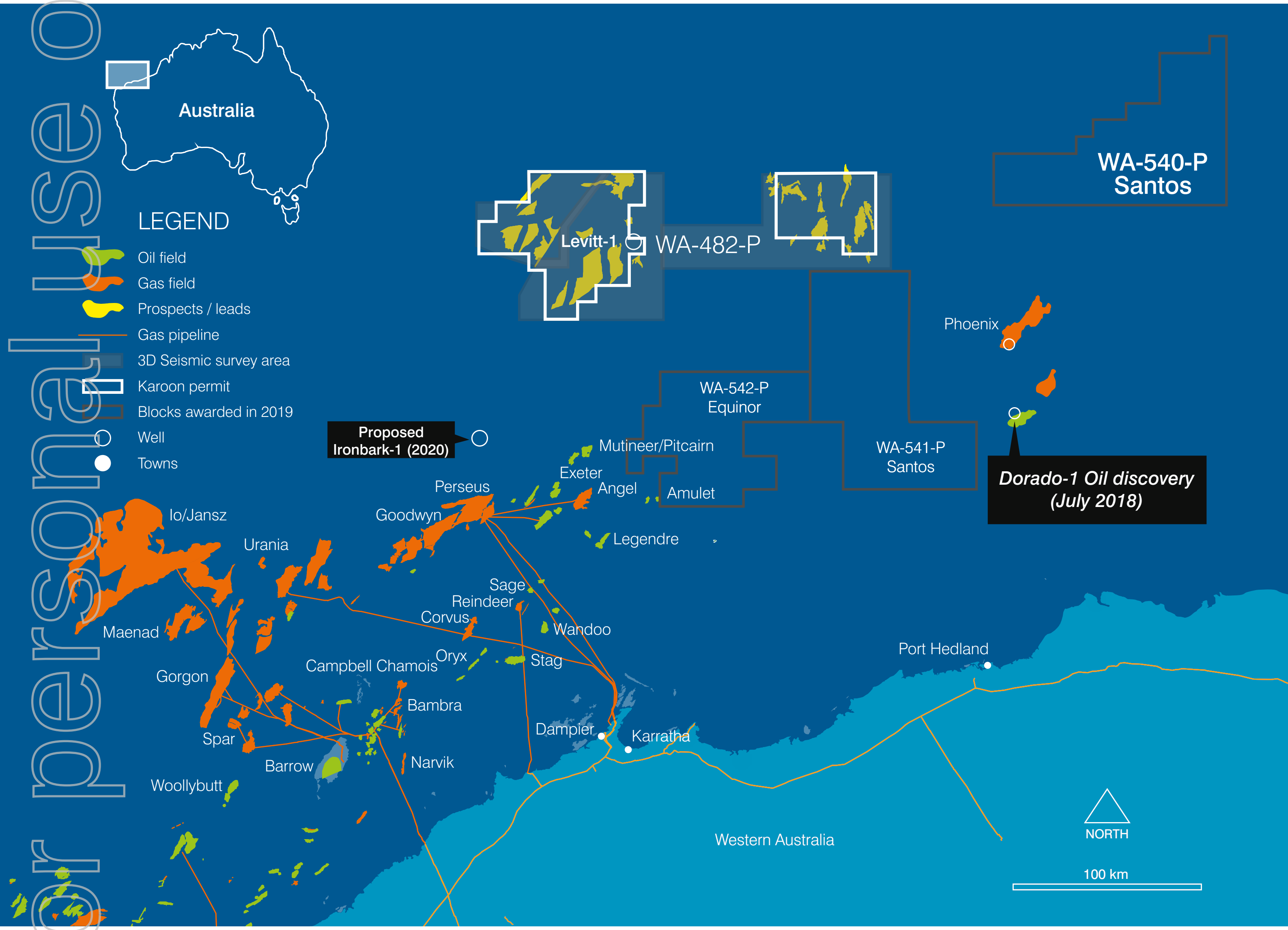
"To share the risk on drilling the first exploration well in the Block, Karoon successfully farmed out 35% equity interest to Tullow Peru Ltd."

Operations review (CONTINUED)

For the financial year ended 30 June 2020

NORTHERN CARNARVON BASIN, AUSTRALIA

All areas that Karoon considers to be prospective of the original exploration permit area were retained.



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

The Northern Carnarvon Basin remains to date as Australia's premier hydrocarbon province where the majority of Australia's deep-water wells have been drilled.

It is part of the larger Carnarvon Basin extending over both offshore and onshore Western Australia. Exploration in the Carnarvon Basin began in 1947 and led to the onshore Rough Range oil discovery onshore in 1953 and further oil discoveries such as Barrow Island in 1964, before major gas fields were discovered in the Northern Carnarvon Basin south and west of WA-482-P, now home to major LNG projects such as the Gorgon Gas Project.

In more recent times exploration has focused on oil prospectivity, with discoveries such as the 2018 discovery of the Dorado oil field, described as the largest oil discovery in Australia in recent times, approximately 100km south of Karoon's WA-482-P. This discovery demonstrated the oil potential of the source rocks in this part of the basin. Recent announcements regarding exploration in the Northern Carnarvon Basin include the award of permit WA-541-P on trend with Dorado, and 50km south of WA-482-P, to Santos and BP. This permit was awarded in September 2019 with one of the highest work program bids made in recent years, with a commitment to drill two exploration wells in the primary term. In addition, BP received clearance from NOPSEMA in July 2020 to drill the deepest offshore well ever in Australia at Ironbark-1, expected to be drilled late calendar year 2020, some 80km southwest of WA-482-P.

During September 2012, Karoon acquired a 100% equity interest in exploration permit WA-482-P in the Northern Carnarvon Basin. The permit is located approximately 300km offshore, from the Western Australia coast in water depths ranging from 400 to 2,000m.

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

During the initial phase of exploration from 2012 to 2019 the Joint Venture invested in high quality 3D seismic data to better define, risk and rank 10 significant prospects. A 'Renewal Application' was lodged in March 2019, with a mandatory relinquishment of 50% of the original permit area, resulting in a permit area of 6,748 sq km covering an eastern and western area and covered with modern 3D seismic data. All areas that Karoon considers to be prospective of the original exploration permit area were renewed. The Joint Venture is committed to a firm three-year program of seismic reprocessing of existing 3D data and geoscience studies. Upon completion of the reprocessing and geoscience studies, the focus will be on de-risking the numerous prospects with a view to attracting a farm-inee to partner in progressing the area.

Operations review (CONTINUED)

For the financial year ended 30 June 2020

CEDUNA SUB-BASIN, GREAT AUSTRALIAN BIGHT, AUSTRALIA

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

Karoon was awarded exploration permit EPP46 during October 2016. Industry majors, including BP, Equinor (Statoil) and Chevron, who initially committed to drilling nine exploration wells during calendar years 2018-2019 have since departed their Bight exploration interests without undertaking their planned activities. An application to surrender EPP46 was made during October 2019 and Karoon is working with authorities to relinquish the permit.

BROWSE BASIN EXPLORATION PERMIT WA-314-P (KAR 100%)

The exploration permit was surrendered on 10 October 2019.

Karoon's Work Program moving forward

Karoon's ambitious plans for its focus area in the southern Santos Basin revolve around leveraging the geoscience and engineering expertise garnered from its decade of operations in the region and accessing the operational and logistical synergies created by the Baúna acquisition. Intervention work on four of the production wells in the Baúna Field is planned for late calendar year 2021 and the development of the Patola discovery in early calendar year 2022.

Karoon is currently planning on completing the replacement of 2 electronic submersible pumps, the recompletion of one well with gas lift, and light intervention in another. Karoon has been preparing pre-development work for Patola and will look to sanction it as a project by the end of the first half of calendar 2021, after Karoon completes the Bauna acquisition, and assumes operatorship.

With respect to Neon, Karoon is planning its forward program to retain the option of a possible control well during 2022, sequenced as part of the Baúna and Patola work program to minimise rig mobilisation costs. The purpose of a control well will be to confirm the field oil water contact, reservoir quality and optimise any potential field development strategy. The drilling of the control well remains subject to market conditions and partnering outcomes for the Blocks. The flexibility of the 100% ownership and operatorship of these assets provides Karoon the ability to control the investment in these work programs.

The Marina-1 exploration well provided a wealth of data which is being evaluated to determine the remaining prospectivity of the Block and to make a decision on any future exploration activities. Karoon, as operator of Block Z-38, is undertaking all work for the Joint Venture, and a future decision for the Block will be made when results have been analysed and the geological models updated. The Third Period of the licence was due to expire at the end of 2020, however an extension has been received from Perupetro to extend the third period to around June 2021 as a result of the COVID-19 pandemic.

Karoon finished reprocessing 3D seismic data in Area 73 during July 2020 and is currently undertaking geological and geophysical studies. Together with the knowledge derived from Z-38, a decision will be made as to whether to terminate the agreement or undertake a low-cost exploration program in a negotiated contract on a block over Area 73.

Permit WA-482-P is operated by Santos. The current work program involves the reprocessing of the extensive seismic dataset to address the key risks of fault seal and access to oil prone source rocks to mature prospects. The prospectivity of the eastern area of the permit is primarily associated with the major structural depocentre, the Whitetail Graben. The graben is interpreted to be flanked by significant tilted fault block prospects with Lower Jurassic reservoirs and within the graben with Upper Jurassic and Lower Cretaceous structural and turbidite fan plays. Prospectivity in the western area is derived from large scale horst block traps in the Lower and Upper Jurassic. Upon completion of the reprocessing and geoscience studies, the focus will be on de-risking the numerous prospects with a view to attracting a farm-inee to partner in progressing the area.

Forward-looking Statements

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

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

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

2020 Sustainability Report

Karoon is proud of its exemplary safety and environmental record, completing the Marina-1 drilling campaign in Peru during early calendar year 2020 with a Total Recordable Incident Rate (TRIR) of 0.00 and zero environmental incidents. The commitment to Health, Safety, Security and Environment ('HSSE') that enabled Karoon to achieve this success is embedded in the culture of Karoon and is core to the way we operate.

Karoon was granted the first deepwater offshore environmental and drilling licence for the Marina-1 exploration well in the Tumbes Basin, offshore Peru. This milestone was assisted by establishing sincere and respectful ongoing relationships with local communities. It is Karoon's fundamental values of respect for people, the community and the environment that enabled the Marina-1 drilling campaign to proceed smoothly without incident. Karoon has worked over many years to ensure that respect is intrinsic to the heart and culture of all its activities, wherever they are in the world, and is committed to ensuring this continues with the pending acquisition of the Baúna production operations in Brazil.

Our OMS, based on International Oil and Gas Producers Report 510, is a live system continually updated to reflect our activities, culture and practice. Importantly, there has been substantial work completed in Brazil during the 2020 financial year to further build the OMS to ensure the system is production ready. The OMS was independently audited before submission to the Brazilian Institute of the Environment and Renewable Natural Resources for approval. Work is always ongoing to ensure we are operating to the highest standards, reflecting our commitment to continuous improvement to protect the health and safety of our people and the sustainability of our operations.

Good Governance

Our purpose is to provide energy to an ever-changing world, creating value for our shareholders and the broader community.

During the financial year, Karoon underwent a period of change to restructure the Board committees to better reflect the priorities of the Board and senior management and the impending move into production. The Board and senior management also undertook a review of the Company's strategy, purpose and culture, which will guide all decision making and further strengthen the commitment of the Board, management and all employees toward achieving the goal of becoming an agile and sustainable global energy company delivering profits through a high-quality portfolio of production, development and exploration assets.

The newly constituted Sustainability and Operational Risk Committee was specifically established to ensure social and HSSE issues are considered at the highest level and throughout Karoon. The People, Culture and Governance Committee is similarly responsible for Company culture and governance, while the Audit and Risk Committee oversees Karoon's risk management framework and economic sustainability.

With the new Committee structure, and in response to the 4th edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ('ASXCGPR') and recent legislative changes, Karoon also reviewed its corporate governance documentation, including its Code of Conduct and other policies. These are now available on its website **www.karoonenergy.com.au/governance**. New policies introduced during the year include the Whistleblower Protection Policy and the Sustainability Policy. These policies have been incorporated into the OMS.

Karoon's culture is defined by:

- **Code of conduct –** that clearly sets out our values and requires all Karoon personnel to uphold them at all times
- **Safety –** the safety and security of all our people is paramount
- **Environmental, Social and Governance –** we strive for the highest standards in our environmental, social and governance activities
- **Integrity –** we stand for integrity and operational excellence and always doing things "the right way''
- **Ethics –** we have zero tolerance for fraud or corruption and insist employees "do the right thing" on all occasions
- **Shareholder and stakeholder value –** Karoon is valued by shareholders and customers, admired by the communities in our focus areas, and a company our employees are proud of
- **Global values –** we are a global company, not just an Australian company, we therefore adopt a global set of values
- **Climate change –** we believe global climates are changing and we consider the impact of such changes in our decision-making processes. We support a gradual transition to a lower carbon future
- **Innovation –** we are innovators and have an enduring and nimble entrepreneurial spirit
- **Leadership –** the people who best adopt this culture will be Karoon's future leaders

2020 Sustainability Report (CONTINUED)

Health, Safety, Security and Environment

The health and safety of our people is our first priority

Karoon's first operational campaign in over 5 years was conducted in the Tumbes Basin in offshore Peru during February 2020 with the drilling of the Marina-1 exploration well. While the geological results were disappointing, the campaign was an outstanding HSSE success with a TRIR of 0.00 and no environmental incidents. These exemplary results reflect Karoon's commitment to HSSE with the health and safety of our people our first priority.

The HSSE success of the Marina-1 drilling campaign was achieved through working very closely with the rig contractor, Stena Drilling Ltd, to ensure operating systems were bridged and compatible and Karoon's HSSE priorities were reflected in practice. The thorough documentation, risk assessment, training and close consultation with regulatory authorities and local communities all ensured that the personnel involved both onshore and offshore were well prepared to undertake the operations safely and responsibly. A video summarising the operations and some of the challenges faced is available at **https://youtu.be/dSqGSbuY6EE**.

Karoon is committed to ensuring systems are in place and personnel are well trained to bring this culture of success to all our operations, including our planned production operations at our new Baúna asset. Significant due diligence work has already been undertaken on the existing Baúna HSSE management system and bridging documentation is being prepared to ensure compliance with Karoon's broader OMS and regulatory requirements.

Karoon's COVID-19 Response

The COVID-19 pandemic has tested companies and governments worldwide. Karoon started planning for working from home restrictions during February 2020 and quickly mobilised our Crisis Management Team ('CMT'). The early engagement enabled Karoon to provide personnel from our offices in Australia and South America with the IT equipment and support needed to facilitate remote working.

Since remote working has been introduced there have been regular CMT meetings in Australia and South America to ensure staff are being supported in their physical and mental health as well as being equipped with the tools needed for them to effectively work remotely. While the safety of Karoon personnel is our first priority, the Karoon Board and senior management have also been monitoring the business impacts from COVID-19 through regular updating of the Karoon risk registers and a comprehensive strategy review, which have provided the basis for key business decisions.

In an operational sense, a thorough review of the COVID-19 response in respect of the Baúna operations has been undertaken and Karoon is confident that the measures in place to protect personnel working on Baúna are appropriate to prevent, as far as possible, a potential shut down due to COVID-19.

The Baúna Emergency Response Plan has been updated in line with the Brazil National Health Surveillance Agency and Agency for National Vigilance in Sanitation guidelines, which include requiring anyone going offshore to isolate for 7 days, 14 days before departure then quarantine in a hotel for a further 7 days and return at least 2 negative COVID-19 tests before embarking. While a COVID-19 outbreak would strain the Baúna Operations Team, systems are in place to mitigate the impact of such an outbreak (to protect personnel and production levels) to operations.

The HSSE statistics of the Marina-1 drilling campaign are provided in the table below:

	HSSE Incidents					
Location	**Near Miss Incident**	**First Aid Injury**	**Dropped Object Incident**	**Medical Treatment Injury**	**Restricted Work Injury**	**Lost time Injury**
Drilling Operations	3	2	1	0	0	0
Vessels	0	0	0	0	0	0
Total	3	2	1	0	0	0

The overall HSSE statistics for Karoon for the financial year were:

Lost Time Injury Rate (per 200,000 work hours) = 0.00

Total Recordable Incident Rate (per 200,000 work hours) = 0.48*

* The TRIR reflects a single medical treatment incident in our Rio de Janeiro office as a result of a minor cut to the hand of a cleaning contractor after breaking a glass. Less than 420,000 total work hours were recorded in the reporting period.

Respect for Communities and Our People

Karoon's commitment to safe and responsible operations, not just for our people but all people in the communities where we operate, is paramount.

Respect for Communities

Karoon's focus of community engagement through the financial year was predominantly in Peru, due to the Marina-1 drilling program. While there was significant engagement with community groups, especially local fishermen, in the months before, during and immediately after the drilling campaign, Karoon has built trusted relationships with these communities over many years. Our social and environmental team has had an established office in Zorritos, which they have used as a base to connect with 11 different communities in the Tumbes region.

To this end Karoon undertook a detailed program of awareness, training and licencing with local Fisherman organisations from each of the 11 communities to ensure the fishermen's safety throughout the campaign and to minimise any potential impacts on fishing in the region. This program has been in place for some years and has been continually updated and modified to optimise the message and maximise its reach. In addition to the formal programs, Karoon has also had the pleasure of celebrating Fisherman's Day each year, which is recognised as a significant event in the region.

Karoon's Sustainability and Operational Risk Committee has established education as a clear priority for social programs offered by Karoon. Karoon's educational programs in Peru have been operating for some time under the banner 'Tumpis':

Tumpis 'Educa' – a scholarship program providing financial and practical assistance to 50 high performing students from 11 different communities to study at Tumbes University when they would otherwise be unable to afford to attend.

Tumpis 'Learn to Teach' – a grant program enabling 15 teachers from local schools to undertake a Diploma in Educational Affairs course so that they are better qualified to teach in their local schools.

Tumpis 'Connect with the Future' – a vocational guidance program offered to more than 450 students in local schools to help them plan a path for future studies at Tumbes University.

Through our relationships with local communities Karoon has identified many ways we can provide welcome assistance such as through the donation of kindergarten equipment and Christmas food and toys and the 'Mutumbi' women's microbusiness program. Mutumbi has helped women from local Tumbes communities establish their own jewellery making business providing them with an income they would not otherwise be able to generate.

There are already a number of social and environmental programs being established that will enable Baúna operations to be conducted safely and responsibly in Brazil. Karoon is looking forward to working closely with communities and regulatory authorities to identify potential program improvements over time.

Respect for our people

We recognise that our people are at the heart of our success and we want to make sure we are providing them with a safe, engaging and rewarding work environment.

During the financial year Karoon reviewed and updated our human resources policies across all jurisdictions. This included the preparation of a Flexible Working Arrangements Policy to facilitate flexible and safe working remotely.

COVID-19 restrictions have unfortunately impacted the roll out of some of the training and engagement programs planned for staff, however, these will be implemented as soon as practicable. In the meantime, the use of technological solutions has happily facilitated a greater amount of connectivity between teams in different jurisdictions that has generally enhanced work outcomes. All staff will be encouraged to continue the expanded use of technological options beyond COVID-19 to build on the collaborative successes achieved so far.

Diversity

Karoon understands the benefits that arise from a diversity of views and approaches being applied to problems and decision making and has worked to encourage gender and ethnic diversity throughout the Company. The Board has set measurable objectives for gender diversity for the past five years and has worked toward successfully achieving these. Karoon reports on gender diversity objectives and statistics annually in our Corporate Governance Statement, available on our website: **www.karoonenergy.com.au/governance/corporategovernancestatement.**

The percentage of female participation at various levels in the Group as at 30 June 2020, as reported in the 2020 Corporate Governance Statement, is detailed below:

Board = 14%

Senior Executive = 27%

Group wide = 37%

In accordance with ASXCGPR Karoon's gender diversity objectives have been revised for the 2021 financial year as follows:

- Aim to achieve at least a 30% participation of each gender of the Non-executive Directors, in the Senior Executive and across the Karoon Group by 2025.
- Aim to ensure the percentage turnover of female employees is equal to or less than the overall Karoon group percentage turnover.
- Provide unconscious bias training to the Board and Key Management Personnel ('KMP').
- Update of Flexible Workplace Practice Guidelines.
- Monitor Karoon's recruitment and remuneration processes for unintended gender bias.
- Continue a zero-tolerance approach to gender pay gap.
- Ensure at least one female candidate is considered when the Board is appointing a new director or member of the KMP.

2020 Sustainability Report (CONTINUED)

Some of these objectives will be challenging but they demonstrate Karoon's commitment to encouraging diversity and recognising the benefits a diversity of views can bring to the business.

Climate Change

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

Governance

Responsibility for oversight of climate related risks and opportunities within Karoon's operations and business is delegated by the Board of Directors to the Sustainability and Operational Risk Committee and the Audit and Risk Committee respectively. The Sustainability and Operational Risk Committee is largely responsible for oversight of physical climate related risks, reporting to the Board as required. These may include, for example impacts of weather changes on operations or in supply chains. The Audit and Risk Committee is largely responsible for oversight of climate related transition risks, such as the impact of changing investment patterns on ability to fund future projects.

These Board committees are each supported by the Risk Management Team ('RMT'), which comprises various members of senior management across Australia and South America responsible for finance, legal, operations, technical and engineering, commercial, people and culture and business reputation within the Group. The RMT, coordinated by the Corporate Sustainability and HSSE Manager, works together to identify and assess risks and develop appropriate strategies for mitigation. The team also assists the Board in assessing opportunities and associated strategies for exploitation, such as incorporating renewable assets into the Karoon portfolio.

Strategy

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

Short-Medium Term

The changes to economic conditions brought by oil price volatility and the impacts of COVID-19 saw the Board undertake a strategic assessment of the direction for the Company prior to finalising the amended Baúna SPA with Petrobras. This review studied other potential acquisition targets and a consideration of climate related risks and opportunities formed part of the assessment criteria in determining the preferred strategy for the Company.

As Karoon moves from a prolonged period of very low carbon emissions, due to limited or no operations, into a period of continuous emissions generation, following transaction close on the Baúna acquisition, Karoon is aware of its responsibility to optimise efficient operations, thereby leading to reduced emissions where possible. Karoon will use the knowledge and experience gained from the recent drilling program in Peru for the planned workover operations on Baúna and any future development of Neon to optimise climate related risks and opportunities in the short to medium term.

Long Term

The recent strategic review complemented the long-term strategy developed by the Board during December 2019. A key component to the strategy is the formal consideration of the investigation of the potential for including renewable energy assets in the Karoon portfolio in the medium to long term (five to ten years). The Board made this decision, working with senior management, in recognition of climate related challenges particularly with regard to transition risks. The purchase of a producing asset will provide Karoon with the cash flow that can facilitate these investigations and take advantage of sustainable energy opportunities in the long term and build the Company's resilience to climate related risks.

Risk Management

Climate related risks and mitigation strategies are first identified by the RMT and are documented in the Karoon corporate risk register. The register is updated regularly with each risk assessed by the RMT using Karoon's Risk Matrix, which has six levels of consequence relating to environmental, safety, financial and reputational impacts and six levels of likelihood.

The corporate risk register effectively provides a prioritised summary of the key risks facing Karoon and as such provides a valuable tool for both the Board and management to guide decision making. Both physical and transition climate related risks are included in various sections of the register, which is regularly presented to and reviewed by the Audit and Risk Committee, with the operational component separately reviewed by the Sustainability and Operational Risk Committee. The register ensures the Board and management together understand the risks to Karoon's business and as such also informs strategy and planning for the Company.

In addition to the corporate risk register, specific and detailed asset operational risk assessments are undertaken prior to commencing any operations. Such an assessment was carried out prior to the Peru drilling campaign, which successfully enabled risks to be identified and mitigated to as low as reasonably practicable. Several risk assessments have already been carried out on Baúna during the due diligence phase and through transition planning. Further work will be undertaken during transition before Karoon takes over full operation. This work includes an assessment of climate change related risks and opportunities, which may enable further carbon emissions reduction measures to be identified.

Metrics and Targets

Karoon recognises that the acquisition of an oil production asset is going to significantly increase Karoon's carbon emissions. Karoon is aware of the following actions that have been taken at Baúna to minimise carbon emissions and is intending to continue and where possible further optimise, expand and add to these measures:

- Eliminate flaring in operations wherever possible; and
- Use the gas from the asset to power operations thereby alleviating the need for additional fuel for power generation.

While these emission reducing measures are already in place it is not known at this stage what impact they have had on reducing emissions. As the specific requirements for carbon emissions reporting in Brazil are different to Australia, Karoon is seeking to determine what historic data is available for Baúna during the transition process in order to estimate the existing (base) carbon emission levels. It is not possible to set meaningful targets until the existing carbon emissions are properly understood, however, it is Karoon's intention to investigate potential future emissions targets and identify possible opportunities to improve operations to achieve them.

Karoon's Scope 1 emissions for the financial year were approximately 19,971 tonnes of carbon dioxide equivalent and Scope 2 were approximately 152 tonnes of carbon dioxide equivalent. The overwhelming majority (99%) of emissions were produced from the fuel used in the Peru drilling campaign with only 1% of the total emissions generated by Karoon's administrative functions across Peru, Brazil and Australia combined.

As in previous years, the Scope 1 and Scope 2(1) carbon emissions generated solely through administrative functions in Karoon's offices have been very low when compared to emissions from operations, hence Karoon has not set targets for corporate emissions reductions as the targets would not be material. Karoon has however recorded a decrease in these corporate emissions compared to past years and is actively reducing the impact of its corporate carbon emissions.

Karoon will continue these efforts going forward and to educate staff and encourage them to reduce their own emissions across all offices, especially through minimising travel by increased use of virtual meetings and flexible working arrangements as experienced during COVID-19 restrictions.

TOTAL Emissions (tCO2e):

	Australia	Brazil	Peru	Total
Scope 1 Transport (corporate)	18	10	28	56
Scope 1 Stationary (operations(2))	0	0	19,915	19,915
Scope 2 (corporate)	129	7	15	151
Total	147	17	19,958	20,122

(1) Scope 1 are direct emissions and have resulted from fuel use in drilling operations in Peru and fleet cars in Australia, Brazil and Peru.
Scope 2 are indirect emissions and have resulted from electricity usage in Karoon offices in Australia, Brazil and Peru.

(2) Based on equity share of Peru drilling operations.

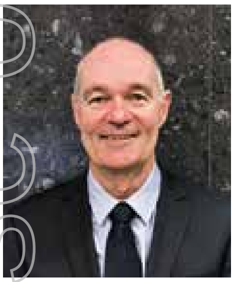
Directors' Report

The Board of Directors submits its Directors' Report on Karoon Energy Ltd (the 'Company') and its subsidiaries (the 'Group') for the financial year ended 30 June 2020 (the 'financial year').

Board of Directors

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

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



Mr Bruce Phillips

BSc. (Hons), (Geology)

Independent Non-Executive Chairman

Appointed 1 January 2020.

Mr Phillips has 44 years of technical, financial and commercial experience in the global energy industry, encompassing a number of corporate entities. Bruce has extensive experience in upstream oil and gas exploration and production via involvement in projects in Australasia, Africa, Europe and the Americas. He also has considerable experience in governing publicly listed companies, including the chairmanship of four companies listed on the ASX.

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

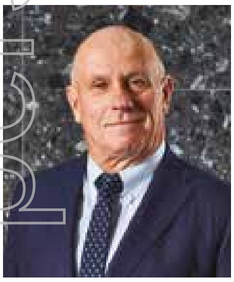
He is a member of the Petroleum Society of Australia and the Australian Society of Exploration Geophysicists.

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

Member of the Nomination and Remuneration Committees until 31 December 2019.

Member of the People, Culture and Governance Committee from 1 January 2020.

Chairman of the Board of Directors.



Mr Robert Hosking

Managing Director

Appointed 11 November 2003.

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

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

Mr Mark Smith (Retired)

Dip. App. Geol, Bsc. (Geology)

Executive Director and Exploration Director

Appointed 20 November 2003.

Retired 29 November 2019.

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

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

Ms Luciana Bastos de Freitas Rachid

B Chem Eng. Post Grad Degree Corporate Finance
Independent Non-Executive Director
Appointed 26 August 2016.

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

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

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

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

Member of the Nomination & Risk and Governance Committees until 31 December 2019.

Chair of the Sustainability and Operational Risk Committee from 1 January 2020.

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.

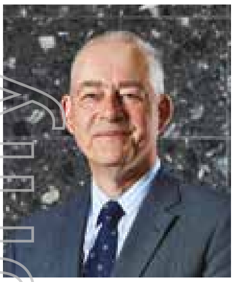
Geoff has gained substantial overseas experience completing marine projects in Indonesia, Malaysia, Thailand, Vietnam, Sri Lanka, India, South Africa, Namibia, New Zealand and the United Kingdom. LNG, oil, gas, bulk ports and other large maritime infrastructure projects that Geoff has been involved in 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.

Member of the Audit and Remuneration Committees until 31 December 2019.

Chairman of the Nomination Committee until 31 December 2019.

Member of the Audit and Risk and People, Culture and Governance Committees from 1 January 2020.

Directors' Report (CONTINUED)



Mr Clark Davey

B. Commerce, FTIA, MAICD

Independent Non-Executive Director

Appointed 1 October 2010.

Clark is a professional independent Company Director with over 40 years of experience in the natural resources industry as a taxation and strategy advisor. Clark was a taxation services partner at Price Waterhouse and PricewaterhouseCoopers from 1994 to 2006 with an oil and gas and natural resources specialty holding industry leadership roles in both firms. Clark is entitled to receive payments from PricewaterhouseCoopers as part of a retirement plan. The payments are based on a set formula relating to his partnership and tenure with PricewaterhouseCoopers. The amount is fixed and not dependent on the revenues, profits or earnings of PricewaterhouseCoopers. The Board is satisfied that this does not affect Clark's independence as a Non-Executive Director, nor does it constitute a conflict of interest and complies with the *Corporations Act 2001*. The Board has however, put in place appropriate safeguards to address any perceived conflicts of interest if they are to arise from time to time.

Clark is a member of the Taxation Institute of Australia and the Australian Institute of Company Directors.

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

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

Clark was Chairman of the Audit Committee until 31 December 2019.

Chair of the Audit and Risk Committee from 1 January 2020.

Member of the Nomination, Remuneration, & Risk and Governance Committees until 31 December 2019.

Member of the People, Culture and Governance Committee from 1 January 2020.

Mr Peter Turnbull AM

B. Commerce, LLB, FGIA (Life), FAICD

Independent Non-Executive Director

Appointed an independent Non-Executive Director on 6 June 2014.

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

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

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

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

In June 2020, Peter was made a member of the Order of Australia for services to business and corporate governance institutes.

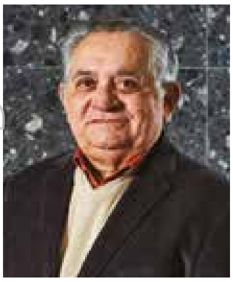
Current directorships of other listed companies include: Chair, Calix Limited, since its ASX listing on 20 July 2018.

Chairman of the Remuneration and Risk and Governance Committees until 31 December 2019.

Member of the Audit and Nomination Committees until 31 December 2019.

Chair of the People, Culture and Governance Committee from 1 January 2020.

Member of the Audit and Risk and the Sustainability and Operational Risk Committees from 1 January 2020.



Mr Jose Coutinho Barbosa

Bsc. (Geology), Msc. (Geophysics)

Non-Executive Director

Appointed 31 August 2011.

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

Earlier in his career, as an explorer, Jose Coutinho worked in most sedimentary basins in Brazil, onshore and offshore, as well as in basins in the Middle East, Africa and the Gulf of México, having incorporated Petrobras America Inc., in the USA, and directing the company as CEO for four years. After that, he returned to Brazil to assume the position of Executive Vice-President and CEO of Petrobras Internacional SA (also known as Braspetro).

During the period from 1999 to 2002, Jose Coutinho worked as Managing Director for Exploration and Production of Petrobras, leading up the production ramp from 700,000 bopd to 1,500,000 bopd. In that period, the giant oil fields of Roncador, Albacora, Marlin and Marlim South in the Campos Basin were developed.

After that, Jose Coutinho retired and has managed, since then, his own independent consulting firm, Net Pay Óleo & Gás Consultoria Ltda, operating in areas of the petroleum industry.

Jose Coutinho brings knowledge and experience to the Company, including experience with geology, exploration and production as well as local knowledge of the oil and gas industry in Brazil and internationally.

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

Member of the Sustainability and Operational Risk Committee from 1 January 2020.

Company Secretary

Nick Kennedy

B.Com., LLB (Hons.)

Appointed on 25 June 2020.

Nick is an experienced lawyer and company secretary with over 15 years' experience in corporate and commercial law, including particular expertise in public and private mergers and acquisitions, equity and debt capital markets, energy and resources and corporate governance.

Prior to joining the Company, Nick was a Head of Legal at ENGIE ANZ and before that worked in top tier law firms in Australia and London.

Mr Scott Hosking (Resigned)

B. Commerce

Appointed on 10 March 2006.
Resigned on 25 June 2020.

Scott has a significant international financial and commercial management background and has been involved with several commercial ventures over the past 20 years with experience in international trade, finance and corporate management. He has previously held support positions to Company Secretaries of Australian listed companies, worked as part of the finance and management teams of private international resource and industrial enterprises and was involved in the listing of the Company.

Directors' Report (CONTINUED)

Meetings

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

	Board Meetings		Audit and Risk Committee Meetings[1]		Sustainability and Operational Risk Committee Meetings[1]		People, Culture and Governance Committee Meetings[1]	
Director	A	B	A	B	A	B	A	B
Mr Bruce Phillips	13	13	-	-	-	-	4	4
Mr Robert Hosking	13	13	-	-	-	-	-	-
Mr Mark Smith (Retired 29 November 2019)	5	5	-	-	-	-	-	-
Ms Luciana Rachid	13	13	-	-	1	1	-	-
Mr Geoff Atkins	13	13	4	4	-	-	4	4
Mr Clark Davey	13	12	4	4	-	-	4	4
Mr Peter Turnbull	13	13	4	4	1	1	4	4
Mr Jose Coutinho Barbosa	13	13	-	-	1	1	-	-

	Audit Committee Meetings[2]		Remuneration Committee Meetings[2]		Nomination Committee Meetings[2]		Risk and Governance Committee Meetings[2]	
Director	A	B	A	B	A	B	A	B
Mr Bruce Phillips	-	-	2	2	1	1	-	-
Ms Luciana Rachid	-	-	-	-	1	1	2	2
Mr Geoff Atkins	3	3	2	2	1	1	-	-
Mr Clark Davey	3	3	2	2	1	1	2	2
Mr Peter Turnbull	3	3	2	2	1	1	2	2

1. Effective from 1 January 2020 the Committees of Directors were restructured resulting in the number of committees reducing from 4 to 3 committees.
2. Former committees active from 1 July 2019 to 31 December 2019.

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

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

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

Director	Ordinary Shares, Fully Paid	Unlisted Share Options	Unlisted Performance Rights
Mr Robert Hosking	12,192,083	-	716,297
Mr Bruce Phillips	1,750,000	-	-
Ms Luciana Rachid	52,960	-	-
Mr Geoff Atkins	696,784	-	-
Mr Clark Davey	147,214	-	-
Mr Peter Turnbull	146,269	-	-
Mr Jose Coutinho Barbosa	-	-	-

Principal Activities

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

Significant Changes in State of Affairs

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

Results

The consolidated result of the Group for the financial year was a loss after tax income of $127,828,293 (2019: $18,870,014).

The loss for the financial year included:

- exploration and evaluation expenditure expensed or impaired of $79,405,660 (2019: $11,104,771), which was predominantly attributable to the Marina-1 exploration well result drilled in Block Z-38, Peru of $73,371,044, including $3,900,732 of associated drilling costs capitalised during the 2019 financial year;
- write-down of the carrying value of inventory held for future exploration activities in Peru to net realisable value of $18,530,500;
- transition costs associated with the Baúna acquisition of $20,190,753 (2019: $Nil), which included internal time allocation of employees and consultants and associated office charges, insurance, travel expenses, geotechnical data, success fee, professional fees and external advice relating to due diligence and legal reviews; and
- net employee benefits expense of $10,319,165 (2019: $11,100,470), which included share-based payments expense of $3,404,667 (2019: $3,996,372).

Partially offsetting the loss for the financial year was net foreign currency gains of $8,026,559 (2019: $17,486,787 net foreign currency gains) and interest income of $3,439,042 (2019: $2,314,803). The net foreign currency gains were almost entirely attributable to realised gains resulting from the appreciation of the United States dollar against the Australian dollar.

Exploration and evaluation expenditure of $79,405,660 was incurred during the financial year, in the following operating segments:

- Peru, the Group completed the drilling of Marina-1 exploration well and continued Geological and Geophysical studies, at a total cost of $76,108,986;
- Brazil, the Group continued work on the Neon and Goiá light oil discovery and undertook G&G studies, including the evaluation of potential new exploration opportunities, at a total cost of $2,207,143; and
- Australia, the Group continued G&G studies with its joint operation partner in WA-482-P and evaluated potential new exploration opportunities in Australia, at a total cost of $936,300; and
- Other, the Group incurred $153,231 in relation to potential new investment opportunities outside of its operating segments.

During the second half of the financial year Karoon was adversely impacted by the COVID-19 pandemic and related disruptions to demand and change of global oil production supply, which saw a sharp fall in oil prices. Karoon acted early and decisively and enacted a comprehensive pandemic management plan to best protect our employees and shareholders (for further details of this plan refer to page 35 of this report). In addition, as a result of the actions taken, during July 2020, Karoon announced a renegotiated SPA for the Baúna acquisition to reflect the changed environment following the pandemic. The revised terms enable Karoon to complete the pending transaction without the need for external debt.

Cash Flows

Operating activities resulted in a cash outflow for the financial year of $99,966,427 (2019: $22,262,182), predominantly for payments for exploration and evaluation expenditure, including the Marina-1 exploration well, that was expensed $61,037,535 (2019: $9,529,601), associated transition expenditure to acquire the Baúna production asset of $18,936,281 and payments to suppliers and employees. Cash outflow from investing activities for the financial year was $75,231,164 (2019: $2,566,302), which included the Baúna deposit paid to Petrobras A$71,097,636. Cash inflow from financing activities for the financial year was $273,434,912 (2019: $94,081 outflow) resulting from a successful equity raising completed during the year.

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 $7,474,497 (2019: $17,540,743).

Financial Position

At the end of June 2020, the Group had a cash and cash equivalents balance of $431,902,949 (30 June 2019: $326,191,131).

The Group's working capital, being current assets less current liabilities, increased from $323,978,091 as at 30 June 2019 to $416,715,600 as at 30 June 2020 predominantly as a result of equity capital raisings $284 million, which was offset by exploration and evaluation expenditure $79.4 million, the Baúna deposit paid to Petrobras A$71 million, payments for Baúna transition expenditure and equity raising costs.

During the financial year, total assets increased from $457,822,995 to $579,315,717, total liabilities increased from $31,663,633 to $56,123,893 and total equity increased by $97,032,462 to $523,191,824. The major changes in the consolidated statement of financial position were largely due to the following:

- a successful equity raising of $274,430,122 (net of equity raising costs and associated deferred tax). Gross proceeds of $284 million were received during October 2019 and November 2019, from the completion of an institutional placement and retail entitlement offer for a 1:1.06 pro-rata accelerated non-renounceable entitlement offer at $0.93 per ordinary share;

Directors' Report (CONTINUED)

Financial Position *(continued)*

- payments for exploration and evaluation expenditure in Australia, Brazil and Peru, including the drilling of the Marina-1 exploration well in Block Z-38;
- write-down of inventory held for future Peruvian exploration activities to net realisable value;
- expensing of transition costs associated with the pending Baúna acquisition;
- reduction of deferred tax liabilities resulting from crystallising foreign currency gains on the payment of the Baúna deposit and exploration costs denominated in USD, partially offset by the recognition of a current income tax liability; and
- negative movement in the foreign currency translation reserve as a result of the depreciation of the Brazilian REAL against the Australian dollar (from Brazilian REAL1: AUD 0.3723 as at 30 June 2019 to Brazilian REAL1: AUD 0.2650 as at 30 June 2020). The negative movement in the foreign currency translation reserve includes a restatement of historical transaction value of the Baúna deposit paid to Petrobras of A$71 million to $A49 million as at 30 June 2020.

Review of Operations

Information on the operations of the Group is set out in the Operations Review on pages 10 to 18 of this Annual Report.

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

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

Dividends

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

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	21 September 2018	30 June 2022	$1.40	2,996,437
ESOP options	31 December 2018	30 June 2022	$1.40	1,069,686
Total ESOP options				4,066,123

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	21 September 2018	30 June 2021	$-	266,757
Performance rights	21 September 2018	30 June 2022	$-	785,178
Performance rights	31 December 2018	30 June 2021	$-	117,716
Performance rights	31 December 2018	30 June 2022	$-	280,298
Performance rights	12 November 2019	30 June 2022	$-	143,980
Performance rights	12 November 2019	30 June 2023	$-	685,621
Performance rights	18 October 2019	30 June 2022	$-	1,034,946
Performance rights	18 October 2019	30 June 2023	$-	2,367,643
Performance rights	29 November 2019	30 June 2022	$-	49,974
Performance rights	29 November 2019	30 June 2023	$-	666,323
Total performance rights				6,398,436

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.

488,398 fully paid ordinary shares have been issued since 1 July 2020 as a result of the vesting and conversion of performance rights under the 2016 Performance Rights Plan and the 2019 Performance Rights Plan (each being a 'PRP').

Information relating to the Company's PRP and share options, including details of performance rights and share options granted, exercised, vested and converted, cancelled, cash-settled, forfeited and expired during the financial year and performance rights and share options outstanding at the end of the financial year, is set out in Note 28 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 the Company and the Directors of the Company named earlier in this Directors' Report and with the full-time executive officers, directors and secretaries of the Company and all Australian subsidiaries. Under this agreement, the Company has agreed to indemnify, to the extent permitted by law, these Directors, full-time executive officers, directors and secretaries against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. The Company has also entered into a contract of insurance in respect of any liability incurred by the Directors, full-time executive officers, directors and secretaries (referred to above) in such capacity. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium (which is paid by the Company).

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

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

Proceedings on Behalf of the Company

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

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

Corporate Governance

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

Environmental Regulation

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

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

Greenhouse Gas Emissions and Reporting Requirements

Relevant entities are required to report greenhouse gas emissions, energy consumption and energy under the *National Greenhouse and Energy Reporting Scheme*. The Group was not required to register and report greenhouse gas emissions, energy consumption or energy production under the scheme for this financial year, as it did not meet the relevant Australian thresholds for the relevant period. However, the Group's global carbon footprint during the financial year was significantly higher than recent previous years, approximately 20,122 tonnes of carbon dioxide equivalent based on equity share and including scope 1 and scope 2 emissions (2019: 225 tonnes) due to fuel consumed in the Peru drilling campaign. The Company's corporate emissions, excluding the drilling campaign were 207 tonnes of carbon dioxide equivalent based on equity share and including scope 1 and scope 2 emissions, which is comparable to past years.

Directors' Report (CONTINUED)

The Company recognises that its future emissions will be substantially higher as a result of the Baúna production asset acquisition. The Company will seek to establish a base level of emissions in the first year of operatorship and from there develop targets for emissions reduction. The Company is aware of the need to continue to seek cost-effective, reliable and environmentally efficient methods for addressing future greenhouse gas emissions and energy consumption and has included the consideration of the addition of renewable energy assets to its portfolio in medium to long term strategic planning.

Further details of the Company's approach to Climate Change risks and opportunities can be found in the Sustainability Report, contained within this Annual Report.

Non-Audit Services

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

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

The Board of Directors has considered the position and, in accordance with written advice received from the Audit and Risk 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 and Risk 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 belonged to an audit practice auditing the Company during the financial year.

Matters Arising Subsequent to the End of the Financial Year

Other than the matters disclosed in Note 31 of the consolidated financial statements, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

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

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

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

Remuneration Report (Audited)

21 September 2020

Dear Shareholders,

On behalf of the Board of Directors I am pleased to present to you the Karoon Energy Ltd Remuneration Report for the financial year ended 30 June 2020.

1. Overview and COVID-19

This Report is being provided to you at a time of great uncertainty, which is unfortunately likely to continue for quite some time from both a global health and economic perspective.

The Board and management of Karoon have faced the global pandemic-related challenges early and decisively and Karoon has enacted a comprehensive pandemic management plan. We have focused on the steps, which will be best for our employees and shareholders.

This plan includes:

- Ensuring safe and effective work from home arrangements across 3 countries;
- Continuous engagement with the workforce;
- Reviewing the entire Group expense and capital expenditure structure, considering available government support and enacting a range of cost reductions across the Group;
- Continuous reassessment of the risk profile in this changed environment;
- The Board and key management personnel ('KMP') in Australia taking a 20% reduction in fees and salary, which is currently on-going;
- Majority of the workforce in Australia taking a 20% reduction in salary from 1 May 2020 to 30 June 2020;
- Improvements made to the business operating model by closing offices, moving to more cost-effective office space across 3 countries and reducing the total rented office space footprint in overall terms;
- Proceeding to make a number of positions redundant; and
- Reducing the number of consultants and contractors currently working for the Group.

2. Progress during the 2020 Financial Year

Over the financial year significant strategic and operational milestones have been achieved, including:

- As announced to the ASX on 25 July 2019, Karoon entered into a SPA to acquire 100% of the Baúna light oil field in the southern Santos Basin, offshore Brazil. The terms of the SPA were subsequently amended as announced to the ASX on 27 July 2020. The completion of the Baúna transaction will fulfil Karoon's strategic goal of acquiring a high quality, cash generating production asset;
- The Marina-1 exploration well was drilled in Block Z-38, Peru safely and on time albeit without a new oil or gas discovery; and
- Taking further permanent steps to reduce the ongoing annual operating costs and progressing the development of a new corporate operating model to cater for the transition to oil production, including a higher proportion of the management structure being based in Brazil.

Notwithstanding this progress, the Board has again taken a conservative stance in relation to remuneration during the 2020 financial year. As the amendment to the Baúna SPA was signed during July 2020, this significant achievement did not meet the precise asset acquisition short term incentive ('STI') milestone prescribed for the 2020 financial year, so there will be no award of any STI to executives for this outcome for the 2020 financial year. Credit for achieving this milestone will be considered more broadly as part of the 2021 financial year and will sit alongside more operational hurdles for the safe, productive, and budget conscious operation of the Baúna oilfield.

In relation to the 2020 financial year it is also noted that:

- Senior executive base salaries have remained unchanged since 2015;
- Base Board fees remained unchanged and have not been increased since 2013;
- The Board committee structure has been simplified and consolidated leading to one less Board committee and associated fees being in place; and
- No long-term incentive ('LTI') outcome was awarded while only a minimal STI outcome was awarded.

Remuneration Report (Audited) (CONTINUED)

3. Succession Planning

Considerable thought has been given to management and board succession planning during the 2020 financial year. The result of this planning is that:

- Robert Hosking, one of Karoon's two founding directors, has decided to retire at the 2020 Annual General Meeting ('AGM');
- An international search process is currently underway in order to identify a suitable new CEO for the next phase of Karoon's growth; and
- Geoff Atkins and Jose Coutinho Barbosa will retire from the Board at the 2020 AGM as non-executive directors and an international search is underway for suitable new non-executive director candidates.

4. Remuneration Strategy and Guiding Principles

Our overriding aim continues to be to ensure that executive performance outcomes are aligned with building asset value and securing long-term cash flow in order to support share price growth for all shareholders over the longer term. In other words, remuneration outcomes need to align with shareholder value accretion through achieving strategic and operational milestones.

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

(i) **Safety, culture and ethics** – ensuring that clear vesting gateways exist based on appropriate safety and ethical outcomes;

(ii) **Shareholder value is paramount:**

- remuneration outcomes (particularly incentive-based outcomes) are designed to take account of share price movements across the reporting period and therefore the value delivered to shareholders; and
- a close alignment is created between operational performance, reward and sustained growth in shareholder value. This is done through achieving robust company building milestones year-on-year via the STI Plan and through aiming to outperform a select group of 18 industry peer companies and seeking to achieve a minimum level of absolute return in the longer term via the LTI Plan;

(iii) **People:**

- our remuneration structures are designed to attract, motivate and retain the best people whilst remunerating them reasonably and competitively; and
- we encourage our people to hold equity in Karoon which builds a culture of viewing management decisions as an owner, thereby helping to further align executives and shareholder's interests;

(iv) **Transparency** – remuneration measures, outcomes and reporting are as simple and transparent as possible for shareholders and other stakeholders; and

(v) **Longer term focus** – we aim to ensure that key decision making is always appropriately longer term in its nature and focus.

While Karoon commenced a review of its remuneration policies during the 2020 financial year we have, after engagement with relevant stakeholders, formed the view that our overall strategy remains relevant for the 2021 financial year.

We have retained a relatively conservative and market sensitive approach to remuneration levels. However, improvements can always be made to policy and procedure and the following will be implemented for the 2021 financial year:

(a) **Executive salaries** – noting there have been no increases to KMP base salary levels for 6 years, it is the Board's intention to closely review the market competitiveness of these salaries in the different regions in which we operate, as well as the proportion of remuneration "At Risk".

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

(b) **Board fees:**

- As noted above, the structure and size of the Board has been reviewed, including Board committees which have been consolidated into 3 rather than 4 committees;
- the Board has a minimum shareholding policy requirement for all Non-Executive Directors, whereby Directors must acquire and hold a value of Karoon ordinary shares equivalent to 50% of the relevant Director's first year, base director fee (after-tax); and
- Noting that base Board fees have not changed since 2013, during the 2020/2021 year it is intended to benchmark Board and Board committee fees against the market and appropriate peer companies.

5. 2020 Financial Year Remuneration Outcomes:

- STI – a minimal STI outcome was awarded for the 2019/2020 year being 7.5% of the STI category allocated to ''Company-wide Objectives''.

  In recognition of the achievement of the ''Corporate Operating Model'' objectives set out for the 2020 financial year, 7.5% of the 10% total available was awarded. This small award was earned due to significant and permanent improvements having been made to Karoon's operating model achieved through certain staff reductions, office space reductions and other recurrent operating efficiencies having been achieved for the longer term.

  For KMP who are not Executive Directors, a component of their STI role-specific objectives was granted depending on individual performance in accordance with pre-set proportions of STI; and

- LTI – no LTI was awarded, which was assessed over the prior 3-year period as against a group of peer companies.

6. 2021 Financial Year proposed STI and LTI:

- The proposed STI hurdles and goals for the 2021 financial year have been targeted to award employees for achieving stretch targets relating to:
  - Financial and Operational – 65% financial and operational objectives including delivering the Baúna transition and production schedule, meeting or improving on the Group's production, opex and capex budgets and continuing to make operational gains in the COVID-19 environment; and
  - Strategic – 35% strategic objectives including legal completion of the Baúna sale transaction, protection of Karoon's balance sheet through various strategic methodologies, and further evolution of the "Corporate Operating Model" to minimise costs across the Group.
- The Board has also determined that LTI awards for the period 1 July 2020 to 30 June 2023 will now consist of:
  - 50% peer-based relative Total Shareholder Return ('TSR'); and
  - 50% Karoon Absolute Total Shareholder Return ('ATSR') with a sliding scale of vesting of between 50% and 100% of the performance rights related to this component of the LTI where ATSR is between 10% and 18%.

Due to market volatility resulting from the COVID-19 pandemic, the Board has decided to increase the valuation period for performance rights from one month to six months so as to provide a better correlation between the valuation of performance rights and Karoon's share price.

7. Summary

During the financial year, Karoon made positive progress on its strategic ambition's including in relation to the acquisition of the Baúna oilfield, development plans in the southern Santos Basin, offshore Brazil, as well as conducting pre-development facility planning studies on Neon and drilling Karoon's first exploration well in Peru. Further to this, Karoon also reduced the total cost of operating the business while redirecting its business model towards that of an operating oil producer.

In summary, our corporate strategy and all remuneration related targets are designed and managed to improve shareholder value into the future. In these circumstances, the Board and People, Culture and Governance Committee have exercised restraint by holding KMP base salaries and Non-Executive Director's fees steady, implementing temporary COVID-19 salary and Board fee reductions and by providing a very limited STI outcome and no LTI award for the 2020 financial year.

Looking forward, the 2021 financial year STI milestones are designed to reward our people for achieving operational and strategic hurdles, while completing and operating the Baúna acquisition, which aim to create share price appreciation for our shareholders.

As always, we will continue to engage with our shareholders, proxy advisors and our wider group of stakeholders to seek feedback so we can continue to improve our remuneration framework and associated disclosures.

Mr Peter Turnbull AM
Chairman, People, Culture and Governance Committee
21 September 2020

Remuneration Report (Audited) (CONTINUED)

Contents

Section 1. Introduction

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

For the financial year ended 30 June 2020, 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, Exploration Manager	Retired as a Director on 29 November 2019 and remained an Other KMP in the capacity of Exploration Manager until 15 March 2020.
Non-Executive Chairman		
Mr Bruce Phillips	Independent Non-Executive Chairman	Full financial year
Non-Executive Directors		
Ms Luciana Rachid	Independent Non-Executive Director	Full financial year
Mr Geoff Atkins	Independent Non-Executive Director	Full financial year
Mr Clark Davey	Independent Non-Executive Director	Full financial year
Mr Peter Turnbull	Independent Non-Executive Director	Full financial year
Mr Jose Coutinho Barbosa	Non-Executive Director	Full financial year
Other KMP		
Mr Edward Munks	Chief Operating Officer	Full financial year
Mr Scott Hosking	Company Secretary (part-year Company) and Chief Financial Officer (Group)	Resigned as Company Secretary on 25 June 2020
Mr Tim Hosking	South American General Manager and Chief Executive Officer Brazil	Full financial year

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

The Remuneration Report for the financial year ended 30 June 2020 outlines the remuneration arrangements of KMP of the Group in accordance with the requirements of the *Corporations Act 2001* and its regulations. The information provided in this Remuneration Report has been audited by Karoon's external auditor, as required by Section 308(3C) of the *Corporations Act 2001*. The Remuneration Report forms part of this Directors' Report.

Section 2. People, Culture and Governance Committee Oversight

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

The People, Culture and Governance Committee currently consists of a majority of independent Non-Executive Directors and is responsible for reviewing and making recommendations to the Board of Directors regarding (among other things):

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

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

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

Response to 2019 Remuneration Report Vote

At Karoon's 2019 Annual General Meeting, Karoon's 2019 Remuneration Report received a 30.04% vote AGAINST on a poll. This was the Company's first strike. Karoon sought and received valuable feedback from institutional shareholders, retail shareholders and proxy advisory organisations during the financial year. Views expressed during such meetings have contributed to decision making by the Board on Karoon's 2020 and 2021 financial year reward practices. In reviewing reward arrangements, assessing industry practices and the availability of global talent, the Board of Directors acknowledges that today, given the nature of Karoon's challenges and opportunities, it is fortunate to have a team of highly experienced and internationally regarded executives who have a track record of success and who can execute the next value creating opportunities for Karoon.

The Board of Directors have continued to address shareholder and proxy advisor views and suggestions as follows:

- in recognition of current oil and gas industry market conditions, country base salary for Non-Executive Directors and executives did not increase for the 2020 financial year, and Non-Executive Directors and the majority of senior staff have taken a 20% reduction in salary from May 2020;
- during the 2020 financial year, the Board committee structure was simplified and consolidated leading to one less Board committee and associated fees being in place;
- Board succession planning is being implemented with three directors (including the Managing Director) due to retire at the 2020 AGM;
- in respect of the 2021 financial year, performance conditions for executives will be based on an up-to-date list of Company-wide financial, operational and strategic objectives and, in some instances, role-specific objectives, in order to focus executives on the achievement of value-adding financial, operational and strategic progress in the short-term and relative Company performance in the long-term;
- safety will again be used as a gateway measure but Karoon is now including, for the 2021 STI, a further no fatalities gateway hurdle;
- negative discretion may be exercised based on poor Anti-bribery and Corruption Policy implementation and outcomes in order to modify short-term incentives;
- when compared to the 2020 financial year Absolute TSR vesting hurdles, the 2021 financial year Absolute TSR vesting hurdles have been amended to remove any "cliff vesting" element in line with feedback received from stakeholders; and
- having due regard to market conditions, no LTI will vest as part of the 2020 LTI testing.

Remuneration Report (Audited) (CONTINUED)

Section 2. People, Culture and Governance Committee Oversight *(continued)*

Share Trading Policy

The trading of ordinary shares by Non-Executive Directors and executives subject to, and conditional upon, compliance with Karoon's Share Trading Policy.

Under Karoon's Share Trading Policy, an individual may not limit his or her exposure to risk in relation to securities (including unlisted share options and performance rights). Directors and executives are prohibited from entering into any hedging arrangements over unvested share options or performance rights under Karoon's share-based remuneration schemes. To gain approval to trade and ensure that trading restrictions are not in force any employee wishing to trade in Karoon securities must consult the Company Secretary, the South American General Manager, the Company Secretary or any Director wishing to trade in Karoon securities must consult the Chairman, whilst the Chairman must consult and seek approval of the Audit and Risk Committee Chair. All trades by Directors and executives during the financial year ended 30 June 2020 were conducted in compliance with Karoon's Share Trading Policy.

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

Section 3. Executive Remuneration

The Board of Directors has developed a remuneration policy that ensures executive remuneration supports the current business strategy and needs of the business. In particular, the decision to use performance tested share-based grants for its incentive plans reflects the Board of Directors' belief that this best aligns executive and shareholder interests in the short and long-term. Karoon's success is measured by the delivery of its strategic objectives in the short-term and clear demonstration of shareholder value creation in the long-term.

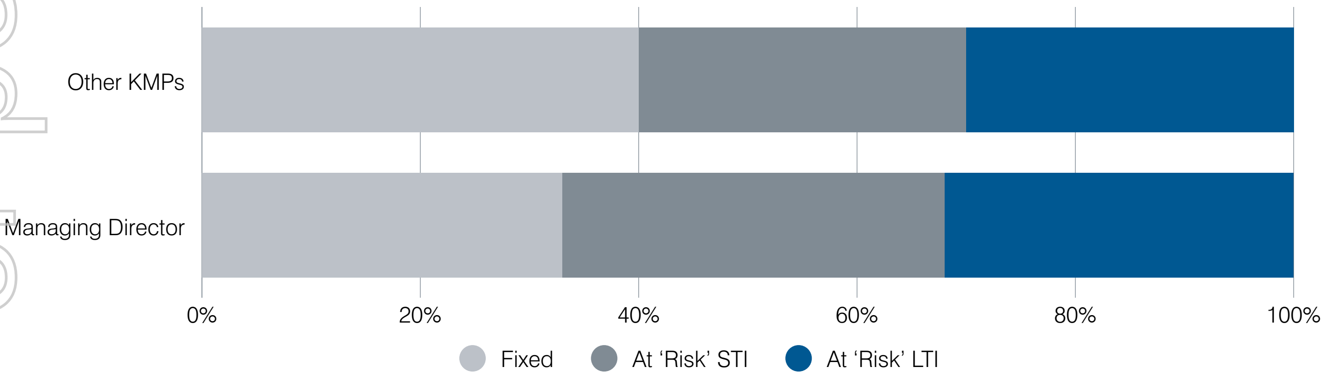
Broadly, the objectives of Karoon's executive remuneration framework are to ensure:

- remuneration is reasonable and competitive in order to attract, retain and motivate talented and high calibre executives capable of managing Karoon's diverse international operations;
- remuneration is set at a level acceptable to shareholders, having regard to Karoon's performance, and rewards individual capability;
- remuneration structures create alignment between performance, reward and sustained growth in shareholder value;
- remuneration outcomes provide recognition of contribution to overall long-term growth in the value of Karoon's asset portfolio and are transparent to both participants and shareholders; and
- remuneration incentivises the best possible outcomes for the broader stakeholder community, including sustainability, health and safety along with best practice in preventing bribery and/or corruption.

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2020

The following table summarises the target remuneration mix for executives for the financial year ended 30 June 2020, based on maximum achievement of incentive plan outcomes:

Remuneration Mix – financial year ending 30 June 2020



Fixed Remuneration

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

Fixed remuneration is reviewed annually by the Board. Broadly, fixed remuneration is positioned within a range that references the median of the relevant market for each role. In recognition of the current economic climate, primarily caused by COVID-19 and oil and gas industry market conditions, base salary for Executive Directors and other KMP did not increase for the financial year ended 30 June 2020.

During the final quarter of financial year ended 30 June 2020, KMP fixed remuneration was reduced by 20% as part of the Company's COVID-19 response.

Superannuation

The Australian executives of the Company received statutory superannuation contributions of 9.5% of cash remuneration, up to the maximum statutory contribution. Individuals may choose to sacrifice part of their salary to increase payments towards superannuation.

Social Security and Indemnity Fund Contributions

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

'At Risk' Remuneration

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

All executives that received grants of performance rights during the financial year ended 30 June 2020 were issued under the 2016 Performance Rights Plan ('2016 PRP') or the 2019 Performance Rights Plan ('2019 PRP').

STI Plan

The key features of the STI award for the financial year ended 30 June 2020 ('FY20 award') are outlined in the table below:

Participation	All executives. Participation in the STI Plan is at the discretion of the Board of Directors on the recommendation of the People, Culture and Governance Committee. No employee has a contractual right to receive performance rights.
STI Opportunity	The STI opportunity level of each executive is a pre-determined proportion of an executives' total remuneration. The quantum of performance rights received is determined by dividing the STI opportunity for each employee by Karoon's weighted average share price in the 20-trading day period leading up to the first day of the performance period. The STI opportunity available to an executive is between 15%-33.33% of total remuneration dependant on seniority in the Group. The Board calculates the incentive value and establishes a maximum number of performance rights 'At Risk' at the beginning of the period.
Form of Incentive	Executives receive PRP rights. Each PRP right provides the participant with the right to receive one fully paid ordinary share in Karoon, or its equivalent value, for no consideration. Under the rules of the PRP, ordinary shares issued as a result of the exercise of vested and converted performance rights may be issued as new ordinary shares, ordinary shares acquired on-market or an equivalent value in cash at Karoon's discretion.
Performance Period	1 year.
Deferral Period	Vested PRP rights are subject to a retention period of 12 months, being the continuation of employment, immediately following the satisfaction of performance conditions.

Remuneration Report (Audited) (CONTINUED)

Section 3. Executive Remuneration *(continued)*

A. Executive Remuneration Framework for the Financial Year Ended 30 June 2020 *(continued)*

STI Plan *(continued)*

Performance Conditions

As part of the 2020 remuneration review, for the financial year ended 30 June 2020 the Board set out the FY20 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 Objectives

Company-wide Objectives were set by the Board at the beginning of the performance period.

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

Role-specific Objectives

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

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

Further details on the performance conditions, targets and outcomes for the FY20 award are outlined below in the STI outcomes within Section 3B on page 44.

Grant Date

Maximum amount of PRP rights available were determined following finalisation of the 30 June 2019 audited accounts and remained 'At Risk' until tested during July 2020 and the satisfaction of retention conditions to be met on 1 July 2021. Grant date occurs following the offer and acceptance of PRP rights. However, any PRP rights offered and accepted by the Managing Director are subject to shareholder approval at the next Annual General Meeting.

Termination of Employment

Unvested (and unconverted) PRP rights will lapse upon cessation of employment with Karoon, subject to the discretion of the Board of Directors depending on the nature and circumstances of the termination.

Change of Control

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

Link Between Performance and Reward

The STI framework is based on a set of challenging Company building goals, granted on a rolling short-term basis. Linking outcomes to operational performance develops an essential alignment between Karoon's year-to-year inherent value growth and rewards those who establish that value only when the goals are met. The Board assess the goals for the performance period annually in light of the long-term strategic building blocks and upcoming key value drivers within Karoon's operations, allowing for transparent measurement of performance against these objectives,

The Board recognises the risks associated with offshore drilling and considers safety, anti-bribery and zero corruption paramount to its operations. Safety is used as a gateway for vesting conditions, while bribery and corruption can be utilised to clawback incentives.

LTI Plan

The key features of the LTI grant for the period 1 July 2017 to 30 June 2020 are outlined in the table below:

<table>
<tr><td>Participation</td><td>All executives.

Participation in the LTI plan is at the discretion of the Board of Directors on the recommendation of the People, Culture and Governance Committee. No executive has a contractual right to receive performance rights.</td></tr>
<tr><td>LTI Opportunity</td><td>The LTI opportunity available to an executive is between 15%-33.33% of total remuneration dependant on seniority in the Company.</td></tr>
<tr><td>Form of Incentive</td><td>The quantum of PRP rights received is determined by dividing the LTI opportunity for each executive by the 20-day weighted average share price at the beginning of the test period.

PRP rights do not have a strike price.</td></tr>
<tr><td>Performance Period</td><td>3 years.</td></tr>
<tr><td>Performance Conditions</td><td>For the financial year ended 30 June 2020, Karoon's relative TSR performance was measured against an extensive industry peer group.

Vesting occurs in accordance with the pre-approved schedule of relative performance:

<table>
<tr><th>Performance Against Industry Peer Group</th><th>Proportion of PRP Rights Vesting</th></tr>
<tr><td>Less than 50th percentile</td><td>Nil%</td></tr>
<tr><td>At 50th percentile</td><td>50%</td></tr>
<tr><td>Between 50th and 75th percentile</td><td>50% plus 2% for each additional percentile ranking above the 50th percentile</td></tr>
<tr><td>At or above 75th percentile</td><td>100%</td></tr>
<tr><td>At 100% percentile</td><td>100%</td></tr>
</table></td></tr>
<tr><td>Grant Date</td><td>PRP rights were granted during the financial year ended 30 June 2020, following finalisation of the 30 June 2019 audited accounts.</td></tr>
<tr><td>Exercise Period</td><td>PRP rights will remain exercisable for a period of 1 year following vesting, provided the individual remains an employee during this period.</td></tr>
<tr><td>Termination of Employment</td><td>Unvested (and unconverted) PRP rights will lapse upon cessation of employment with Karoon, subject to the discretion of the Board of Directors depending on the nature and circumstances of the termination.</td></tr>
<tr><td>Change of Control</td><td>Upon a change of control, the Board of Directors may determine that a portion of the individual's unvested PRP rights will vest, based on pro-rata achievement of the performance conditions.</td></tr>
<tr><td>Link Between Performance and Reward</td><td>The Board of Directors and People, Culture and Governance Committee consider it important to link remuneration to share price performance relative to Karoon's industry peer group companies and overall share price performance over the long-term. In the case where performance does not reach the 50th percentile, no incentive will be paid.</td></tr>
</table>

B. Executive Remuneration Outcomes

Relationship between the Executive Remuneration Framework and Company Performance

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

Karoon has historically set ESOP option exercise prices at a level that provided for an inherent 30% premium to the Company's share price at the time of offer to executives. This premium ensured a simple share price accretion hurdle of 10% per year over the three-year testing period was achieved before the ESOP option's exercised price equalled the Company's share price.

Notwithstanding, the Company has progressed its Southern Santos Basin strategy and has maintained a robust financial position in a difficult oil and gas industry environment, the Company's share price has fluctuated and trended downwards during the past five financial years.

Remuneration Report (Audited) (CONTINUED)

B. Executive Remuneration Outcomes *(continued)*

Relationship between the Executive Remuneration Framework and Company Performance *(continued)*

Over the past 5 years no LTI's have vested to Executives. This result is directly correlated to the Company's share price and performance against its peer group.

Further, whilst Karoon largely satisfied the acquisition strategy STI hurdle in the performance testing period for the current financial year, this hurdle was not achieved with closing of the Baúna acquisition expected to occur during the first half of the 2021 financial year and therefore, the STI did not vest. Likewise, the LTI tested over the period 1 July 2017 to 30 June 2020 failed to meet minimum vesting requirements and therefore equally did not vest.

Given the above, the Board of Directors, believes its current policy is effective in linking remuneration to Company performance.

Based on the significant progress that was achieved during current financial year with the advancement of the Company's Southern Santos Basin strategy, the Company aims to derive operating cash inflows and positive returns going forward.

The tables below set out summary information about the Company's earnings, net assets and movements in shareholder wealth from 1 July 2015 to 30 June 2020.

Financial Year Ended	30 June 2020 $	30 June 2019 $	30 June 2018[A] $	30 June 2017[A] $	30 June 2016[A] $
Revenue	**3,439,042**	2,314,803	710,652	858,356	1,608,292
Profit (loss) before income tax	**(128,773,127)**	(16,124,339)	(184,056,597)	(91,727,848)	(149,430,833)
Profit (loss) for financial year	**(127,828,293)**	(18,870,014)	(181,777,789)	(81,527,513)	(105,126,345)
Net assets at end of financial year	**523,191,824**	426,159,362	555,225,714	758,892,165	857,962,747

Financial Year Ended	30 June 2020 $	30 June 2019 $	30 June 2018[A] $	30 June 2017[A] $	30 June 2016[A] $
Share price at beginning of financial year	**0.96**	1.13	1.28	1.285	2.25
Share price at end of financial year	**0.61**	0.96	1.13	1.28	1.285
Basic profit (loss) per ordinary share	**(0.2873)**	(0.0768)	(0.7403)	(0.3327)	(0.4275)
Diluted profit (loss) per ordinary share	**(0.2873)**	(0.0768)	(0.7403)	(0.3327)	(0.4275)

(A) The comparative financial information for the financial year ended 30 June 2018 and prior financial years have not been restated for the impact of the voluntary change in accounting policy as detailed in Note 1(x).

Performance Hurdles and STI Outcomes for the Financial Year Ended 30 June 2020

The table below outlines the Company-wide Objectives for the financial year ended 30 June 2020:

Criteria	Hurdle
Safety	TRIR of < 2 required for any award to proceed.
Acquisition Strategy	Complete the funding, commercial and regulatory approvals for the Baúna acquisition and move to transaction completion.
Southern Santos Basin	Progress Karoon's strategic goals at Neon and Goiá and a potential farm-out.
Exploration	Marina-1 exploration well drilled safely, on time and within budget.
Corporate Operating Model	Corporate re-structure to move toward a more development and production centric business model.
Anti-bribery and Corruption	Negative discretion will be applied, if necessary, by the Board of Directors should any material event which constitutes a breach of Karoon's Anti-bribery and Corruption Policy occur.

Based on actual results, a total of 7.5% of the available STI opportunity vested to the Managing Director against the STI performance targets outlined above. For other KMP, 15% of the available STI opportunity vested based on the results of Role-specific performance targets, resulting in 21% vesting in total.

Vested performance rights (associated with the STI) have a 1-year retention period ending 30 June 2021 before they become exercisable and convertible into fully paid ordinary shares or paid for the equivalent value in cash. These STI performance rights expire on 30 June 2022.

LTI Outcomes

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

Voluntary Information: 2020 'Remuneration Received'

The amounts disclosed below reflect the actual benefits received by each executive during the financial year ended 30 June 2020. The amounts disclosed below include the actual value of any equity-settled and/or cash-settled award received from STI and/or LTI.

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

Fixed Remuneration

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

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

Short-term Incentives

Includes the equity-settled and/or cash-settled award received from STI incentives by executives. The value of STI equity-settled and cash-settled awards received reflects the amounts disclosed to the relevant tax authorities during the financial year ended 30 June 2020.

Long-term Incentives

Includes the equity-settled and/or cash-settled award received from LTI incentives by executives. The value of LTI equity-settled awards and cash-settled awards received reflects the amounts disclosed to the relevant tax authorities during the financial year ended 30 June 2020.

	Fixed Remuneration $	Short-term Incentives $	Long-term Incentives $	Total Remuneration Received $
Executive Directors				
Mr Robert Hosking	649,256	125,292	-	**774,548**
Mr Mark Smith (retired as Director 29 November 2019 and remained other KMP until 15 March 2020)	463,923	125,292	-	**589,215**
Other key management personnel (Group)				
Mr Scott Hosking	445,670	126,402	-	**572,072**
Mr Tim Hosking	444,702	129,302	-	**574,004**
Mr Edward Munks	527,353	142,602	-	**669,955**

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

- the statutory remuneration expensed through share-based payments (ESOP options and/or PRP rights) is based on historic cost and does not reflect the value of equity-settled and/or cash-settled amounts when they are actually received;
- the statutory remuneration shows benefits before they are actually received by executives;
- where ESOP options or PRP rights do not vest because a market-based performance condition is not satisfied (for example, an increase in Karoon's share price), Karoon must still recognise the full amount of the share-based payments expense even though the executives do not receive the benefit; and
- share-based payment awards are treated differently under Australian Accounting Standards depending on whether the performance conditions are market conditions (no reversal of share-based payments expense) or non-market conditions (reversal of share-based payments expense when ESOP options or PRP rights fail to vest), even though the benefit received by the executive is the same ($Nil where the ESOP option or PRP right fail to vest).

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

Remuneration Report (Audited) (CONTINUED)

C. Executive Remuneration for the Financial Year Ending 30 June 2021

As part of the annual review of remuneration arrangements conducted for the financial year ending 30 June 2021:

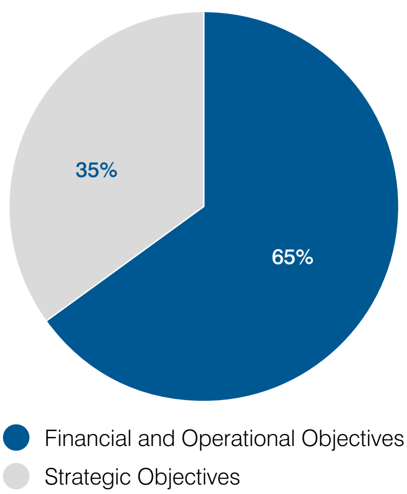
- There is currently no proposed change to country base salary or overall remuneration structure for executives for the financial year ending 30 June 2021. It is, however, the Board of Directors' intention to closely review the market competitiveness of salaries given the change to a business structure under a production operating model;
- STI will be delivered in the same manner as described in section 3A to executives in the form of 'At Risk' performance rights, to be tested against appropriate Company-wide Objectives and in some instances, Role-specific Objectives. Safety performance remains a gateway, with express negative discretion to be applied by the Board of Directors to modify STI outcomes resulting from Anti-bribery and Corruption Policy implementation and enforcement issues; and
- LTI will be delivered as PRP rights, to be tested using 50% relative TSR and 50% Absolute TSR performance conditions.

'At Risk' Remuneration

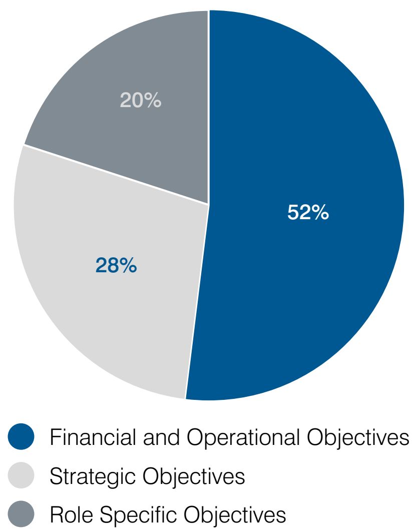
Short-term incentives

The STI performance hurdles for the performance period for the financial year ending 30 June 2021 are outlined in the table below. Vesting under each objective will occur upon satisfaction of the Company-wide Objectives, and in some cases Role-specific Objectives.

STI Performance Mix for financial year ending 30 June 2021 – Managing Director



STI Performance Mix for financial year ending 30 June 2021 – Other KMPs



Gateway

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

Clawback

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

Company-wide Objectives

For the performance period for the June 2021 financial year, the Company-wide Objectives are outlined in the table below. Vesting under each objective will occur upon satisfaction of the relative performance condition.

Criteria	Hurdle
Safety (0% – gateway)	Zero fatalities and a TRIR of < 2 required for any award to proceed.
Financial and Operational Objectives (65%)	
• Operational Performance and Budgeting	Achieve the Baúna approved budget operational targets.
• Baúna Operatorship	Successful transition to operatorship of the Baúna asset.
• Baúna Schedule	Secure relevant regulatory approvals for planned Baúna workovers. Obtain FID for the Patola field development.
• COVID-19 Response	Demonstrate effective management of the COVID-19 pandemic.
Strategic (35%)	
• Completion of the Baúna Acquisition	Achieve a legal settlement and timely financial close of the Baúna acquisition.
• Balance Sheet Protection	Develop and implement certain strategies to strengthen the Group's balance sheet.
• Further evolution of the corporate operating model	Continued refinement of the corporate operating model towards a lower cost and more development and production centric business model.
Anti-bribery and Corruption (0% – clawback)	Negative discretion will be applied, if necessary, by the Board of Directors should any material event which constitutes a breach of Karoon's Anti-bribery and Corruption Policy occur.

Role-specific Objectives

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

Long-term Incentive

The LTI performance hurdles for the period commencing 1 July 2020 and ending 30 June 2023 will be split 50% relative TSR performance as assessed against a list of closely comparable and representative industry peer group companies, whose business models and/or regions of operations are similar to those of Karoon; and 50% Absolute TSR, which is set at a range of 10% to 18%.

Relative TSR

For the period commencing 1 July 2020 and ending 30 June 2023, the refined list of industry peer group companies will be as follows:

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

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

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

Absolute TSR

For the financial year ending 30 June 2021, vesting consideration details for the Absolute TSR measure are set out below.

Absolute TSR	Proportion of Performance Rights Vesting
Less than 10%	Nil %
At 10%	50%
Between 10.01% and 17.99%	50% plus 6.25% for each additional percentage point above the 10% threshold
At or above 18.00%	100%

Remuneration Report (Audited) (CONTINUED)

D. Executive Agreements

Remuneration and other terms of employment for the executives are formalised in employment agreements. Each of these agreements may provide for the provision of non-cash benefits including but not limited to participation, when eligible, in the Company's PRP. Other major provisions of the agreements relating to remuneration are set out below.

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

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

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

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

Other than in respect of Mr Robert Hosking who is to retire at the 2020 AGM, the employment agreements of executives are on a continuing basis, the terms of which are not expected to change in the immediate future.

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

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

There have been no changes to Non-Executive Directors' base or individual committee fees, however as a result of a restructure of Board committees (which resulted in one less Board committee), Non-Executive Directors received less Committee member fees for the financial year ended 30 June 2020. The tables at the end of this section provides a summary of Karoon's Non-Executive Director fees for the 2021 and 2020 financial years.

Non-Executive Director fees are determined within an aggregate Directors' fee pool limit, which is periodically approved by shareholders. The maximum aggregate amount, including superannuation contribution, that may be paid to Non-Executive Directors of the Company as remuneration for their services per annum is $1,200,000, as approved by shareholders at the Company's 2015 Annual General Meeting. For the financial year ended 30 June 2020, the total fees paid to Non-Executive Directors was $875,235 (excluding superannuation contributions).

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

Share-based Remuneration

Non-Executive Directors do not ordinarily receive performance-related remuneration. The Company has determined that it will not grant bonus or incentive related share-based remuneration to Non-Executive Directors. Non-Executive Directors will continue to be encouraged to purchase ordinary shares in the Company on-market.

Retirement Allowance for Directors

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

Non-Executive Director Fees for the Financial Years Ending 30 June 2021 and 2020

The Board of Directors reviewed Non-Executive Director Fees for the financial year end 30 June 2021. The following are the Non-Executive Director Fees for the financial year ending 30 June 2021 (excluding superannuation contribution), which reflect the changes in Committee structure and membership implemented during the financial year ended 30 June 2020.

Base fee:	
Non-Executive Chairman *	$220,000
Non-Executive Directors	$100,000
Committee member fees	
Audit and Risk Committee	
Chairman	$25,000
Member	$20,000
People, Culture and Governance Committee	
Chairman	$20,000
Member	$15,000
Sustainability and Operational Risk Committee	
Chairman	$20,000
Member	$15,000

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

Non-Executive Directors' fees for the financial year ended 30 June 2020 (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 and Risk Committee	
Chairman	$20,000
Member	$15,000
People, Culture and Governance Committee	
Chairman	$15,000
Member	$12,000
Sustainability and Operational Risk Committee	
Chairman	$15,000
Member	$12,000
Former Committee member fees	
Audit Committee	
Chairman	$20,000
Member	$15,000
Nomination Committee	
Chairman	$15,000
Member	$12,000
Remuneration Committee	
Chairman	$15,000
Member	$12,000
Risk and Governance Committee	
Chairman	$15,000
Member	$12,000

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

Remuneration Report (Audited) (CONTINUED)

Section 5. Statutory and Share-based Reporting

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

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

Financial Year Ended 30 June 2020	Short-term Benefits		Post-employment Benefits		Long-term Benefits	Share-based Payments Expense		
Name	Cash Salary and Fees $	Non-monetary Benefits $	Superannuation Contributions $	Social Security & Indemnity Fund Contributions $	Long Service Leave $	Share Options/ Performance Rights $	Remuneration Consisting of Share Options Performance Rights* %	Total Remun-eration $
Executive Directors								
Mr Robert Hosking	579,701	48,552	21,003	-	3,718	372,046	36.3%	1,025,020
Mr Mark Smith (retired as a Director on 29 November 2019 and remained as other KMP until 15 March 2020)	431,708	16,463	15,752	-	-	128,401	21.7%	592,324^
Non-Executive Directors								
Mr Bruce Phillips	212,667	-	20,900	-	-	-	-	233,567
Ms Luciana Rachid	115,667	-	-	-	-	-	-	115,667
Mr Geoff Atkins	130,267	-	12,778	-	-	-	-	143,045
Mr Clark Davey	154,600#	-	15,105	-	-	-	-	169,705
Mr Peter Turnbull	159,767#	-	15,628	-	-	-	-	175,395
Mr Jose Coutinho Barbosa	102,267	-	-	-	-	-	-	102,267
Total Directors' remuneration	1,886,644	65,015	101,166	-	3,718	500,447	-	2,556,990
Other key management personnel (Group)								
Mr Scott Hosking	404,067	20,600	21,003	-	8,348	40,372	8.2%	494,390
Mr Tim Hosking	341,231	43,306	-	60,165		39,092	8.1%	483,794
Mr Edward Munks	505,083	1,267	21,003	-	11,729	377,326	41.2%	916,408
Total other key management personnel remuneration (Group)	1,250,381	65,173	42,006	60,165	20,077	456,790		1,894,592
Total key management personnel remuneration (Group)	3,137,025	130,188	143,172	60,165	23,795	957,237		4,451,582

* 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.

^ The total remuneration Mark Smith received in his capacity of an Executive Director of the Company from 1 July 2019 to 29 November 2019 and as an other KMP until 15 March 2020 was $336,852 and $255,472 respectively.

Fees paid to Mr Clark Davey and Mr Peter Turnbull include a one off payment of $15,000 for additional services provided to a temporary due diligence committee established during the year to oversee and administer the successful equity raising.

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

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

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 with the exception of cash-settled share base payments which are revalued at year end. The value attributable to share options and performance rights is allocated to particular financial periods in accordance with AASB 2 '*Share-based Payment*', which requires the value of a share option and performance right at grant date to be allocated equally over the period from grant date to vesting date, adjusted for not meeting the vesting condition. For share options and performance rights that vest immediately, the value is disclosed as remuneration immediately, in accordance with the accounting policy described in Note 1(p) of the consolidated financial statements.

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

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

Remuneration Report (Audited) (CONTINUED)

Section 5. Statutory and Share-based Reporting *(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:

			Related to Performance Conditions							
	Fixed Remuneration		STI (Performance Rights)		LTI (Performance Rights)		LTI (Share Options)		Remuneration Consisting of Share Options^	
Name	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Executive Directors										
Mr Robert Hosking	63.8%	61.2%	2%	-	26.7%	21.4%	7.5%	17.4%	7.5%	17.4%
Mr Mark Smith (retired as a director 29 November 2019 and ceased as other KMP 15 March 2020)	78.3%	58.3%	-	-	12.5%	23.0%	9.2%	18.7%	9.2%	18.7%
Non-Executive Directors										
Mr Bruce Phillips	100%	100%	-	-	-	-	-	-	-	-
Ms Luciana Rachid	100%	100%	-	-	-	-	-	-	-	-
Mr Geoff Atkins	100%	100%	-	-	-	-	-	-	-	-
Mr Clark Davey	100%	100%	-	-	-	-	-	-	-	-
Mr Peter Turnbull	100%	100%	-	-	-	-	-	-	-	-
Mr Jose Coutinho Barbosa	100%	100%	-	-	-	-	-	-	-	-
Other key management personnel (Group)										
Mr Scott Hosking	91.8%	74.1%	3.5%	13.3%	3.8%	12.3%	0.9%	0.3%	0.9%	0.3%
Mr Tim Hosking	91.9%	76.4%	3.4%	12.8%	3.8%	10.8%	0.9%	0.0%	0.9%	0.0%
Mr Edward Munks	58.9%	58.1%	7.8%	12.4%	25.8%	20.2%	7.5%	9.3%	7.5%	9.3%

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

Further information on share options and performance rights is set out in Note 28 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 exercise price of share options on issuance is currently $1.40. There are currently 4,066,123 share options (4,066,123 remain unvested) and 6,398,436 performance rights issued under the 2016 ESOP, 2016 PRP and 2019 PRP respectively, representing approximately 1.89% 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						
6 October 2017	1 July 2020	30 June 2021	$1.73	$0.354	0%	Performance conditions not met
9 November 2017	1 July 2020	30 June 2021	$1.73	$0.361	0%	Performance conditions not met
14 November 2017	1 July 2020	30 June 2021	$1.73	$0.431	0%	Performance conditions not met
16 November 2017	1 July 2020	30 June 2021	$1.77	$0.353	0%	Performance conditions not met
21 September 2018	1 July 2021	30 June 2022	$1.40	$0.285	-	To be determined
31 December 2018	1 July 2021	30 June 2022	$1.40	$0.100	-	To be determined
Performance rights						
6 October 2017	1 July 2020	30 June 2021	$-	$1.285	0%	Performance conditions not met
9 November 2017	1 July 2020	30 June 2021	$-	$1.215	0%	Performance conditions not met
14 November 2017	1 July 2020	30 June 2021	$-	$1.475	0%	Performance conditions not met
16 November 2017	1 July 2020	30 June 2021	$-	$1.360	0%	Performance conditions not met
21 September 2018	1 July 2020	30 June 2021	$-	$1.150	37%	2019 Performance condition
31 December 2018	1 July 2020	30 June 2021	$-	$0.850	47%	2019 Performance condition
21 September 2018	1 July 2021	30 June 2022	$-	$1.150	0%	To be determined
31 December 2018	1 July 2021	30 June 2022	$-	$0.850	0%	To be determined
12 November 2019	1 July 2021	30 June 2022	$-	$1.060	21%	2020 Performance condition
12 November 2019	1 July 2022	30 June 2023	$-	$1.060	-	To be determined
18 October 2019	1 July 2021	30 June 2022	$-	$1.075	43%	2020 Performance condition
18 October 2019	1 July 2022	30 June 2023	$-	$1.075	-	To be determined
29 November 2019	1 July 2021	30 June 2022	$-	$1.115	7.5%	2020 Performance condition
29 November 2019	1 July 2022	30 June 2023	$-	$1.115	-	To be determined

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

Remuneration Report (Audited) (CONTINUED)

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

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

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

Name	Number of Share Options and Performance Rights Granted During Financial Year	Fair Value Per Share Options and Performance Rights at Grant Date *	Value of Share Options and Performance Rights at Grant Date *	Number of Share Options and Performance Rights Vested During Financial Year	Number of Share Options and Performance Rights Forfeited	Value of Share Options and Performance Rights Forfeited **
Executive Directors						
Mr Robert Hosking						
– ESOP options	-	-	-	-	423,376	$575,791
– Performance rights (STI)	666,323	$1.115	$742,950	-	-	-
– Performance rights (LTI)	666,323	$1.115	$742,950	-	192,758	$262,151
Mr Mark Smith						
– ESOP options	-	-	-	-	423,376	$575,791
– Performance rights (STI)	-	-	-	-	-	-
– Performance rights (LTI)	-	-	-	-	192,758	$262,151
Non-Executive Director						
Mr Jose Coutinho Barbosa^						
– ESOP options	-	-	-	-	12,140	$16,510
– Performance rights (STI)	29,919	$1.075	$32,163	8,884	16,176	$21,999
– Performance rights (LTI)	29,919	$1.075	$32,163	-	12,897	$17,540
Other key management personnel (Group)						
Mr Scott Hosking						
– ESOP options	-	-	-	-	98,368	$133,780
– Performance rights (STI)	348,333	$1.06	$369,233	41,901	154,815	$210,548
– Performance rights (LTI)	348,333	$1.06	$369,233	-	104,500	$142,120
Mr Tim Hosking						
– ESOP options	-	-	-	-	222,948	$303,209
– Performance rights (STI)	363,807	$1.06	$385,635	47,280	187,278	$254,698
– Performance rights (LTI)	363,807	$1.06	$385,635	-	117,698	$160,069
Mr Edward Munks						
– ESOP options	-	-	-	-	122,960	$167,226
– Performance rights (STI)	435,417	$1.075	$468,073	52,376	193,518	$263,184
– Performance rights (LTI)	435,417	$1.075	$468,073	-	130,625	$177,650
Total key management personnel						
– Share options	-		-	-	1,303,168	$1,772,307
– Performance rights	3,687,598		$3,996,108	150,441	1,303,023	$1,772,110

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

** The value of share options and performance rights forfeited during the financial year because a vesting condition was not satisfied was determined at the time of forfeit (25 July 2019), but assuming the condition was satisfied, based on the underlying value of the share options or performance rights at that date.

^ The performance rights were issued to Ms Flavia Barbosa, the daughter of Mr Coutinho Barbosa, who is a personally related party.

No share options or performance rights over unissued ordinary shares in the Company, held by any Director or other key management personnel, lapsed during the financial year, except for 1,303,168 share options and 1,303,023 performance rights that were forfeited by Directors and other key management personnel.

Shares Issued on the Exercise of Share Options Provided as Remuneration

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

Shares Issued on the Conversion of Performance Rights Provided as Remuneration

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

Name	Date of Conversion of Performance Rights	Number of Ordinary Shares Issued	Value at Conversion Date*	Amount Paid per Performance Right
Executive Directors				
Mr Robert Hosking	1 July 2019	128,505	$125,292	$-
Mr Mark Smith	1 July 2019	128,505	$125,292	$-
Other key management personnel (Group)				
Mr Edward Munks	2 December 2019	52,376	$57,090	$-
Mr Edward Munks	1 July 2019	87,705	$85,512	$-
		397,091	$393,186	

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

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

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

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

Name	Date of Cancellation of Performance Rights	Number of Performance Rights Cancelled	Cash-settled Payment Value*	Amount Paid per Performance Right
Other key management personnel (Group)				
Mr Jose Coutinho Barbosa	1 July 2019	10,594	$9,414	$-
Mr Jose Coutinho Barbosa	12 August 2019	8,884	$13,649	$-
Mr Scott Hosking	1 July 2019	70,164	$62,692	$-
Mr Scott Hosking	8 August 2019	41,901	$63,710	$-
Mr Tim Hosking	1 July 2019	67,939	$60,051	$-
Mr Tim Hosking	13 August 2019	47,280	$69,539	$-
		246,762	$279,055	

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

Remuneration Report (Audited) (CONTINUED)

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

Details of Remuneration – Share Options and Performance Rights

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

Name	Financial Year End Granted	Vested %	Forfeited %	Financial Years in Which Share Options or Performance Rights May Vest	Maximum Total Value of Grant Yet to Vest
Executive Directors					
Mr Robert Hosking					
– ESOP options (LTI)	30 June 2018	0%	100%	30 June 2021	$-
– Performance rights (LTI)	30 June 2018	0%	100%	30 June 2021	$-
– Performance rights (LTI)	30 June 2020	-	-	30 June 2023	$573,919
– Performance rights (STI)	30 June 2020	7.5%	92.5%	30 June 2022	$35,066
Mr Mark Smith					
– ESOP options	30 June 2018	0%	100%	30 June 2021	$-
– Performance rights (LTI)	30 June 2018	0%	100%	30 June 2021	$-
Other key management personnel (Group)					
Mr Scott Hosking					
– ESOP options (LTI)	30 June 2018	0%	100%	30 June 2021	$-
– Performance rights (LTI)	30 June 2018	0%	100%	30 June 2021	$-
– Performance rights (LTI)	30 June 2019	-	-	30 June 2022	$16,669
– ESOP options (LTI)	30 June 2019	-	-	30 June 2022	$9,466
– Performance rights (STI)	30 June 2019	20%	80%	30 June 2021	$-
– Performance rights (STI)	30 June 2020	21%	79%	30 June 2022	$27,057
– Performance rights (LTI)	30 June 2020	-	-	30 June 2023	$159,918
Mr Tim Hosking					
– ESOP options (LTI)	30 June 2018	0%	100%	30 June 2021	$-
– Performance rights (LTI)	30 June 2018	0%	100%	30 June 2021	$-
– Performance rights (LTI)	30 June 2019	-	-	30 June 2022	$16,140
– ESOP options (LTI)	30 June 2019	-	-	30 June 2022	$9,166
– Performance rights (STI)	30 June 2019	20%	80%	30 June 2021	$-
– Performance rights (STI)	30 June 2020	21%	79%	30 June 2022	$26,200
– Performance rights (LTI)	30 June 2020	-	-	30 June 2023	$154,847
Mr Edward Munks					
– ESOP options (LTI)	30 June 2018	0%	100%	30 June 2021	$-
– Performance rights (LTI)	30 June 2018	0%	100%	30 June 2021	$-
– Performance rights (LTI)	30 June 2019	-	-	30 June 2022	$50,067
– ESOP options (LTI)	30 June 2019	-	-	30 June 2022	$47,352
– Performance rights (STI)	30 June 2019	20%	80%	30 June 2021	$-
– Performance rights (STI)	30 June 2020	21%	79%	30 June 2022	$57,681
– Performance rights (LTI)	30 June 2020	-	-	30 June 2023	$346,194

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

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

Share Options and Performance Rights over Unissued Ordinary Shares in the Company as at 30 June 2020

During the financial year 3,687,598 performance rights over unissued ordinary shares in the Company were issued to Directors and other key management personnel, including their personally related parties.

The movement of 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 2019	Granted as Remun-eration	Exercised Share Options/ Vested and Converted Performance Rights	Cash-settled	Share Options or Performance Rights Forfeited	Other ^	Balance as at 30 June 2020	Total Vested and Exercisable as at 30 June 2020	Total Unvested as at 30 June 2020
Executive Directors									
Mr Robert Hosking									
– ESOP options	997,548	-	-	-	(423,376)	-	574,172	-	574,172
– Performance rights	524,166	1,332,646	(128,505)	-	(192,758)	-	1,535,549	-	1,535,549
Mr Mark Smith									
– ESOP options	997,548	-	-	-	(423,376)	(574,172)	-	-	-
– Performance rights	524,166	-	(128,505)	-	(192,758)	(202,903)	-	-	-
Non-Executive Directors									
Mr Bruce Phillips	-	-	-	-	-	-	-	-	-
Ms Luciana Rachid	-	-	-	-	-	-	-	-	-
Mr Geoff Atkins	-	-	-	-	-	-	-	-	-
Mr Clark Davey	-	-	-	-	-	-	-	-	-
Mr Peter Turnbull	-	-	-	-	-	-	-	-	-
Mr Jose Coutinho Barbosa*						-			
– ESOP options	79,626	-	-	-	(12,140)	-	67,486	-	67,486
– Performance rights	86,123	59,838	-	(19,478)	(29,073)	-	97,410	-	97,410
Other key management personnel									
Mr Scott Hosking									
– ESOP options	689,966	-	-	-	(98,368)	-	591,598	-	591,598
– Performance rights	585,414	696,666	-	(112,065)	(259,315)	-	910,700	-	910,700
Mr Tim Hosking									
– ESOP options	795,787	-	-	-	(222,948)	-	572,839	-	572,839
– Performance rights	585,259	727,614	-	(115,219)	(304,976)	-	892,678	-	892,678
Mr Edward Munks									
– ESOP options	751,287	-	-	-	(122,960)	-	628,327	-	628,327
– Performance rights	771,053	870,834	(140,081)	-	(324,143)	-	1,177,663	-	1,177,663
Total key management personnel									
– Share options	4,311,762	-	-	-	(1,303,168)	(574,172)	2,434,422	-	2,434,422
– Performance rights	3,076,181	3,687,598	(397,091)	(246,762)	(1,303,023)	(202,903)	4,614,000	-	4,614,000

^ Other reflects Mark Smith's holdings when he ceased to be a KMP from 15 March 2020.

* Share options and performance rights are held by Ms Flavia Barbosa, the daughter of Mr Coutinho Barbosa, a personally related party.

All performance rights issued during the financial year were issued under the 2016 PRP and the 2019 PRP.

Remuneration Report (Audited) (CONTINUED)

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

The number of ordinary shares held by Directors and other key management personnel, including their personally related parties, as at 30 June 2020 was as follows:

	Balance as at 1 July 2019	Received as Remuneration	Exercised (Share Options)/ Vested and Converted (Performance Rights)	Ordinary Shares Purchased	Ordinary Shares Sold	Other^	Balance as at 30 June 2020
Executive Directors							
Mr Robert Hosking	12,353,123	-	128,505	2,429,048	(2,097,170)	-	**12,813,506**
Mr Mark Smith (retired as a Director on 29 November 2019 and remain as other KMP until 15 March 2020)	2,870,938	-	128,505	1,291,146	(1,063,240)	(3,227,349)	**-**
Non-Executive Directors							
Mr Bruce Phillips	-	-	-	1,870,000	(120,000[#])	-	**1,750,000**
Mr Geoff Atkins	720,676	-	-	6,000		-	**726,676**
Mr Clark Davey	24,294	-	-	47,967	(25,047[#])	-	**47,214**
Mr Peter Turnbull	41,000	-	-	105,269		-	**146,269**
Mr Jose Coutinho Barbosa	-	-	-	-	-	-	**-**
Ms Luciana Rachid	-	-	-	52,960	-	-	**52,960**
Other key management personnel							
Mr Scott Hosking	195,206	-	-	865,093	(453,386)	-	**606,913**
Mr Tim Hosking	244,571	-	-	53,763	-	-	**298,334**
Mr Edward Munks	829,697	-	140,081	96,774	-	-	**1,066,552**
Total key management personnel	17,279,505	-	397,091	6,818,020	(3,758,843)	(3,227,349)	**17,508,424**

^ Other reflects Mark Smith's holdings when he ceased to be a KMP from 15 March 2020.

Ordinary shares sold were subsequently purchased back under a different holding held by the Director.

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

Other Transactions with Directors and Other Key Management Personnel

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

During the financial year, Mr Jose Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda that continued to provide business and geology consulting services to the Group. The value of these transactions during the financial year in the Group was $379,398 (2019: $343,961).

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director, was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration (including share-based payments expense) during the financial year was $225,120 (2019: $235,487), which includes social security and indemnity fund contributions of $37,903 (2019: $36,588). Ms Barbosa has been an employee of the Company since 2011 and has a comprehensive understanding of the Brazilian legal and regulatory framework.

During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a KMP), was employed by the Group as the Sustainability and Communications Manager, South America. The total value of her remuneration (including share-based payments expense) during the financial year was $182,501(2019: $106,166). Ms Sayao was a key member of the South American operations. During the financial year, following the successful completion of the Peruvian drilling campaign, Ms Sayao's position was made redundant and she ceased as an employee. An amount of $6,567, relating to 2019 STI's, remained payable to Ms Marina Sayao as at 30 June 2020.

During the financial year, Mr Mark Smith, a former Executive Director and other KMP, had an interest in Quantiseal Pty Ltd which provided geophysical fault seal analysis for the Group's Santos Basin assets. The People, Culture and Governance Committee and then Karoon Board approved the transaction during the financial year, prior to it being entered into, being on arm's length terms. The value of this transaction during the financial year in the Group was $22,400 (2019: $64,000).

In addition, Mr Mark Smith, has an interest in BNN Energy Limited ('BNN') which provides geological and engineering expertise and services to Liberty Petroleum Corporation. Where BNN business involves any activity connected to the Group, Mr Smith maintains an arm's length relationship to BNN. Mr Mark Smith was also excluded from any Board of Director discussions and decisions regarding BNN and/or Liberty Petroleum Corporation. Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and an over-riding royalty in the event of production on the Group's exploration permit WA-482-P. BNN has a 1/3 share of Liberty Petroleum Corporation's over-riding royalty, if a discovery is made in exploration permit WA-482-P and is developed. Mr Smith retired as a Director on 29 November 2019 and as an other KMP on 15 March 2020.

Loans to Directors and Other Key Management Personnel

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

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

On behalf of the Directors:

Mr Bruce Phillips
Independent Non-Executive Chairman

Mr Robert Hosking
Managing Director

21 September 2020

Auditor's Independence Declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Karoon Energy Ltd for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
21 September 2020

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2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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Consolidated Financial Statements

For the Financial Year Ended 30 June 2020

Karoon Energy 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 and principal place of business of Karoon Energy Ltd is Suite 3.02, Level 3, 6 Riverside Quay, Southbank VIC 3006.

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

The consolidated financial statements are presented in Australian dollars.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 30 June 2020

	Note	Consolidated 2020 $	Consolidated Restated* 2019 $
Revenue	4	3,439,042	2,314,803
Other income	4	8,569,974	23,002,654
Total revenue and other income		12,009,016	25,317,457
Baúna transition costs	5	(20,190,753)	-
Business development and other project costs		(134,058)	(5,214,563)
Computer support		(1,273,411)	(1,375,903)
Consulting fees		(973,665)	(783,544)
Depreciation and amortisation expense	5	(1,049,685)	(692,957)
Employee benefits expense (net)		(10,319,165)	(11,100,470)
Exploration and evaluation expenditure expensed or impaired	5	(79,405,660)	(11,104,771)
Finance costs	5	(3,247,733)	(180,122)
Insurance expense		(1,760,544)	(390,048)
Legal fees		(216,344)	(246,156)
Property costs		(743,557)	(1,322,108)
Share registry and listing fees		(226,630)	(196,411)
Telephone and communication expenses		(257,751)	(240,495)
Travel and accommodation expenses		(386,493)	(372,303)
Write-down of inventory to net realisable value	5	(18,530,500)	(6,213,639)
Other expenses		(2,066,194)	(2,008,306)
Total expenses		(140,782,143)	(41,441,796)
Loss before income tax		(128,773,127)	(16,124,339)
Tax income (expense)	6	944,834	(2,745,675)
Loss for financial year attributable to equity holders of the Company		(127,828,293)	(18,870,014)
Other comprehensive income, net of income tax:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		(53,074,798)	7,404,240
Other comprehensive income (loss) for financial year, net of income tax		(53,074,798)	7,404,240
Total comprehensive loss for financial year attributable to equity holders of the Company, net of income tax		(180,903,091)	(11,465,774)
Loss per share attributable to equity holders of the Company:			
Basic loss per ordinary share	9	(0.2873)	(0.0768)
Diluted loss per ordinary share	9	(0.2873)	(0.0768)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

* The comparative statement for the year ended 30 June 2019 has been restated to show the effect of the voluntary change in accounting policy. Refer Note 1(x) for details.

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	2020 $	Consolidated Restated* 2019 $	Restated* 1 July 2018 $
Current assets				
Cash and cash equivalents	10	431,902,949	326,191,131	333,572,953
Receivables	11	13,666,381	1,880,833	1,152,572
Inventories	12	-	2,124,577	-
Security deposits	13	5,500,608	535,884	18,955
Current tax asset		14,057	54,303	185,737
Other assets	14	2,382,002	1,161,836	782,828
Total current assets		453,465,997	331,948,564	335,713,045
Non-current assets				
Inventories	12	10,374,376	31,495,438	37,696,266
Right-of-use assets	20	2,023,111	-	-
Plant and equipment	15	2,055,868	793,638	802,514
Intangible assets	16	307,258	535,655	781,514
Exploration and evaluation expenditure carried forward	17	59,784,567	85,536,636	76,271,199
Security deposits	13	1,884,138	7,513,064	10,297,243
Other assets	14	49,420,402	-	-
Total non-current assets		125,849,720	125,874,431	125,848,736
Total assets		579,315,717	457,822,995	461,561,781
Current liabilities				
Trade and other payables	18	31,894,821	7,384,308	6,428,989
Current tax liabilities		3,964,743	-	-
Lease liabilities	20	294,846	-	-
Provisions	19	595,987	586,165	283,500
Total current liabilities		36,750,397	7,970,473	6,712,489
Non-current liabilities				
Trade and other payables	18	266,033	546,766	279,544
Deferred tax liabilities	6	17,076,773	23,026,054	20,280,378
Lease liabilities	20	1,910,342	-	-
Provisions	19	120,348	120,340	329,520
Total non-current liabilities		19,373,496	23,693,160	20,889,442
Total liabilities		56,123,893	31,663,633	27,601,931
Net assets		523,191,824	426,159,362	433,959,850
Equity				
Contributed equity	21	1,076,725,456	802,295,334	802,295,334
Accumulated losses		(494,730,495)	(366,902,202)	(348,032,188)
Share-based payments reserve		54,881,016	51,375,585	47,710,299
Foreign currency translation reserve		(113,684,153)	(60,609,355)	(68,013,595)
Total equity		523,191,824	426,159,362	433,959,850

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

* The comparative statements for the year ended 30 June 2019 and opening balance 1 July 2018 have been restated to show the effect of the voluntary change in accounting policy. Refer Note 1(x) for details.

Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2020

		Consolidated				
		Contributed Equity $	Retained Earnings (Accumulated Losses) $	Share-based Payments Reserve $	Foreign Currency Translation Reserve $	Total Equity $
Balance as at 1 July 2018 (as previously reported)		802,295,334	(214,726,693)	47,710,299	(80,053,226)	555,225,714
Effect of accounting policy change	1(x)	-	(133,305,495)	-	12,039,631	(121,265,864)
Restated balance as at 1 July 2018		802,295,334	(348,032,188)	47,710,299	(68,013,595)	433,959,850
Restated loss for financial year		-	(18,870,014)	-	-	(18,870,014)
Restated exchange differences arising from the translation of financial statements of foreign subsidiaries		-	-	-	7,404,240	7,404,240
Restated total comprehensive loss for financial year		-	(18,870,014)	-	7,404,240	(11,465,774)
Transactions with owners in their capacity as owners:						
Share-based payments expense		-	-	3,665,286	-	3,665,286
		-	-	3,665,286	-	3,665,286
Restated balance as at 30 June 2019		802,295,334	(366,902,202)	51,375,585	(60,609,355)	426,159,362
Loss for financial year		-	(127,828,293)	-	-	(127,828,293)
Exchange differences arising from the translation of financial statements of foreign subsidiaries		-	-	-	(53,074,798)	(53,074,798)
Total comprehensive loss for financial year		-	(127,828,293)	-	(53,074,798)	(180,903,091)
Transactions with owners in their capacity as owners:						
Ordinary shares issued	21	284,121,016	-	-	-	284,121,016
Transaction costs arising on ordinary shares issued, net of tax	21	(9,690,894)	-	-	-	(9,690,894)
Share-based payments expense		-	-	3,505,431	-	3,505,431
		274,430,122	-	3,505,431	-	277,935,553
Balance as at 30 June 2020		1,076,725,456	(494,730,495)	54,881,016	(113,684,153)	523,191,824

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 2020

		Consolidated	
	Note	2020 $	Restated* 2019 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST refunds)		2,275,042	546,057
Payments to suppliers and employees (inclusive of GST)		(18,134,542)	(20,584,544)
Payments for Peruvian VAT		(6,731,609)	(325,322)
Payments for exploration and evaluation expenditure expensed		(61,037,535)	(9,529,601)
Payments for Baúna transition expenditure		(18,936,281)	-
Recoupment of exploration and evaluation expenditure on Block Z-38 farm-out		-	5,591,334
Interest received		3,518,099	2,077,040
Interest and other costs of finance paid		(522,978)	(180,122)
Income taxes refund		(396,623)	142,976
Net cash flows used in operating activities	27(a)	(99,966,427)	(22,262,182)
Cash flows from investing activities			
Purchase of plant and equipment		(2,075,715)	(319,617)
Purchase of computer software		(101,375)	(47,768)
Payment of deposit for production asset		(71,097,636)	-
Payments for exploration and evaluation expenditure capitalised		(2,087,712)	(4,752,198)
Release/refund (payment) of security deposits		104,537	2,553,281
Proceeds from disposal of non-current assets		26,737	-
Net cash flows from (used in) investing activities		(75,231,164)	(2,566,302)
Cash flows from financing activities			
Principal elements of lease payments		(376,717)	(94,081)
Proceeds from issue of ordinary shares		284,121,016	-
Payment of equity raising costs		(10,309,387)	
Net cash flows from (used in) financing activities		273,434,912	(94,081)
Net increase (decrease) in cash and cash equivalents		98,237,321	(24,922,565)
Cash and cash equivalents at beginning of financial year		326,191,131	333,572,953
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		7,474,497	17,540,743
Cash and cash equivalents at end of financial year	10	431,902,949	326,191,131

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

* The comparative statement for the year ended 30 June 2019 has been restated to show the effect of the voluntary change in accounting policy. Refer Note 1(x) for details.

Notes to the Consolidated Financial Statements

For the Financial Year Ended 30 June 2020

Note 1. Significant Accounting Policies

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

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

(a) Basis of Preparation

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

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

Currency of Presentation

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

Historical Cost Convention

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

Significant Accounting Estimates, Assumptions and Judgements

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

Compliance with International Financial Reporting Standards

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

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

During the year, the Group adopted a voluntary change in accounting policy refer to Note 1(x) for details.

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 2020.

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

(i) AASB 16 '*Leases*'; and

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

The initial adoption of all of the relevant new and/or revised Australian Accounting Standards and Interpretations, except for AASB 16 'Leases' as disclosed below, 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 years.

AASB 16 'Leases'

The Group has applied AASB 16 from 1 July 2019. The Group has adopted the simplified transition approach without restatement of comparative information for the financial year prior to first adoption.

AASB 16 eliminates the distinction between operating and finance leases and brings all operating leases (other than short-term and low value leases) onto the consolidated statement of financial position. As a lessee, the Group recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

In applying the new standard for the first time, the Group used the following transition practical expedients permitted by AASB 16:

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

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

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

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

At transition, all relevant lease liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or, where that rate was not readily determined, the Group's estimated incremental borrowing rate as at 1 July 2019. Right-of-use assets for non-cancellable operating lease commitments were measured at the amount of the lease liability on transition.

As a result of initially applying AASB 16, as at 1 July 2019 the Group recognised right-of-use assets of $1,079,270 as a non-current asset and lease liabilities of $1,079,270 (split between current and non-current). There was no change in accumulated losses as a result of applying AASB 16 from 1 July 2019. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using an average rate of 8% as at 1 July 2019. The new accounting policy is disclosed in Note 1(t) and adjustments recognised on adoption of AASB 16 are detailed below.

	1 Jul 2019
Operating lease commitments disclosed as at 30 June 2019	1,866,912
Less short-term leases recognised on a straight-line basis as an expense	(483,692)
Add finance lease liabilities recognised as at 30 June 2019	35,545
Less adjustment as a result of a different treatment of extension options and termination options	(135,080)
Less discount using estimated Group's incremental borrowing rate at date of initial application	(204,415)
Lease liability recognised as at 1 July 2019	1,079,270
Of which are:	
Current lease liabilities	301,392
Non-current lease liabilities	777,878
	1,079,270

(b) Basis of Consolidation

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 2019.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2020 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 22.

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

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

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

(c) Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for assessing performance and in determining the allocation of resources of the operating segments, has been identified as the Managing Director and also the Exploration Manager (formerly the Executive Director/Exploration Director) until 15 March 2020 when the Exploration Manager position was vacated.

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 1. Significant Accounting Policies *(continued)*

(d) Revenue

Revenue from contracts with customers is recognised when the performance obligations are considered met, which is when control of the products or services provided are transferred to the customer. Revenue is recognised at an amount that reflects the consideration the Group expects to be entitled to, net of goods and services tax or similar taxes.

Interest Income

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

(e) Foreign Currency Transactions and Balances

Functional and Presentation Currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary or branch operates (the 'functional currency').

Transactions and Balances

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

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

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

Group Companies

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

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

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

(f) Income Taxes and Other Taxes

Current Tax

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

Deferred Tax

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

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

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

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

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

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

Tax Consolidation

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

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

Goods and Services Tax ('GST')

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

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

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

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

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

Petroleum Resource Rent Tax ('PRRT')

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

(g) Cash and Cash Equivalents

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

(h) Receivables

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

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

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 1. Significant Accounting Policies *(continued)*

(i) Inventories

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

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

(j) Security Deposits

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

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

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

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

(k) Plant and Equipment

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

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

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

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

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

(l) Intangibles

Computer Software

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

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

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

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

(m) Exploration and Evaluation Expenditure

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Expenditure in respect of each area of interest is accounted for using the 'successful efforts' method of accounting. The 'successful efforts' method requires all exploration and evaluation expenditure in relation to an area of interest to be expensed in the period it is incurred, except the cost of successful wells, the costs of acquiring interests in new exploration assets, and appraisal costs relating to determining development feasibility, which are capitalised as intangible exploration and evaluation assets.

Exploration and evaluation assets are recognised in relation to an area of interest when the rights to tenure of the area of interest are current and either:

- it is expected to be recovered through sale or successful development and exploitation of the area of interest; or
- relates to an exploratory discovery for which at balance date a reasonable assessment of the existence or otherwise of economically recoverable reserves is not yet complete, or additional appraisal work is underway or planned.

All exploration expenditure in relation to directly attributable general administration costs, geological and geophysical costs, seismic and pre-tenure costs is expensed in the consolidated statement of profit or loss and other comprehensive income as incurred.

For exploration wells, costs directly associated with drilling the wells are initially capitalised on well-by-well basis pending the evaluation of whether potentially economic reserves of hydrocarbons have been discovered. If no recoverable hydrocarbons are identified, or hydrocarbons are deemed non-commercial, then the capitalised costs are expensed.

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

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

Petroleum tenement acquisition costs are capitalised, along with licence costs paid in connection with a right to explore in an existing exploration area.

Farm-out

The Group does not record any exploration and evaluation expenditure made by a farm-inee, including any carries incurred by the farm-inee to earn an ownership interest.

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

Impairment of Capitalised Exploration and Evaluation Expenditure

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 1. Significant Accounting Policies *(continued)*

(o) Trade and Other Payables

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

(p) Employee Benefits

Wages, Salaries, Annual Leave and Personal Leave

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

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

Share-based Payments

Share-based remuneration benefits are provided to Executive Directors and employees via the Company's PRP and ESOP (refer Note 28). The Group issues equity-settled and cash-settled share-based payments to certain employees.

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

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

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

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

(q) Provisions

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

Long Service Leave

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

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

(r) Contributed Equity

Ordinary shares are classified as equity.

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

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

(s) Interests in Joint Operations

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

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

The Group's share of assets, liabilities, revenues and expenses employed in joint operations is set out in Note 24.

(t) Leases

The Group has lease contracts for property and other equipment used in its operations. Property leases generally have terms between 2 and 5 years.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost (present value of the lease liability plus deemed cost of acquiring the asset), and subsequently at cost less any accumulated depreciation, impairment losses and adjustment for remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments expected to be paid over the lease term, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Group's estimated incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The lease liability is further remeasured if the estimated future lease payments change as a result of index or rate changes, residual value guarantees or likelihood of exercise of purchase, extension or termination options.

The Group has applied judgement to determine the lease term for lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the measurement of lease liabilities and right-of-use assets recognised.

(u) Earnings Per Share

Basic Earnings Per Share

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

Diluted Earnings Per Share

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

(v) Parent Company Financial Information

The financial information for the Parent Company, Karoon Energy Ltd, disclosed in Note 30 has been prepared on the same basis as the consolidated financial statements, except as set out below:

Investments in Subsidiaries

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

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

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 1. Significant Accounting Policies *(continued)*

(v) Parent Company Financial Information *(continued)*

Share-based Payments

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

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

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

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

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

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

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

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

(x) Voluntary Change in Accounting Standard

During the financial year, the Group elected to make a voluntary change to its accounting policy in relation to exploration and evaluation expenditure. As a result of this change, the annual financial report has been prepared on the basis of a retrospective application of this change in accounting policy. The comparative consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position have been restated as if the change in the accounting policy had been adopted at the start of the comparative period.

The new exploration and evaluation accounting policy uses the 'successful efforts' method of accounting whereby exploration and evaluation expenditure in relation to unsuccessful wells and directly attributable costs such as general administration costs, geological and geophysical costs, seismic and pre-tenure expenditure, is expensed as incurred. An exploration well is considered to be unsuccessful if no recoverable hydrocarbons are identified, or the Group considers that the hydrocarbons are not commercially viable.

The previous accounting policy was to capitalise all expenditures associated with its exploration and evaluation activities in accordance with the 'full capitalisation' method.

It is the view of the Board of Directors that the change in accounting policy provides users of the financial statements with more reliable and relevant information as to the carrying values of exploration and evaluation assets, affords greater transparency regarding the Group's current financial performance and financial position, and enhances clarity and comparability to other international oil and gas companies.

The change in accounting policy has also resulted in a reclassification in the consolidated statement of cash flows with exploration and evaluation expenditure, with the exception of the cost of successful wells, the costs of acquiring interests in new exploration assets, and appraisal costs relating to determining development feasibility, being reclassified from investing activities to operating activities.

The impact of the above change in accounting policy are shown below:

Impact on statement of profit or loss and other comprehensive income	Year Ended 30 June 2019
Loss for year as previously reported	(28,417,537)
Decrease in exploration expenditure as a result of change in accounting policy^	7,954,131
Increase in other income of change in accounting policy^	5,499,471
Decrease in income tax expense as a result of change in accounting policy^	(3,906,079)
Restated loss for the financial year	**(18,870,014)**
Other comprehensive income as previously reported	10,765,446
Decrease in exchange differences arising from the translation of financial statements of foreign subsidiaries^	(3,361,206)
Restated other comprehensive income for the financial year	**7,404,240**
Total comprehensive loss as previously reported	(17,652,091)
Decrease in total comprehensive loss resulting from adjustments above^	6,186,317
Restated total comprehensive loss for the financial year	**(11,465,774)**

	As at 30 June 2019	As at 1 July 2018
Impact on statement of financial position		
Net assets as previously reported	541,238,909	555,225,714
Decrease in Exploration and evaluation expenditure carried forward	(123,266,386)	(133,358,784)
Decrease in deferred tax liabilities	8,186,839	12,092,920
Total impact of change in accounting policy	(115,079,547)	(121,265,864)
Restated net assets	**426,159,362**	**433,959,850**
Impact on foreign currency translation reserve		
Foreign currency translation reserve previously reported	(69,287,780)	(80,053,226)
Impact of change in accounting policy	8,678,425	12,039,631
Restated foreign currency translation reserve	**(60,609,355)**	**(68,013,595)**
Impact on accumulated losses		
Accumulated losses previously reported	(243,144,230)	(214,726,693)
Impact of change in accounting policy	(123,757,972)	(133,305,495)
Restated accumulated losses	**(366,902,202)**	**(348,032,188)**
Impact on basic and diluted earnings per share		
Reported basic and diluted earnings per share	(0.1156)	
Restated basic and diluted earnings per share	(0.0768)	

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

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

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

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

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

(b) Share-based Payments

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

(c) Income Tax

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

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

(d) Impairment of Financial Assets

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

(e) Joint Arrangements

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

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

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

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

The Group had no off-statement of financial position financial assets or financial liabilities at either 30 June 2020 or 30 June 2019.

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

		Consolidated	
	Note	2020 $	2019 $
Financial assets			
Cash and cash equivalents	10	431,902,949	326,191,131
Receivables	11	13,666,381	1,880,833
Security deposits	13	7,384,746	8,048,948
Total financial assets		452,954,076	336,120,912
Financial liabilities			
Trade and other payables (refer note (a) below)		30,829,649	6,622,302
Lease liabilities	20	2,205,188	-
Total financial liabilities		33,034,837	6,622,302

(a) Trade and other payables above exclude amounts relating to leave liabilities, which are not considered a financial instrument.

(a) Market Risk

(i) Foreign Exchange Risk

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

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures predominantly to the United States dollar and Brazilian REAL. The current financial year, however, also includes an exposure to Peruvian Sol (PEN) resulting from to the drilling of the Marina-1 exploration well in Peru during the year and the existence of significant receivables and payables denominated in PEN. The Group's exposure to foreign currency risk for all other currencies is not material.

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, Brazilian REAL and PEN cash balances are maintained.

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

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

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

The following table includes 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.

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 3. Financial Risk Management *(continued)*

(a) Market Risk *(continued)*

(i) Foreign Exchange Risk *(continued)*

Consolidated	USD $	PEN $	2020 REAL $	USD $	2019 REAL $
Financial assets					
Cash and cash equivalents	**406,604,752**	**343,227**	**1,882,674**	325,480,379	294,755
Receivables	**3,803,627**	**9,555,870**	**250,588**	1,612,614	230,380
Security deposits	**5,502,096**	**-**	**1,652,059**	5,296,506	2,321,309
Total financial assets	**415,910,475**	**9,899,097**	**3,785,321**	332,389,499	2,846,444
Financial liabilities					
Trade and other payables	**22,597,183**	**2,911,714**	**3,053,249**	2,674,159	2,392,299
Lease liabilities	**129,061**	**-**	**899,398**	-	-
Total financial liabilities	**22,726,244**	**2,911,714**	**3,952,647**	2,674,159	2,392,299

Foreign Exchange Sensitivity Analysis

The following table details the Group's sensitivity to a 10% increase or decrease in the Australian dollar against the United States dollar, Brazilian REAL and PEN, 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% 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, Brazilian REAL or PEN or exchange rates on future cash flows. As outlined in Note 3(a)(i), Peruvian Sol has been included for the current financial year only.

	Consolidated REAL Impact		Consolidated USD Impact		Consolidated PEN Impact	
	2020 $	2019 $	2020 $	2019 $	2020 $	2019 $
Change in profit (loss) before income tax						
– Improvement in AUD by 10%	**-**	-	**(35,401,969)**	(29,467,759)	**-**	-
– Decline in AUD by 10%	**-**	-	**43,269,074**	36,016,150	**-**	-
Change in financial assets						
– Improvement in AUD by 10%	**(344,120)**	(258,768)	**(37,810,043)**	(30,217,227)	**(899,918)**	-
– Decline in AUD by 10%	**420,591**	316,272	**46,212,275**	36,932,167	**1,099,900**	-
Change in financial liabilities						
– Improvement in AUD by 10%	**359,332**	217,482	**2,066,022**	243,105	**264,701**	-
– Decline in AUD by 10%	**(439,183)**	(265,811)	**(2,525,138)**	(297,129)	**(323,524)**	-
Change in foreign currency translation reserve						
– Improvement in AUD by 10%	**(15,211)**	41,286	**589,757**	506,363	**635,217**	-
– Decline in AUD by 10%	**18,592**	(50,461)	**(720,814)**	(618,888)	**(776,376)**	-

(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 2020 and 30 June 2019, 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.

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

	Consolidated					
2020	**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	0.06	379,629,427	29,226,747	23,046,775	431,902,949	431,902,949
Receivables	-	-	-	13,666,381	13,666,381	13,666,381
Security deposits	1.30	1,644,850	5,616,535	123,361	7,384,746	7,384,746
Total financial assets		381,274,277	34,843,282	36,836,517	452,954,076	452,954,076
Financial liabilities						
Trade and other payables	-	-	-	30,829,649	30,829,649	30,829,649
Lease liabilities	-	-	-	2,205,188	2,205,188	2,205,188
Total financial liabilities	-	-	-	33,034,837	33,034,837	33,034,837

	Consolidated					
2019	**Weighted Average Interest Rate % p.a.**	**Floating Interest Rate $**	**Fixed Interest Rate $**	**Non-interest Bearing $**	**Fair Value $**	**Carrying Amount $**
Financial assets						
Cash and cash equivalents	1.55	305,650,430	15,621,805	4,918,896	326,191,131	326,191,131
Receivables	-	-	-	1,880,833	1,880,833	1,880,833
Security deposits	3.31	2,309,051	5,616,242	123,655	8,048,948	8,048,948
Total financial assets		307,959,481	21,238,047	6,923,384	336,120,912	336,120,912
Financial liabilities						
Trade and other payables	8.45	-	35,545	6,586,757	6,622,302	6,622,302
Total financial liabilities		-	35,545	6,586,757	6,622,302	6,622,302

Interest Rate Sensitivity Analysis

The following table details the Group's sensitivity to a 1% 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	
	2020 $	**2019 $**
Change in profit (loss) before income tax		
– Increase of interest rate by 1% p.a.	3,812,743	3,079,595
– Decrease of interest rate by 1% p.a.	(35,231)	(3,078,740)
Change in financial assets		
– Increase of interest rate by 1% p.a.	3,812,743	3,079,595
– Decrease of interest rate by 1% p.a.	(35,231)	(3,078,740)

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 3. Financial Risk Management *(continued)*

(b) Credit Risk

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

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

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

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

Cash and cash equivalents and security deposit counterparties are limited to credit quality banks and financial institutions. For banks and financial institutions in Australia, only independently rated counterparties with a minimum rating of AA-/Aa3 are accepted. For banks and financial institutions in Brazil and Peru, only independently rated counterparties with a minimum rating of BBB+/Baa1 are accepted. For banks and financial institutions in Brazil and Peru with independently rated counterparties ratings below BBB+/Baa1, exposure cannot exceed the short-term country specific cash requirements. The Group's credit exposure and external credit ratings of its counterparties are monitored on a periodic basis. Where commercially practical, the Group seeks to limit the amount of credit exposure to any one bank or financial institution.

(i) Impairment of Financial Assets

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

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

Expected Credit Loss

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

Security Deposits

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

The Group is exposed to credit risk in relation to a security deposit of $1,639,597 (30 June 2019: $2,303,797) held with Itau Unibanco SA in Brazil. The Group provided the ANP (the Brazilian oil and gas regulator) a letter of credit to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The letter of credit is fully funded by way of payment of a security deposit (refer Note 13(b)), which will be released once the work program is met. The credit rating of Itau Unibanco SA is Ba3 (30 June 2019: Ba2), which is a non-investment grade rating that carries substantial credit risk. The credit rating of Itau Unibanco SA in Brazil is monitored on a periodic basis for credit deterioration. In addition, Management continually monitors Brazilian macro-economic factors for any deterioration which directly impacts the credit ratings of Brazilian financial institutions. As there has not been a significant increase in credit risk since initial recognition of this security deposit, which is predominantly impacted by negative macro-economic factors in Brazil, any impairment test uses a 12 month expected credit loss model measure.

As at 30 June 2020, there were $Nil (30 June 2019: $Nil) security deposits past due. The loss allowance recognised during the financial year for security deposits was $Nil. Accordingly, interest income revenue has been calculated on the gross carrying amount during the financial year (30 June 2019: $Nil).

Receivables

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

The Group is exposed to credit risk in relation to an interest receivable of $239,456 (30 June 2019: $230,380) predominantly related to the security deposit held with Itau Unibanco SA in Brazil. As there has not been a significant increase in credit risk since initial recognition of the security deposit, which is predominantly impacted by negative macro-economic factors in Brazil, any impairment test uses a 12 month expected credit loss model measure.

As at 30 June 2020, there were $Nil (30 June 2019: $Nil) receivables past due. The loss allowance for receivables recognised during the financial year was considered to be $Nil (30 June 2019: $Nil). Note, the Group has recognised a receivable for VAT in relation to its Peruvian operations based on the Group's understanding of the relevant tax laws for early VAT recovery expected to be received within 12 months, which is subject to review and assessment by the Peruvian tax authorities.

(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 $431,902,949 (30 June 2019: $310,569,326) that are expected to readily generate cash inflows for managing liquidity risk.

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

The following mechanisms are utilised to manage liquidity risk:

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

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

	Consolidated				
	Less than 6 Months $	6-12 Months $	1-3 Years $	Over 3 Years $	Total $
2020					
Financial liabilities					
Trade and other payables	30,563,616	-	266,033	-	30,829,649
Lease liabilities	147,423	147,423	983,269	927,073	2,205,188
Total financial liabilities	30,711,039	147,423	1,249,302	927,073	33,034,837
2019					
Financial liabilities					
Trade and other payables	6,075,536	-	546,766	-	6,622,302
Total financial liabilities	6,075,536	-	546,766	-	6,622,302

(d) Fair Value Estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 30 June 2020 and 30 June 2019 are presented in the table under Note 3(a)(ii) and can be compared to their carrying values as presented in the consolidated statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values estimated for disclosure purposes are based on information that is subject to judgement, where changes in assumptions may have a material impact on the amounts estimated.

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

Cash and Cash Equivalents

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

Receivables

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

Security Deposits

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

Trade and Other Payables

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 4. Revenue and Other Income

	Note	Consolidated 2020 $	Consolidated Restated 2019 $
Interest income from unrelated entities		3,439,042	2,314,803
Total revenue		3,439,042	2,314,803
Net foreign currency gains		8,026,559	17,486,787
Recoupment of exploration and evaluation expenditure on Block-Z38 farm-out		-	5,499,471
Services revenue from joint operations		543,415	15,855
Sundry income		-	541
Total other income		8,569,974	23,002,654

Note 5. Expenses

	Note	2020 $	Restated 2019 $
Loss before income tax includes the following specific expenses:			
Depreciation and amortisation expense:			
– depreciation of plant and equipment	15	330,810	363,842
– amortisation of computer software	16	231,646	329,115
– depreciation of right-of-use assets – property leases	20	473,243	-
– depreciation of right-of-use assets – other	20	13,986	-
Total depreciation and amortisation expense		1,049,685	692,957
Exploration and evaluation expenditure expensed or impaired:			
– exploration and evaluation expenditure expensed		79,286,951	10,306,251
– exploration and evaluation expenditure impaired	17	118,709	798,520
Total exploration and evaluation expenditure expensed or impaired		79,405,660	11,104,771
Finance costs:			
– finance charges under finance lease		507	5,881
– finance charges on right-of-use assets		141,195	-
– loan commitment fees (refer (a) below)		2,724,755	-
– bank charges		381,276	174,241
Total finance costs		3,247,733	180,122
Share-based payments expense	28(d)	3,404,667	3,996,372
Short-term lease expense (included in property costs)		435,712	-
Baúna transition costs (refer (b) below)		20,190,753	-
Write-down of inventory to net realisable value (refer (c) below)		18,530,500	6,213,639

(a) Related to commitment fees for an undrawn senior secured term loan facility for the pending Baúna acquisition, which lapsed during July 2020 and is no longer in place.

(b) Represents costs incurred on transition, development initiatives and other project activities associated with Baúna. Expenditure includes internal time allocation of employees and consultants and associated office charges, insurance, travel expenses, geotechnical data, success fee, professional fees and external advice relating to due diligence and legal reviews.

(c) Relates to write-down of the carrying value of inventory holdings in Peru to net realisable value (30 June 2019: write down resulted from the consideration of utilising a particular type of rig for the Marina-1 exploration well in Block Z-38 and as a result a portion of Karoon's existing Peru inventory was not suitable for that generation of rig).

Note 6. Income Tax

	Note	Consolidated 2020 $	Restated 2019 $
(a) Income Tax Recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income			
Tax income comprises:			
Current tax		(4,676,647)	(806,393)
Adjustments in respect of current tax of previous financial years		56,861	(12,877)
Deferred tax		5,564,620	(1,926,405)
Total tax income (expense)		944,834	(2,745,675)
The prima facie tax on loss before income tax is reconciled to tax income as follows:			
Prima facie tax payable on loss before income tax, calculated at the Australian tax rate of 30%		38,631,938	4,837,302
Add the tax effect of:			
Share-based payments expense (non-cash)		(1,051,629)	(1,099,586)
Other non-deductible items		(3,692,990)	(1,983,169)
Tax losses and temporary tax differences not recognised		(35,223,096)	(5,525,157)
Adjustment for current tax of previous financial years		-	(12,877)
Subtract the tax effect of:			
Adjustment for current tax of previous financial years		56,860	-
Difference in overseas tax rates		1,100,080	532,414
Non-assessable income		1,123,671	505,398
Total tax income (expense)		944,834	(2,745,675)
(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	21(b)	618,492	-

(c) Deferred Tax Balances

Consolidated	Restated Balance as at 1 July 2019 $	Charged (Credited) to Profit or Loss $	Charged (Credited) Directly to Equity $	Balance as at 30 June 2020 $
Temporary differences				
Provisions and accruals	620,712	(42,850)	-	577,862
Equity raising transaction costs	226	(123,883)	618,492	494,835
Unrealised foreign currency gains	(24,141,006)	5,825,580	-	(18,315,426)
Right-of-use assets	-	(323,301)	-	(323,301)
Lease liabilities	-	353,019	-	353,019
Farm-out expenditures	250,836	(121,950)	-	128,886
Other	3,898	(1,995)	-	1,903
Total temporary differences	(23,265,334)	5,564,620	618,492	(17,082,222)
Unused tax losses				
Tax losses	239,280	(233,831)	-	5,449
Total unused tax losses	239,280	(233,831)	-	5,449
Net deferred tax liabilities	(23,026,054)	5,330,789	618,492	(17,076,773)
Presented in the consolidated statement of financial position as follows:				
Deferred tax liabilities	(23,026,054)			(17,076,773)

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 6. Income Tax *(continued)*	Consolidated 2020 $	Consolidated Restated 2019 $
Deferred tax liabilities expected to be settled within 12 months	**(9,157,713)**	(15,933,064)
Deferred tax liabilities expected to be settled after more than 12 months	**(7,919,060)**	(7,092,990)
Deferred tax liabilities	**(17,076,773)**	(23,026,054)

(d) Unrecognised Deferred Tax Assets

A deferred tax asset has not been recognised in the consolidated statement of financial position as the benefits of which will only be realised if the conditions for deductibility set out in Note 1(f) occur:

	2020 $	Restated 2019 $
Unrecognised temporary tax differences relating to deferred tax assets at a tax rate of 34%	**72,369,658**	52,123,754
Tax losses: Brazilian operating losses at a tax rate of 34%	**40,408,326**	50,960,299
Tax losses: Peruvian operating losses at a tax rate of 32%	**7,767,734**	7,398,868
Potential tax income	**120,545,718**	110,482,921

(e) Unrecognised Taxable Temporary Differences

	2020 $	Restated 2019 $
Temporary tax differences relating to deferred tax liabilities	**(281,216)**	-
Offset by deferred tax assets relating to operating losses	**281,216**	-
Total deferred tax liabilities (unrecognised)	**-**	-

PRRT

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

The Group estimates that it has incurred compounded carried forward undeducted PRRT expenditure in excess of accounting carrying values as at 30 June 2020 of $36,947,760 (2019: $145,898,630). 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 $10,345,373 (2019: $40,851,616).

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

Note 7. Remuneration of External Auditors

	Consolidated	
Remuneration received or due and receivable by the external auditor of the Company for:	2020 $	2019 $
(a) PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	189,720	158,100
Other assurance services	80,550	-
Total remuneration for audit and other assurance services	270,270	158,100
(ii) Other services		
Due diligence services	36,720	11,813
Taxation services	15,000	61,888
All other services	3,060	709
Total remuneration of PricewaterhouseCoopers Australia	325,050	232,510
(b) Related Practices of PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	145,987	130,888
Total remuneration for audit and other assurance services of related practices of PricewaterhouseCoopers Australia	145,987	130,888
(ii) Other services		
Taxation services	-	18,179
All other services	-	11,226
Total remuneration of related practices of PricewaterhouseCoopers Australia	145,987	160,293
Total remuneration of external auditors	471,037	392,803

Note 8. Dividends

There were no ordinary dividends declared or paid during the financial year by the Group (2019: $Nil).

Balance of franking account available for subsequent reporting periods	13,164,770	13,164,770

The above amount is calculated from the balance of the Company's franking account as at the end of the financial year. Franking credits are based on the Australian tax rate of 30%.

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 9. Earnings Per Share

	Consolidated 2020 $	Consolidated Restated 2019 $
Loss for the financial year used to calculate basic and diluted earnings per ordinary share:	(127,828,293)	(18,870,014)
(a) Basic loss per ordinary share	(0.2873)	(0.0768)
(b) Diluted loss per ordinary share*	(0.2873)	(0.0768)
* Diluted loss per ordinary share equates to basic loss per ordinary share in the current and previous financial year because a loss per ordinary share is not considered dilutive for the purposes of calculating earnings per share pursuant to AASB 133 '*Earnings per Share*'.		
Weighted average number of ordinary shares on issue during the financial year used in calculating basic earnings per ordinary share:	444,985,726	245,854,993
Weighted average number of potential ordinary shares:	8,777,337	7,461,809
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per ordinary share (excluding anti-dilutive share options outstanding):	453,763,063	253,316,802
Weighted average number of anti-dilutive share options:	7,618,174	9,121,960

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

	Consolidated 2020 $	Consolidated 2019 $
Cash at banks and on hand (refer note (a) below)	400,936,733	310,426,425
Short-term bank deposits (refer note (b) below)	30,966,216	15,764,706
Total cash and cash equivalents	431,902,949	326,191,131

(a) Cash and Cash Equivalents of Joint Operations

Cash and cash equivalents include share of joint operation cash and short-term bank deposit balances. Refer to Note 24 for further details.

(b) Short-term Bank Deposits

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

(c) Financial Risk Management

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

Note 11. Receivables

	2020	2019
Current		
Other receivables	13,666,381	1,880,833
Total current receivables	13,666,381	1,880,833

(a) Financial Risk Management

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

Note 12. Inventories

	Consolidated 2020 $	Consolidated 2019 $
Current		
Casing and other drilling inventory	-	2,124,577
Total current inventories	-	2,124,577
Non-current		
Casing and other drilling inventory	10,374,376	31,495,438
Total non-current inventories	10,374,376	31,495,438

Note 13. Security Deposits

	Consolidated 2020 $	Consolidated 2019 $
Current		
Karoon Peru Pty Ltd, Sucursal del Peru (refer note (a)(i) below)	90,339	88,407
Karoon Energy Ltd (refer note (a)(ii) and (c) below)	5,391,198	425,881
Karoon Petróleo & Gas Ltda, KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note (d) below)	19,071	21,596
Total current security deposits	5,500,608	535,884
Non-current		
Karoon Energy Ltd (refer note (a) below)	-	5,190,361
Karoon Petróleo & Gas Ltda (refer note (b) below)	1,639,597	2,303,797
Karoon Energy Ltd (refer note (c) below)	230,591	5,253
KEI (Peru Z38) Pty Ltd, Sucursal del Peru (refer note (d) below)	13,950	13,653
Total non-current security deposits	1,884,138	7,513,064

(a) Performance Guarantee

(i) Performance guarantee (via a letter of credit) provided to Perupetro SA (the Peruvian oil and gas regulator) for Area 73 by the Group (refer Note 25) for work commitments and an obligation to submit reports. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work commitments are met and relevant reports submitted to Perupetro SA.

(ii) Performance guarantee (via a letter of credit) provided to Perupetro SA for Block Z-38 by the Group (refer Note 25) for its share of third period work commitments. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work commitments are met.

(b) Guarantee Bond

The Group has provided the ANP a letter of credit (refer Note 25) to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work program is met.

(c) Bank Guarantees

Cash deposits are held as security against bank guarantee facilities for bank guarantees (refer Note 25) given to lessors for the Group's compliance with its obligations in respect of lease rental agreements for office premises.

(d) Bonds

Cash deposits are held as bonds for the Group's compliance with its obligations in respect of agreements for the guarantee (refer Note 25) of payment obligations for various accommodation in Brazil and Peru.

(e) Financial Risk Management

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 14. Other Assets

	Note	Consolidated 2020 $	Consolidated 2019 $
Current			
Prepayments		2,382,002	1,161,836
Total current other assets		2,382,002	1,161,836
Non-current			
Deposit paid for production asset	26(c)	49,420,402	-
Total non-current other assets		49,420,402	-

Note 15. Plant and Equipment

	Note	2020 $	2019 $
Plant and equipment			
At cost		4,087,772	4,535,505
Accumulated depreciation		(2,031,904)	(3,741,867)
Total plant and equipment		2,055,868	793,638
Reconciliation			
The reconciliation of the carrying amount for plant and equipment is set out below:			
Balance at beginning of financial year		793,638	802,514
Additions	23(c)	1,820,374	325,802
Disposals		(115,570)	(4,434)
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(111,764)	33,598
Depreciation expense	5	(330,810)	(363,842)
Carrying amount at end of financial year		2,055,868	793,638

Note 16. Intangible Assets

	Note	2020 $	2019 $
Computer software			
At cost		2,337,535	2,693,711
Accumulated amortisation		(2,030,277)	(2,158,056)
Total intangibles		307,258	535,655
Reconciliation			
The reconciliation of the carrying amounts for computer software is set out below:			
Balance at beginning of financial year		535,655	781,514
Additions	23(c)	117,995	39,102
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(114,746)	44,154
Amortisation expense	5	(231,646)	(329,115)
Carrying amount at end of financial year		307,258	535,655

Note 17. Exploration and Evaluation Expenditure Carried Forward

	Note	Consolidated 2020 $	Restated 2019 $
The reconciliation of exploration and evaluation expenditure carried forward is set out below:			
Balance at beginning of financial year (restated)		85,536,636	76,271,199
Additions	23(c)	1,747,041	5,324,694
Exploration and evaluation expenditure expensed (refer note (a) below)		(3,900,732)	-
Exploration and evaluation expenditure impaired (refer note (b) below)	5	(118,709)	(798,520)
Net foreign currency difference on translation of financial statements of foreign subsidiaries (refer note (c) below)		(23,479,669)	4,739,263
Total exploration and evaluation expenditure carried forward		59,784,567	85,536,636

(a) Exploration and evaluation expenditure expensed relates to costs incurred during the 2019 financial year in relation to the Marina-1 exploration well, which was drilled as an unsuccessful well during the current financial year and was accordingly expensed.

(b) As part of the review of the Group's non-current assets as at 30 June 2020, exploration and evaluation expenditure carried forward has been impaired for continuing appraisal expenditure incurred on the Group's Goiá light oil discovery in Block S-M-1101.

(c) Net foreign currency exchange difference represents the revaluation of the opening balance of the prior years capitalised exploration and evaluation expenditure.

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

Note 18. Trade and Other Payables

		Consolidated 2020 $	2019 $
Current (unsecured)			
Trade payables		27,231,388	3,169,116
Sundry payables and accruals		4,611,472	3,989,736
Cash-settled share-based payments	28(d)	51,961	225,456
Total current trade and other payables		31,894,821	7,384,308
Non-current (unsecured)			
Cash-settled share-based payments	28(d)	266,033	546,766
Total non-current trade and other payables		266,033	546,766

(a) Financial Risk Management

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 19. Provisions

	Consolidated 2020 $	Consolidated 2019 $
Current		
Provision for long service leave (refer note (a) below)	595,987	586,165
Total current provision	595,987	586,165
Non-current		
Provision for long service leave (refer note (a) below)	120,348	120,340
Total non-current provisions	120,348	120,340

(a) Provision for Long Service Leave

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

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

Note 20. Leases

Right-of-use assets

Reconciliation

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Note	2020 $	2019 $
Property			
Balance at beginning of financial year (refer note (a) below)		-	-
Additions	23(c)	3,324,627	-
Disposals		(851,464)	-
Depreciation expense		(473,243)	-
Total Right-of-use assets – Property		1,999,920	
Other			
Balance at beginning of financial year (refer note (a) below)		-	
Additions	23(c)	37,177	-
Disposals		-	-
Depreciation expense		(13,986)	-
Total Right-of-use assets – Other		23,191	-
Total Right-of-use assets		2,023,111	-
Lease liabilities			
Balance at beginning of financial year (refer note (a) below)		1,079,270	-
Additions		1,502,635	-
Accretion of interest		141,195	-
Payments		(517,912)	-
Total lease liabilities		2,205,188	-
Current		294,846	-
Non-current		1,910,342	-

(a) For adjustments on adoption of AASB 16 '*Leases*' on 1 July 2019 and recognition of right-of-use assets and lease liabilities, refer to Note1(a) for details. In previous reporting periods the Group only recognised lease assets and liabilities in relation to leases that were classified as 'finance leases' under AASB 117 '*Leases*'. The assets were presented as property plant and the liabilities as part of trade and other payables.

Note 21. Contributed Equity and Reserves Within Equity

(a) Contributed Equity

	Consolidated		Consolidated	
	2020 Number	2019 Number	2020 $	2019 $
Ordinary shares, fully paid	552,984,693	246,216,477	1,076,725,456	802,295,334
Total contributed equity			1,076,725,456	802,295,334

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

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

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

(b) Movement in Ordinary Shares

Date	Details	Note	Number of Ordinary Shares	Issue Price Per Ordinary Share	$
1 July 2018	Opening balance in previous financial year		245,721,153		802,295,334
	Performance rights conversion	28(c)	495,324	-	-
30 June 2019	Balance at end of previous financial year		246,216,477		802,295,334
31 October 2019	Ordinary shares issued		187,955,140	$0.93	174,798,280
19 November 2019	Ordinary shares issued		117,551,329	$0.93	109,322,736
	Transaction costs arising on ordinary shares issued		-		(10,309,386)
	Deferred tax credit recognised directly in equity		-		618,492
	Performance rights conversion	28(c)	1,261,747	-	-
30 June 2020	Balance at end of financial year		552,984,693		1,076,725,456

(c) Capital Management

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

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

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

(d) Reserves Within Equity

(i) Share-based Payments Reserve

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

(ii) Foreign Currency Translation Reserve

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 22. Subsidiaries

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

Name	Country of Incorporation or Registration	Business Activities Carried on in	Percentage of Equity and Voting Interests Held by the Group 2020 %	2019 %
Parent Company:				
Karoon Energy Ltd	Australia	Australia		
Unlisted subsidiaries of Karoon Energy Ltd:				
Karoon Energy International Pty Ltd	Australia	Australia	100	100
Karoon Gas Browse Basin Pty Ltd	Australia	Australia	100	100
Karoon Gas (FPSO) Pty Ltd	Australia	Australia	100	100
Unlisted subsidiaries of Karoon Energy International Pty Ltd:				
KEI (Brazil Santos) Pty Ltd	Australia	Australia	100	100
Karoon Peru Pty Ltd	Australia	Australia	100	100
KEI (Peru Z38) Pty Ltd	Australia	Australia	100	100
Unlisted subsidiary of KEI (Brazil Santos) Pty Ltd:				
Karoon Petróleo & Gas Ltda	Brazil	Brazil	100	100
Branch of KEI Peru Pty Ltd:				
Karoon Peru Pty Ltd, Sucursal del Peru	Peru	Peru	100	100
Branch of KEI (Peru Z38) Pty Ltd:				
KEI (Peru Z38) Pty Ltd, Sucursal del Peru	Peru	Peru	100	100

Note 23. 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 Exploration Manager (formerly the 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 – the Group is currently involved in the exploration and evaluation of hydrocarbons of 1 offshore exploration permit area: WA-482-P;
- Brazil – the Group is currently involved in the exploration and evaluation of hydrocarbons in 3 offshore exploration blocks: Block S-M-1037, Block S-M-1101, and Block S-M-1537; and
- Peru –the Group is currently involved in the exploration and evaluation of hydrocarbons in offshore exploration Block Z-38 and Area 73.

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

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

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

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

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

(b) Operating Segments

Segment Performance	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
Result for financial year ended 30 June 2020					
Segment revenue (interest income from unrelated entities)	3,089,633	346,692	2,717		3,439,042
Other income	8,435,805	154,669	(20,500)	-	8,569,974
Baúna transition costs	-	(20,190,753)	-		(20,190,753)
Business development and other project costs	-	(134,058)	-	-	(134,058)
Depreciation and amortisation expense	(257,707)	(540,798)	(251,180)	-	(1,049,685)
Employee benefits expense (net) ^	(7,802,937)	(2,057,487)	(458,741)	-	(10,319,165)
Exploration and evaluation expenditure expensed or impaired	(936,300)	(2,207,143)	(76,108,986)	(153,231)	(79,405,660)
Finance costs	(72,534)	(3,142,174)	(33,025)	-	(3,247,733)
Write-down of inventory to net realisable value	-	-	(18,530,500)	-	(18,530,500)
Property costs	(556,599)	(158,801)	(28,157)	-	(743,557)
Administration and other operating expenses	(5,524,755)	(1,124,766)	(511,511)	-	(7,161,032)
Loss before income tax	(3,625,394)	(29,054,619)	(95,939,883)	(153,231)	(128,773,127)
Tax income	944,834	-	-	-	944,834
Loss for financial year	(2,680,560)	(29,054,619)	(95,939,883)	(153,231)	(127,828,293)
Restated result for financial year ended 30 June 2019					
Segment revenue (interest income from unrelated entities)	2,101,618	211,693	1,492	-	2,314,803
Other income	17,509,652	10,723	5,482,279	-	23,002,654
Business development and other project costs	-	(5,046,194)	(166,453)	(1,916)	(5,214,563)
Depreciation and amortisation expense	(137,347)	(417,592)	(138,018)	-	(692,957)
Employee benefits expense (net) ^^	(8,128,970)	(2,517,676)	(453,824)	-	(11,100,470)
Exploration and evaluation expenditure expensed or impaired	(842,878)	(7,812,865)	(2,395,464)	(53,564)	(11,104,771)
Finance costs	(17,002)	(62,183)	(100,937)	-	(180,122)
Write-down of inventory to net realisable value	-	-	(6,213,639)	-	(6,213,639)
Property costs	(814,601)	(403,474)	(104,033)	-	(1,322,108)
Administration and other operating expenses	(2,659,475)	(1,854,918)	(1,098,773)	-	(5,613,166)
Loss before income tax	7,010,997	(17,892,486)	(5,187,370)	(55,480)	(16,124,339)
Tax expense	(2,745,675)	-	-	-	(2,745,675)
Loss for financial year	4,265,322	(17,892,486)	(5,187,370)	(55,480)	(18,870,014)

^ Includes share-based payments expense of $2,543,281 (Australia) and $861,386 (Brazil) during the financial year.

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 23. Segment Information *(continued)*

(b) Operating Segments *(continued)*

Segment Assets	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
As at 30 June 2020					
Segment asset information					
Cash and cash equivalents	402,427,659	6,546,854	22,928,436	-	431,902,949
Exploration and evaluation expenditure carried forward	-	59,784,567	-	-	59,784,567
Security deposits	230,592	1,652,059	5,502,095	-	7,384,746
Inventories	-	9,378,997	995,379	-	10,374,376
Other	3,714,800	52,330,609	13,823,670	-	69,869,079
Segment assets	406,373,051	129,693,086	43,249,580	-	579,315,717
As at 30 June 2019					
Restated segment asset information					
Cash and cash equivalents	320,978,875	305,319	4,906,937	-	326,191,131
Exploration and evaluation expenditure carried forward	-	81,715,354	3,821,282	-	85,536,636
Security deposits	431,133	2,321,309	5,296,506	-	8,048,948
Inventories	-	13,611,876	20,008,139	-	33,620,015
Other	1,180,318	1,305,663	1,940,284	-	4,426,265
Segment assets	322,590,326	99,259,521	35,973,148	-	457,822,995

Segment Liabilities	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
As at 30 June 2020					
Segment liability information					
Trade and other payables	2,932,380	6,432,205	22,796,269	-	32,160,854
Current tax liabilities	3,964,743	-	-	-	3,964,743
Deferred tax liabilities	17,076,773	-	-	-	17,076,773
Lease liabilities	1,176,729	899,398	129,061	-	2,205,188
Provisions	716,335	-	-	-	716,335
Segment liabilities	25,866,960	7,331,603	22,925,330	-	56,123,893
As at 30 June 2019					
Restated segment liability information					
Trade and other payables	2,956,909	3,844,560	1,129,605	-	7,931,074
Deferred tax liabilities	23,026,054	-	-	-	23,026,054
Provisions	706,505	-	-	-	706,505
Segment liabilities	26,689,468	3,844,560	1,129,605	-	31,663,633

(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 2020					
Plant and equipment	545,339	1,205,983	69,052	-	1,820,374
Right-of-use assets	1,226,013	1,889,300	246,491	-	3,361,804
Intangible assets	13,482	102,598	1,915	-	117,995
Exploration and evaluation expenditure carried forward	-	1,747,041	-	-	1,747,041
Restated financial year ended 30 June 2019					
Plant and equipment	23,949	255,067	46,786	-	325,802
Intangible assets	14,290	23,743	1,069	-	39,102
Exploration and evaluation expenditure carried forward	-	1,503,412	3,821,282	-	5,324,694

Note 24. Joint Operations

The Group has an equity interest in the following joint operations as at 30 June 2020 as follows:

Petroleum Tenement	Business Activities Carried on in	Unincorporated Equity Interest (%) 2020	Unincorporated Equity Interest (%) 2019	Principal Activities	Operator of Joint Operation
WA-482-P	Northern Carnarvon Basin, Australia	50	50	Exploration and evaluation	Santos WA Energy Limited
Block Z-38	Tumbes Basin, Peru	40^	40^	Exploration and evaluation	KEI (Peru Z38) Pty Ltd, Sucursal del Peru

^ The Group's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are still to be completed.

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

	Consolidated 2020 $	Consolidated Restated 2019 $
Cash and cash equivalents	20,115,858	64,915
Receivables (current)	6,968,023	470,356
Inventory	196,665	-
Exploration and evaluation expenditure carried forward (non-current)	-	3,821,282
Trade and other payables (current)	(22,890,132)	(26,085)
Share of net assets employed in joint operations	4,390,414	4,330,468
Interest income from unrelated entities	773	346
Other income	543,474	15,796
Other expenses	(536,074)	-
Exploration and evaluation expenditure expensed or impaired	(76,727,702)	(2,758,656)
Write-down of inventory to net realisable value	(3,735,585)	-

Contingent liabilities in respect of joint operations are set out in Note 25.

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 25. Contingent Liabilities and Contingent Assets

(a) Contingent Liabilities

The Group has contingent liabilities as at 30 June 2020 that may become payable in respect of:	Consolidated 2020 $	Consolidated 2019 $
(i) Performance guarantee (via a letter of credit) provided to Perupetro SA for Area 73 by the Group (refer Note 13) for work commitments and an obligation to submit reports. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work commitments are met and relevant reports submitted to Perupetro SA.	**90,339**	88,407
(ii) Performance guarantee (via a letter of credit) provided to Perupetro SA for Block Z-38 by the Group for its share of third period work commitments. The Directors are of the opinion that the work commitments will be satisfied. The letter of credit is fully funded by way of payment of a security deposit (refer Note 13), which will be released once the work commitments are met.	**5,391,198**	5,190,361
(iii) The Group has provided the ANP a letter of credit (refer Note 13) to carry out the minimum work program in relation to exploration in Santos Basin Block S-M-1537. The Directors are of the opinion that the work program commitments will be satisfied. The letter of credit is fully funded by way of payment of a security deposit, which will be released once the work program is met.	**1,639,597**	2,303,797
(iv) Bank guarantees were provided in respect of rental agreements for office premises of the Group. These guarantees may give rise to liabilities in the Group if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	**230,591**	431,134
(v) Cash deposits (refer Note 13) are held as bonds for the Group's compliance with its obligations in respect of agreements for the guarantee of payment obligations for various accommodation in Brazil and Peru.	**33,021**	35,249

(vi) Block Acquisition

As part of the acquisition of Pacific Exploration and Production Corp.'s equity interest of Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 during the 2017 financial year, the Group agreed to pay Pacific Exploration and Production Corp. a deferred contingent consideration of US$5.0 million payable upon first production reaching a minimum of 1 million barrels of oil equivalent from the Blocks. The deferred contingent obligation has not been provided for as at 30 June 2020, as it is dependent upon uncertain future events.

(vii) Brazilian Local Content

The Concession Contracts for Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1537 and S-M-1166 require Karoon Petróleo & Gas Ltda to acquire a minimum proportion of goods and services from Brazilian suppliers, with the objective to stimulate industrial development, promote and diversify the Brazilian economy, encourage advanced technology and develop local capabilities. The minimum Brazilian local content requirement under the Concession Contracts during the exploration and appraisal phase is up to 55%. If Karoon Petróleo & Gas Ltda fails to comply with this minimum requirement, Karoon Petróleo & Gas Ltda may be subject to a fine by the ANP.

It is not practical to estimate a potential shortfall in meeting the local content requirement as at 30 June 2020, nor the financial effect of any potential fine by the ANP.

(viii) Other Matters

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

(ix) Joint Operations

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

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

(b) Contingent Assets

The Group has no contingent assets as at 30 June 2020 (30 June 2019: $Nil).

Note 26. Commitments

(a) Capital and Service Expenditure Commitments

Contracts for capital and service expenditure in relation to assets not provided for in the consolidated financial statements and payable:	Consolidated 2020 $	Consolidated 2019 $
Drilling operations		
Not later than one year	-	182,968
Total drilling operations commitments	-	182,968
Service commitments		
Not later than one year	416,950	-
Total service commitments	416,950	-
Total capital and service expenditure commitments	416,950	182,968

(b) Exploration Expenditure Commitments

The Group has guaranteed commitments for exploration expenditure arising from obligations to governments to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration tenements WA-482-P, Block S-M-1537 and Block Z-38 (30 June 2019: WA-482-P, EPP46, Block S-M-1537 and Block Z-38) not provided for in the consolidated financial statements and payable.

	2020 $	2019 $
Not later than one year	258,765	79,668,351
Later than one year but not later than five years	607,356	1,375,000
Later than five years	1,639,596	2,303,797
Total guaranteed exploration expenditure commitments	2,505,717	83,347,148

In addition, to the guaranteed exploration expenditure commitments shown above, the Group has non-guaranteed government work commitments in relation to these exploration tenements due later than one year but not later than five years of $116,636,420 (30 June 2018: $225,716,234). These commitments will become firm commitments if the Group elects to retain the tenements by proceeding into the unguaranteed work periods.

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

	2020 $	2019 $
Not later than one year	258,765	51,363,848
Later than one year but not later than five years	117,243,776	109,591,234
Total joint operation guaranteed exploration expenditure commitments	117,502,541	160,955,082

Estimates for future exploration expenditure commitments to government are based on estimated well and seismic costs, which will change as actual drilling locations and seismic surveys are completed and are calculated in current dollars on an undiscounted basis. The exploration and evaluation obligations may vary significantly as a result of renegotiations with relevant parties. The commitments may also be reduced by the Group entering into farm-out agreements, which are typical of the normal operating activities of the Group, or by relinquishing exploration tenements.

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

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 26. Commitments *(continued)*

(c) Acquisition of a Production Asset

On 25 July 2019, a wholly owned subsidiary executed a binding SPA to acquire from Petrobras a 100% operating interest in Concession BM-S-40, that includes the producing Baúna light oil field located in the Santos Basin, offshore Brazil, for a headline consideration of US$665 million. On the same date, a deposit of US$49.9 million (converted into Brazilian REAL at transaction date) was paid to Petrobras, which has been recognised as a non-current other asset as at 30 June 2020 (refer note 14).

Subsequent to the end of the financial year during July 2020, Karoon agreed on adjusted terms for the acquisition, splitting the US$665 million headline consideration into 2 parts comprising US$380 million of firm consideration and US$285 million of contingent consideration linked to oil prices.

The US$380 million of firm consideration is made up of:

(i) US$150 million payable on closing of the transaction;

(ii) Closing adjustment comprising operating cash flows for the period from the effective date of 1 January 2019 to the closing date, the deposit paid, along with interest payable on firm consideration; and

(iii) Deferred "firm" consideration payable 18 months after closing, which is US$380 million less items (i) and (ii) above.

The closing adjustment comprising operating cash flows generated by the asset (operational cash flows less income tax, capital expenditures and interest on acquisition consideration from the acquisition's effective date of 1 January 2019 through to closing) are dependent on a number of operational and macro factors (e.g. crude oil price and foreign exchange risks) through to closing.

Up to, in aggregate, US$285 million (plus interest of 2% per annum) of "contingent" consideration payable is based on the average annual daily Brent oil price (based on thresholds between >= US$50/bbl and >= US$70/bbl) in respect of calendar years 2022 to 2026.

The firm and contingent consideration payable is expected to be funded from existing cash and organic cash flows from the asset.

The transaction is subject to certain conditions precedent including Brazilian regulatory approval, which is expected during the first half of the 2021 financial year. In the event the transaction does not complete, the deposit would be returned to Karoon unless Karoon is responsible for the failure to complete, in which case the deposit would be forfeited to Petrobras. The Directors believe that Karoon will be successful in completing this transaction during around the end of the third quarter calendar year 2020.

Note 27. Reconciliation to the Consolidated Statement of Cash Flows

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

	Consolidated 2020 $	Consolidated Restated 2019 $
Loss for financial year	(127,828,293)	(18,870,014)
Add (subtract)		
Non-cash items included in loss for financial year:		
Depreciation of plant and equipment, right-of-use assets and amortisation of computer software	1,049,685	692,957
Share-based payments expense	3,505,431	3,665,286
Gain on disposal of right-of-use asset	(57,169)	-
Net foreign currency gains	(7,474,497)	(17,540,743)
Items classified as investing/financing activities:		
Net loss on disposal of non-current assets	111,861	4,434
Exploration and evaluation expenditure impaired or written-off	4,019,441	798,520
Net foreign currency gains (losses)	(1,339,880)	(242)
Write-down of inventory to net realisable value	18,530,500	6,213,639
Change in operating assets and liabilities:		
(Increase) decrease in assets		
Receivables – current	(12,310,233)	(222,722)
Current tax asset	24,590	142,976
Other assets	(1,239,979)	(460,271)
Increase (decrease) in liabilities		
Trade and other payables – current	24,603,228	333,581
Trade and other payables – non-current	(204,895)	141,256
Provisions – current	9,822	302,665
Provisions – non-current	7	(209,180)
Current tax liabilities	3,964,743	-
Deferred tax liabilities	(5,330,789)	2,745,676
Net cash flows used in operating activities	(99,966,427)	(22,262,182)

Non-cash financing activities disclosed in other notes is the acquisition of right-of-use assets (refer Note 20) (30 June 2019: Finance lease liability of $35,545)

Note 28. Share-based Payments

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

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

The Company currently has one ESOP in place, the 2016 ESOP. ESOP options expire up to 4 years after they are granted. The exercise price of ESOP options is based on the volume weighted average price at which the Company's ordinary shares are traded on the ASX during the 20 days of trading before the ESOP options were offered plus a premium to the market price.

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

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

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

During the financial year, the Group did not grant any ESOP options (2019: $Nil) over unissued ordinary shares in the Company to Executive Directors. Share options issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 28. Share-based Payments *(continued)*

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

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

	Consolidated			
	2020		2019	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance at beginning of financial year	**9,995,521**	**$1.61**	7,623,938	$2.11
Granted during financial year	**-**	**-**	4,367,289	$1.40
Exercised during financial year	**-**	**-**	-	-
Cancelled during financial year	**-**	**-**	-	-
Expired during financial year	**-**	**-**	-	-
Forfeited during financial year	**(2,765,502)**	**$1.79**	(1,995,706)	$3.04
Balance at end of financial year	**7,230,019**	**$1.54**	9,995,521	$1.61
Exercisable at end of financial year	**-**	**-**	-	-

ESOP options outstanding as at 30 June 2020 had a range of exercise prices from $1.40 to $1.77 (30 June 2019: range of exercise prices from $1.40 to $1.82) with a weighted average remaining contractual life of 573 days (30 June 2019: 801 days).

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

Grant Date	Date of Expiry	Exercise Price Per ESOP Option	Number
6 October 2017	30 June 2021	$1.73	**1,385,045**
9 November 2017	30 June 2021	$1.73	**421,647**
14 November 2017	30 June 2021	$1.73	**59,709**
16 November 2017	30 June 2021	$1.77	**1,148,344**
21 September 2018	30 June 2022	$1.40	**3,145,588**
31 December 2018	30 June 2022	$1.40	**1,069,686**
Total ESOP options			**7,230,019**

(b) Fair Value of Share Options

The fair value of each share option issued during the previous 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:

	2020	2019
Weighted average exercise price	**-**	$1.40
Weighted average life of share options	**-**	1,353 days
Weighted average share price	**-**	$1.08
Expected share price volatility	**-**	45%
Risk free interest rate	**-**	2.06%
Weighted average share option value	**-**	$0.24

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

(c) Performance Rights Plan ('PRP')

The Company currently has two PRP plans in place, the 2016 PRP and 2019 PRP. The 2019 PRP was approved by shareholders at the 2019 Annual General Meeting.

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

Performance rights granted carry no dividend or voting rights.

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

During the financial year, the Group granted 1,332,646 performance rights (2019: 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	
	2020 Number	2019 Number
Balance at beginning of financial year	7,762,137	6,500,013
Granted during financial year	7,630,152	3,433,178
Vested and converted during financial year	(1,261,747)	(495,324)
Cancelled during financial year	-	-
Cash-settled during financial year	(297,317)	-
Forfeited during financial year	(2,897,275)	(1,675,730)
Balance at end of financial year	10,935,950	7,762,137

Performance rights issued during the financial year were issued under the both the 2016 and 2019 PRP's.

There were 1,261,747 (2019: 1,360,907) performance rights that vested during the financial year, of which 1,261,747 (2019: 495,324) were converted into fully paid ordinary shares during the financial year.

The weighted average fair value of performance rights granted during the financial year was $1.08 (2019: $1.08). Fair values of performance rights were based on the Company's closing share price at grant date.

Performance rights outstanding as at 30 June 2020 had a weighted average remaining contractual life of 784 days (30 June 2019: 606 days).

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

Grant Date	Date of Expiry	Number
6 October 2017	30 June 2021	658,001
9 November 2017	30 June 2021	233,755
14 November 2017	30 June 2021	21,100
16 November 2017	30 June 2021	405,806
21 September 2018	30 June 2021	618,175
21 September 2018	30 June 2022	824,261
31 December 2018	30 June 2021	264,402
31 December 2018	30 June 2022	280,298
12 November 2019	30 June 2022	712,140
12 November 2019	30 June 2023	712,140
18 October 2019	30 June 2022	2,436,613
18 October 2019	30 June 2023	2,436,613
29 November 2019	30 June 2022	666,323
29 November 2019	30 June 2023	666,323
Total performance rights		10,935,950

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 28. Share-based Payments *(continued)*

(d) Share-based Payments Expense

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

	Consolidated	
	2020 $	2019 $
Share options issued under ESOP	**575,104**	1,205,750
Performance rights issued under PRP	**2,930,327**	2,459,536
Share-based payments expense (non-cash)	**3,505,431**	3,665,286
Share-based payments expense (cash-settled)	**(100,764)**	331,086
Total share-based payments expense	**3,404,667**	3,996,372

Note 29. Related Party Transactions

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

(a) Subsidiaries

Interests in subsidiaries are set out in Note 22.

During the financial year, the Parent provided accounting, administrative and technical services to subsidiaries at cost or at cost plus a mark-up where required under relevant tax transfer pricing legislation. 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 (2019: Nil%) and no fixed term for repayment and therefore will not be repaid within 12 months. Loans are unsecured and are repayable in cash.

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

The above transactions are eliminated on consolidation.

(b) Remuneration of Key Management Personnel

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

	Consolidated	
	2020 $	2019 $
Short-term employee benefits	**3,267,213**	3,485,328
Post-employment benefits	**203,337**	191,909
Long-term employee benefits (non-cash)	**23,795**	54,932
Share-based payments expense	**957,237**	1,635,635
Total key management personnel remuneration	**4,451,582**	5,367,804

Detailed remuneration disclosures for the Directors and other key management personnel are provided in Sections 5 of the audited Remuneration Report on pages 50 to 59.

In addition to the above, the Group is committed to pay the Executive Directors and other key management personnel up to $2,414,469 (2019: $3,270,965) 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 2020. Total termination payments equal to the Executive Directors and other KMP average base salary, in accordance with Section 200B of the *Corporations Act 2001*, is $1,944,666 (2019: $2,544,357).

(c) Other Related Party Transactions Within the Group

During the financial year, Mr Jose Coutinho Barbosa, a Non-Executive Director, had an interest in Net Pay Óleo & Gás Consultoria Ltda that continued to provide business and geology consulting services to the Group. The value of these transactions during the financial year in the Group was $379,398 (2019: $343,961).

During the financial year, Ms Flavia Barbosa, the daughter of a Non-Executive Director, was employed by the Group as the in-house Legal Counsel in Brazil. The total value of her remuneration (including share-based payments expense) during the financial year was $225,120 (2019: $235,487), which includes social security and indemnity fund contributions of $37,903 (2019: $36,588). Ms Barbosa has been an employee of the Company since 2011 and has a comprehensive understanding of the Brazilian legal and regulatory framework.

During the financial year, Ms Marina Sayao, the wife of Mr Tim Hosking (a KMP), was employed by the Group as the Sustainability and Communications Manager, South America. The total value of her remuneration (including share-based payments expense) during the financial year was $182,501 (2019: $106,166). Ms Sayao was a key member of the South American operations. During the financial year, following the successful completion of the Peruvian drilling campaign, Ms Sayao's position was made redundant and she ceased as an employee. An amount of $6,567, relating to 2019 STI's, remained payable to Ms Marina Sayao as at 30 June 2020.

During the financial year, Mr Mark Smith, a former Executive Director and other KMP, had an interest in Quantiseal Pty Ltd which provided geophysical fault seal analysis for the Group's Santos Basin assets. The People, Culture and Governance Committee and then Karoon Board approved the transaction during the financial year, prior to it being entered into, being on arm's length terms. The value of this transaction during the financial year in the Group was $22,400 (2019: $64,000).

In addition, Mr Mark Smith, has an interest in BNN Energy Limited ('BNN') which provides geological and engineering expertise and services to Liberty Petroleum Corporation. Where BNN business involves any activity connected to the Group, Mr Smith maintains an arm's length relationship to BNN. Mr Mark Smith was also excluded from any Board of Director discussions and decisions regarding BNN and/or Liberty Petroleum Corporation. Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and an over-riding royalty in the event of production on the Group's exploration permit WA-482-P. BNN has a 1/3 share of Liberty Petroleum Corporation's over-riding royalty, if a discovery is made for exploration permits WA-482-P and is developed. Mr Smith retired as a Director on 29 November 2019 and an other KMP on 15 March 2020.

(d) Related Party Payables

As part of their 'At Risk' remuneration Mr Scott Hosking, Mr Tim Hosking and Ms Flavia Barbosa were issued cash-settled share-based payments for which a liability is recognised based on fair value earned by the end of the reporting period. The balance outstanding included in current trade and other payables is $51,961 (2019: $225,456) and in non-current trade and other payables $225,456 (2019: $546,766).

Note 30. Parent Company Financial Information

(a) Summary Financial Information

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

	Company	
	2020 $	Restated 2019 $
Statement of financial position		
Current assets	409,769,218	322,408,896
Non-current assets	47,152,905	41,164,401
Total assets	456,922,123	363,573,297
Current liabilities	5,823,744	1,764,703
Non-current liabilities	18,567,048	27,906,878
Total liabilities	24,390,792	29,671,581
Net assets	432,531,331	333,901,716
Contributed equity	1,076,725,456	802,295,334
Accumulated losses	(699,075,141)	(519,769,203)
Share-based payments reserve	54,881,016	51,375,585
Total equity	432,531,331	333,901,716
Loss for financial year	(179,305,938)	(11,008,566)
Total comprehensive loss for financial year	(179,305,938)	(11,008,566)

Notes to the Consolidated Financial Statements (CONTINUED)

For the Financial Year Ended 30 June 2020

Note 30. Parent Company Financial Information *(continued)*

(b) Contingent Liabilities of Parent Company

	Company 2020 $	Company Restated 2019 $
(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).	230,591	431,134
(ii) Performance guarantee (via a letter of credit) was provided to Perupetro SA for Block Z-38 by the Parent Company for its share of third period work commitments. The Directors are of the opinion that the work commitments will be satisfied. The letter of credit is fully funded by way of payment of a security deposit (refer Note 13), which will be released once the work commitments are met.	5,391,198	5,190,361
(iii) The Company's present intention is to provide the necessary financial support for all Australian incorporated subsidiaries, whilst they remain wholly owned subsidiaries, as is necessary for each company to pay all debts as and when they become due.		

(c) Guarantees Entered into by Parent Company

Parent Company guarantee provided to a third party during the financial year guaranteeing a subsidiary's performance under a joint operating agreement is set out in Note 24.

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

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

Note 31. Subsequent Events

This Annual Report was authorised for issue by the Board of Directors on 18 September 2020. The Board of Directors has the power to amend and reissue the consolidated financial statements and notes.

Since 30 June 2020, the following material event has occurred:

(a) Adjusted terms for Baúna Sale and Purchase Agreement

On 27 July 2020 Karoon announced, a wholly owned subsidiary of Karoon Energy Ltd (Karoon Petróleo & Gás Ltda), has executed a binding agreement to amend the SPA to acquire a 100% operating interest in Concession BM-S-40, that includes the producing Baúna light oil field located in the Santos Basin, offshore Brazil. The amendments to the SPA split the previously announced headline consideration of US$665 million into US$380 million of firm consideration and US$285 million of contingent consideration refer Note 26 (c) for further details.

The transaction is subject to certain conditions precedent including Brazilian regulatory approval, which is expected around the end of the third quarter calendar year 2020.

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

Directors' Declaration

The Directors' declare that:

(a) in the Directors' opinion, the consolidated financial statements and notes, set out on pages 62 to 104, 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 2020 and of its performance for the financial year ended on that date; and

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

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

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

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

On behalf of the Directors:

Mr Bruce Phillips
Independent Non-Executive Chairman

Mr Robert Hosking
Managing Director

21 September 2020

Independent Auditor's Report

Independent auditor's report

To the members of Karoon Energy Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if

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individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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

Materiality

- For the purpose of our audit we used overall Group materiality of $5.79 million, which represents approximately 1% of the Group's total assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose the Group's total assets because, in our view, it is a commonly accepted benchmark for exploration companies in the oil and gas industry that do not currently have producing assets. The Group did not have revenue from producing assets as at 30 June 2020, meaning profit and revenue based thresholds were less relevant.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

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

Key audit matters

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

Independent Auditor's Report (CONTINUED)

pwc

Key audit matter	***How our audit addressed the key audit matter***
Accounting for the adoption of "successful efforts" accounting policy *(Refer to note 1)* During the financial year, the Group adopted the "successful efforts" ("SE") method of accounting for its exploration and evaluation expenditure in replacement of the "full capitalisation" ("FC") method previously applied. Both methods are acceptable under AASB 6 - Exploration and Evaluation assets. The Group has capitalised exploration and evaluation expenditures amounting to $59.8 million as at 30 June 2020. We considered the adoption of "SE" a key audit matter given: • the adoption adjustment is material to the financial statements; and • complex calculations are required in order to determine the appropriate adoption adjustment.	To assess the group's accounting for the adoption of the "SE" accounting policy, we performed the following audit procedures, amongst others: • Obtained the Group's calculation of the adoption adjustment and tested the underlying mathematical accuracy. • Considered the completeness of the adjustment calculation, assessing whether all blocks within the Group's portfolio had been evaluated. • Considered the competence, qualifications and objectivity of the Group's internal experts involved in the adoption adjustment. • Assessed the accuracy of amounts expensed and compared these against licence information and geological reports. • Assessed the appropriateness of the Group's change in accounting policy in line with Australian Accounting Standards. • Evaluated the completeness of the related financial statement disclosure in line with the disclosure requirements of AASB 108.
Valuation of capitalised exploration and evaluation assets *(Refer to note 17)* As at 30 June 2020, the Group recognised capitalised exploration and evaluation expenditures of $59.8 million, related primarily to drilling, signature bonuses and appraisal costs relating to determining development feasibility across Brazil. Exploration and evaluation assets are assessed by the Group for indicators of impairment by area of interest at each period end. Where there are indicators of impairment, the Group is required to assess whether the carrying amount of the exploration and evaluation assets is likely to be fully recovered from a successful development or by sale, which requires the Group to make a number of estimates and assumptions. These estimates include commodity price, discount rates, foreign exchange rates and development and production costs. In line with previous years, the carrying value of the	To evaluate the Group's carrying value assessment, we engaged our internal valuation experts who assisted us to perform the following key procedures: • Evaluated the Group's assessment for indicators of impairment. • Examined the impairment model provided by the Group's experts and tested the model integrity, appropriateness of methodology applied and mathematical accuracy. • Assessed the competence, qualifications and the objectivity of the Group's expert who provided information to support key assumptions in the impairment model. • Assessed the reasonableness of key assumptions such as commodity price, discount rates, foreign exchange rates and development and production costs.

Key audit matter	*How our audit addressed the key audit matter*
capitalised exploration and evaluation expenditure remains material and is considered a key audit matter given significant and complex judgements and estimates are required by the Group in the calculation of the recoverable amount.	

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

Independent Auditor's Report (CONTINUED)

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 35 to 59 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Karoon Energy Ltd for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
21 September 2020

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 14 September 2020.

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	2,372	1,081,057
1,001 to 5,000	2,979	8,173,189
5,001 to 10,000	1,418	10,954,399
10,001 to 100,000	2,476	81,848,687
More than 100,000	390	451,415,759
Total	9,635	553,473,091

There were 1,577 shareholders holding less than a marketable parcel of ordinary shares to the value of $500.

Substantial Shareholders

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

	Fully Paid Ordinary Shares	
Shareholder	Number Held	% of Issued Ordinary Shares
Macquarie Group Limited, and its controlled bodies corporate	58,107,184	10.50
L1 Capital Pty Ltd	31,221,457	5.64
Norges Bank	29,940,042	5.41
Total	119,268,683	21.55

Twenty Largest Shareholders

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

		Fully Paid Ordinary Shares	
Shareholder		Number Held	% of Issued Ordinary Shares
1	J P Morgan Nominees Australia Pty Limited	112,286,790	20.29
2	HSBC Custody Nominees (Australia) Limited	70,387,418	12.72
3	National Nominees Limited	32,267,155	5.83
4	Citicorp Nominees Pty Limited	31,116,913	5.62
5	CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>	15,168,018	2.74
6	HSBC Custody Nominees (Australia) Limited - A/C 2	14,896,812	2.69
7	Zero Nominees Pty Ltd	10,650,000	1.92
8	NGE Capital Limited	10,593,222	1.91
9	Ropat Nominees Pty Ltd	9,330,237	1.69
10	HSBC Custody Nominees (Australia) Limited-GSI EDA	6,889,936	1.24
11	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	5,438,532	0.98
12	BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	5,438,480	0.98
13	Mr Kenneth Rudy Kamon	4,300,000	0.78
14	BNP Paribas Noms Pty Ltd <DRP>	4,177,388	0.75
15	Ms Jianmei Chen	3,589,000	0.65
16	Falcon Capital Limited <FG Emerging Companies A/C>	2,120,000	0.38
17	Mr Kenneth Joseph Hall <Hall Park A/C>	2,050,000	0.37
18	One Managed Invt Funds Ltd <Sandon Capital Inv Ltd A/C>	1,786,596	0.32
19	Pasagean Pty Limited	1,700,000	0.31
20	Mr Leendert Hoeksema + Mrs Aaltje Hoeksema	1,680,000	0.30
Total		345,866,497	62.47

Additional Securities Exchange Information (CONTINUED)

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 Company's Employee Share Option Plans	25	4,066,123
Performance rights issued pursuant to Company's Performance Rights Plans	29	6,398,436
Total	54	10,464,559

Voting Rights

(a) Ordinary Shares, Fully Paid

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

(b) Unlisted Share Options and Performance Rights

No voting rights.

Other Information

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

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

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

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

Schedule of Interests in Petroleum Tenements

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

A formal request to withdraw from the permit was submitted to the regulatory authorities during the year. The final decision of the Joint Authority is currently pending.

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

^^ The Group's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are still to be completed.

Glossary of Terms

Term	Definition
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
$ or cents	Units of Australian currency.
AASB	Australian Accounting Standards Board.
ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
API	American Petroleum Institute's inverted scale for denoting the 'lightness' or 'heaviness' of crude oils and other liquid hydrocarbons.
appraisal well	A well drilled to confirm the size or quality of a hydrocarbon discovery.
ASX	ASX Limited (ACN 008 624 691), trading as Australian Securities Exchange.
ATO	Australian Taxation Office.
AUD	Australian currency.
AVO	Amplitude versus offset.
barrel or bbl	Barrel of oil, inclusive of condensate. A quantity of 42 United States gallons; equivalent to approximately 159 litres.
basin	A natural depression on the earth's surface in which sediments, eroded from higher surrounding ground levels, accumulated and were preserved.
Baúna	Concession BM-S-40 containing the producing Baúna light oil field and the undeveloped Patola oil discovery, Brazil.
block	A licence or concession area. It may be almost any size or shape, although usually part of a grid pattern.
bopd	Barrels of oil per day.
Company or Parent Company	Karoon Energy Ltd.
contingent resources	Those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable (as evaluation of the accumulation is insufficient to clearly assess commerciality). 1C – Denotes low estimate scenario of contingent resources. 2C – Denotes best estimate scenario of contingent resources. 3C – Denotes high estimate scenario of contingent resources.
Director	A Director of the Company.
discovery well	The first successful well on a new prospect.
economically recoverable reserves	The estimated quantity of hydrocarbons in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions.
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.
ESG	Environmental, social and governance.
ESOP	Karoon Gas Australia 2016 Employee Share Option Plan.
ESP	Electric submersible pump (downhole equipment).
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.

Glossary of Terms (CONTINUED)

Term	Definition
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 2020.
FPSO	Floating production, storage and off-loading facility.
GAB	Great Australian Bight.
GABRWS	Great Australian Bight Right Whale Study in Australia.
G&G	Geological and geophysical.
GST	Goods and Services Tax in Australia.
HSSE	Health, safety, security and environment.
hydrocarbon	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
IBAMA	e Brazilian environmental agency, the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis.
Karoon or Group	Karoon Energy Ltd and its subsidiaries.
km	Kilometres.
lead	A potential hydrocarbon target which has been identified, but requires further evaluation before it is drill ready, at which point it becomes a prospect.
LNG	Liquefied natural gas.
LTI	Long-term incentive.
m	Metres.
market capitalisation	The product of a company's share price multiplied by the total number of ordinary shares issued by the company.
MD	Measured Depth.
migration	Hydrocarbons are often found in formations other than those in which their organic source was deposited. This movement often covers considerable distances and is known as migration.
mm	Million.
mmbbls	Millions of barrels (1,000,000 barrels).
NOPTA	National Offshore Petroleum Titles Administrator.
NOPSEMA	National Offshore Petroleum Safety and Environmental Management Authority.
OMS	Operating Management System.
Operator	One joint operation participant that has been appointed to carry out all operations on behalf of all the joint operation participants.
ordinary shares	The ordinary shares in the capital of the Company.
OWC	Oil-water-contact.
p.a.	Per annum.
performance rights	Performance rights issued under the PRP.
permit	A hydrocarbon tenement, lease, licence, concession or block.
PEN	Peruvian Sol, being currency of Peru.
Petrobras	Petróleo Brasileiro SA.
play	A trend within a prospective basin that has common geologic elements containing one or more fields, prospects or leads with common characteristics.
previous financial year	Financial year ended 30 June 2019.
PRP	Karoon Gas Australia 2016 and Karoon Energy Ltd 2019 Performance Rights Plans.

Term	Definition
prospect	A geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.
prospective resource	The estimated quantities of petroleum that may potentially be recoverable by the application of a future development project related to undiscovered accumulations. Low estimate (P90): P90 refers to a 90% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Best estimate (P50): P50 refers to a 50% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. High estimate (P10): P10 refers to a 10% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Mean estimate (Mean): Mean is the expected value, equal to the sum of the values in that distribution divided by the number of values.
prospectivity	Referring to the likelihood of finding commercial hydrocarbons.
PRRT	Petroleum Resource Rent Tax in Australia.
REAL	Brazilian currency.
reserves	Quantities of economically recoverable hydrocarbons estimated to be present within a trap.
reservoir	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
rig	The equipment needed for drilling a well. It includes the onshore and offshore vehicles, mobile platforms or vessel on which the equipment is stored.
risk	Prospect risk or geologic risk is the assessed chance that the drilling of the prospect will be successful in finding significant volumes of hydrocarbons. The risk is calculated by multiplying the chance of success of each of the petroleum system elements involved in the prospect.
seismic survey	A type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near vertical plane back to the surface from subsurface boundaries. This data is typically used to determine the depths and form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
sq km	Square kilometres.
SPA	Sale and Purchase Agreement.
STI	Short-term incentive.
tcf	Trillion cubic feet (1,000,000,000,000 cubic feet).
TEA	Technical Evaluation Agreement.
TRIR	Total Recordable Incident Rate.
TSR	Total shareholder return.
Tullow	Tullow Peru Limited Sucursal del Peru or Tullow Oil plc.
unrisked	A risk value has not been applied to an estimate of hydrocarbon volume either in place or recoverable.
USD or US$	United States dollars.

Corporate Directory

Board of Directors

Mr Bruce Phillips – Independent Non-Executive Chairman

Mr Robert Hosking – Managing Director

Mr Peter Turnbull – Independent Non-Executive Director

Ms Luciana Rachid – Independent Non-Executive Director

Mr Geoff Atkins – Independent Non-Executive Director

Mr Clark Davey – Independent Non-Executive Director

Mr Jose Coutinho Barbosa – Non-Executive Director

Company Secretary

Mr Nick Kennedy

Audit and Risk Committee Members

Mr Clark Davey (Chairman of Committee)

Mr Geoff Atkins

Mr Peter Turnbull

People, Culture and Governance Committee Members

Mr Peter Turnbull (Chairman of Committee)

Mr Bruce Phillips

Mr Geoff Atkins

Mr Clark Davey

Sustainability and Operational Risk Committee Members

Ms Luciana Rachid (Chairman of Committee)

Mr Peter Turnbull

Mr Jose Coutinho Barbosa

Registered Office

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

Share Registrar

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Melbourne VIC 3001
Australia

Telephone 1300 555 159 (within Australia)
+ 61 3 9415 4062 (outside Australia)
Website www.computershare.com

Securities Exchange Listing

The Company's ordinary shares are listed on the ASX.

The home exchange is Melbourne VIC.

ASX code KAR

Karoon Energy