

*Karoon Gas Australia Ltd
Annual Report 2008*

Going forward



Olinda Brazil

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The Pinnacles, Western Australia

During the 2007/08 financial year, Karoon Gas Australia Ltd (“Karoon”) continued its exploration work in the Browse Basin, Western Australia and acquired interests in the Santos Basin, Brazil and the Tumbes Basin, Peru.

HIGHLIGHTS

- Preparation for a seven month drilling campaign in Karoon’s joint venture exploration program with ConocoPhillips SH2 Pty Ltd (“ConocoPhillips”) in the Browse Basin permits WA-314-P, WA-315-P and WA-398-P continued. Drilling is estimated to start late in the fourth quarter of 2008 or early in the first quarter of 2009.
- The WA-398-P Endurance 3D Seismic Survey covering in excess of 1900 square kilometres over the Duyfken prospect was completed in March 2008 on budget. The data is now being processed to ready the prospect for the upcoming Browse Drilling Program.
- In December 2007, Karoon acquired the AC/P8 exploration permit in the Bonaparte Basin of the Northern Territory, near Woodside Petroleum Limited’s (“Woodside”) producing Laminaria oil field. Recent discoveries in the immediate area have reignited interest and support the decision to acquire this permit.
- In March 2008, five permits in the Santos Basin, offshore southern Brazil, were awarded to Karoon. Recent discoveries in nearby permits have attracted significant attention to this area. Karoon has commenced seismic reprocessing and geological studies with further seismic surveys and drilling planned in the coming years.
- In January 2008, a farm-in agreement was signed with Vietnam American Exploration LLC (“VAMEX”) allowing Karoon to earn up to 60% of Block Z-38 in the Tumbes Basin, Peru. This permit is close to large oil and gas fields.
- During the past financial year, Karoon raised approximately A\$100 million through two placements to sophisticated and institutional investors to fund its ongoing exploration activities.
- Karoon recently engaged the services of international consulting company DeGolyer and McNaughton to provide an independent report on the prospective resources of the company’s portfolio of exploration assets. The results of this assessment was a mean estimated risked prospective resources of 1.23 billion barrels of oil equivalent (BOE) in its 19 prospects in Australia and South America.





On behalf of Karoon Gas Australia Ltd ("Karoon") and the Board of Directors, I take great pleasure in presenting to you the Annual Report for the year ending the 30th of June 2008.

It has been an exciting year for Karoon with new permits being acquired in Australia, Peru and Brazil. Along with the new acquisitions, Karoon's Browse Basin joint venture completed an extensive 3D Seismic Survey over the recently acquired WA-398-P permit.

The 3D Seismic Survey covered 1900 square kilometres in the Browse Basin and was conducted by ConocoPhillips on behalf of the joint venture between ConocoPhillips and Karoon. This survey was acquired to gain a greater understanding of the region in and around the WA-398-P permit. The survey was completed on budget and on time and the data will be used to pinpoint a drilling location as part of the upcoming greater ConocoPhillips/Karoon drilling program.

After successful acquisition and processing of seismic data in all of the Browse Basin permits, WA-315-P, WA-314-P and WA-398-P, interpretation of the 3D seismic is well advanced but not yet complete.

The Karoon Board and Management have continued their commitment to maintaining the company mission, to create wealth for its shareholders through the acquisition of high quality hydrocarbon exploration areas in the right place at the right time. This strategy was demonstrated during the year with Karoon acquiring blocks in the Santos Basin, Brazil and the Tumbes Basin, Peru.

The period at the beginning of 2008 provided a great opportunity for Karoon to venture outside Australia and into one of the most prospective regions of the world which, as a whole, has been largely overlooked by Australian energy companies.

Shortly after Karoon qualified to enter Brazil, the majority state owned oil company, Petrobras, discovered Tupi, a reported 5-8 billion barrel field in the Santos Basin, swiftly followed by the Carioca discovery, another reportedly multi-billion barrel discovery. Karoon's new blocks are in the same geological basin as Tupi and Carioca and have a potential prospective resource in the multi trillion cubic feet (tcf) of gas range and several hundred million barrels of oil (mmbbl).

The right to farm to Peruvian Block Z-38 was acquired during a period when discoveries were being made in the region and a major oil and gas company was negotiating to enter into the neighbouring block. Karoon is very excited about early geological work and plans to begin its exploration of this area in the near future. Karoon estimates that potential prospective resources in this area could be in the multi tcf and/or hundreds of mmbbl range.

The completion of the seismic surveys and the acquisition of new acreage in Brazil and Peru have set the stage for a very exciting year ahead for Karoon. Karoon believes that the energy sector is still very strong and will continue to create growth during the new year. The coming year provides great opportunities for Karoon and the board would like to thank Karoon shareholders for their continued support.



Robert Hosking
Chairman

Summary of Assets

Australia, Peru & Brazil



Peru Tumbes Basin Block Z-38

Completion of Joint Venture documentation with Vietnam American Exploration LLC for entry into the Tumbes Basin Block Z-38.

Brazil Santos Basin blocks 1037, 1101, 1102, 1165 and 1166.

The preliminary signing of agreements with the Agencia Nacional Petroleo Gas Natural and Biocombustivies (ANP) for five Santos Basin exploration blocks.



Browse Basin WA-314-P, WA-315-P & WA-398-P

Completion of Endurance 3D Seismic Survey over an area of approx 1900 sq km in and around WA-398-P.

Bonaparte Basin AC/P8

Karoon continued to conduct geotechnical analysis and liase with state & federal regulately bodies in relation to proposed work program.

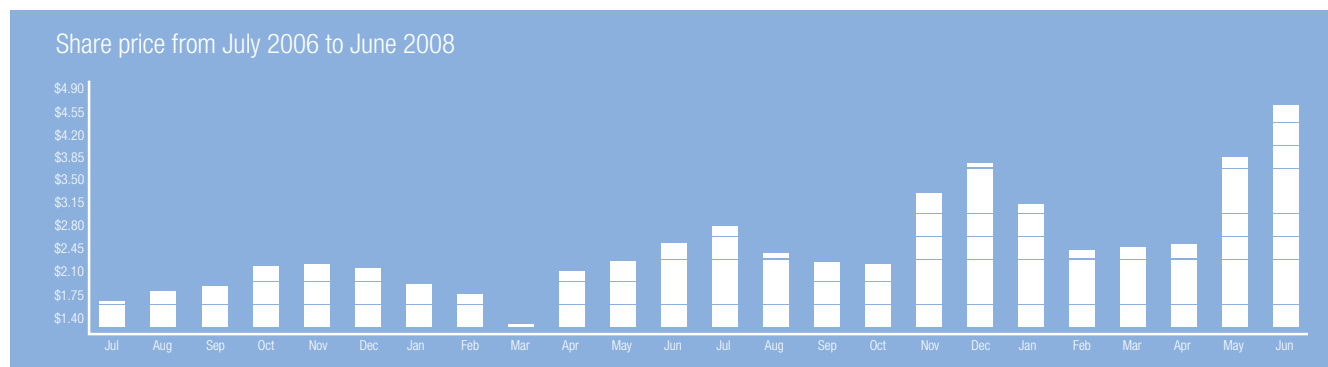
Gippsland Basin

EL4537

The Karoon technical team is continuing its economic assessment of EL4537.

Financial Snapshot

Karoon's share price has performed well over the 2007-2008 financial year, rising from a high of \$2.35 in the 2007 financial year to a high in the 2008 financial year of \$4.75. The weighted average share price for the 2008 financial year was \$3.11, a 61% increase over the \$1.94 weighted average share price for the 2007 financial year.



Despite a turbulent year in the financial markets, Karoon has maintained solid share price growth for its shareholders and continues to enjoy good support in the investment community. This is demonstrated by the success of the November 2007 placement of 14.8 million shares at \$3.45 followed by the June 2008 placement of 14 million shares at \$3.50.

Karoon's market capitalisation has increased over \$300 million from \$272 million to \$600 million as at early September. Karoon is pleased to have secured this funding for a major year of exploration and looks forward to a successful 2009.

Karoon has diversified its share register through share placements to a range of new domestic and international shareholders in Asia, England and the USA and has seen an increase in trading volumes over the financial year.

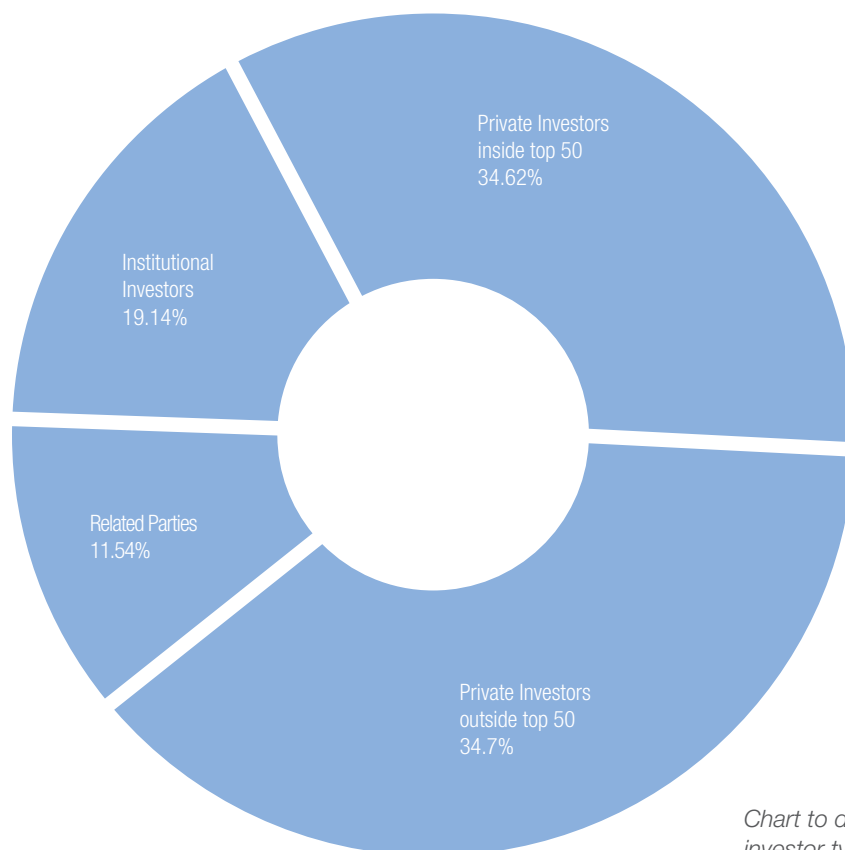


Chart to demonstrate the break up of investor type.

Australia Browse Basin

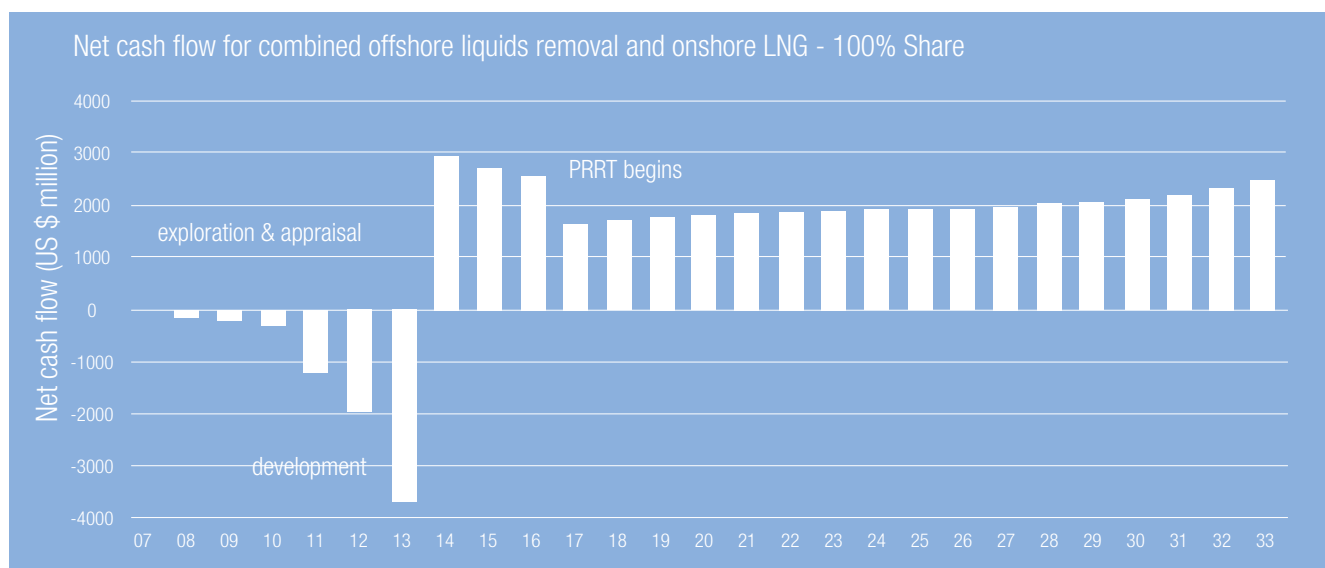
The Browse Basin has become part of Australia's widening LNG landscape which extends from the Northwest Shelf project in the Carnarvon Basin north to the Bonaparte Basin and Timor Sea. The immediate area around Karoon's permits reportedly contains discovered contingent resources of approximately 32 tcf of contingent gas reserves and 800 mmbbls of condensate. These fields are currently being appraised by the Woodside and Inpex joint ventures.

During 2006, Karoon signed farmin arrangements with ConocoPhillips to explore its Browse Basin permits. This new exploration program was to include seismic acquisitions and a drilling campaign. The terms of the farmin arrangement are such that Karoon will retain a minimum 40% interest in all of the permits. At present, Karoon holds 49% of WA-314-P and WA-315-P and 40% of WA-398-P. ConocoPhillips have the option to increase their percentage to 60% of WA-314-P and WA-315-P by paying 80% of the first US\$125 million of expenditure after the initial farmin interest has been earned.

During the year the Endurance 3D Seismic Survey was carried out by a FUGRO-GEOTEAM AS vessel and covered approximately 1900 square kilometres, 1450 square kilometres within WA-398-P with the balance in surrounding areas. The survey acquisition was completed on budget in March 2008. The completion of this survey satisfies the minimum seismic requirement of 1400 square kilometres of 3D seismic within WA-398-P. This seismic acquisition, processing and interpretation are the final phase before drilling commences in each of the Browse Basin permits. The results of the previously acquired seismic surveys WA-314-P and WA-315-P have continued to yield good results and continue to provide valuable data in preparation for drilling. This work has matured to the point where potential drilling locations for the upcoming Browse Basin drilling program are being identified.

The drilling program will use the Sedco-703 semi-submersible drilling rig which has been contracted for 200 - 225 days. The drilling program is expected to start between the fourth quarter of 2008 and the first quarter of 2009.

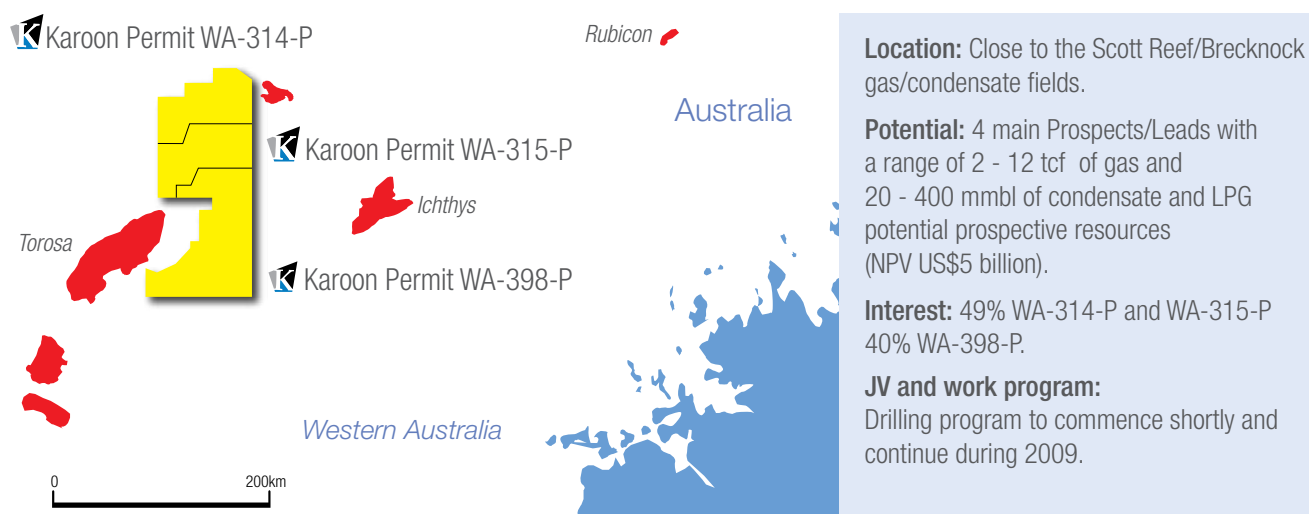
In early 2007, Karoon commissioned a leading independent engineering company operating in the LNG/oil and gas sector to provide indicative costing and development design data for Karoon's economic assessment on a LNG/Condensate development of one 7 tcf discovery. An indicative combined net cash flow of this development concept is demonstrated below:



Karoon commissioned a leading independent engineering company to provide costing and development design data for Karoon's economic assessment on a LNG/Condensate development of one 7 tcf discovery. The combined net cash flow is demonstrated in the above graph.

Although the study summarised in the graph is based on assumptions made in early 2007, the diagram is relevant to demonstrate the potential size of the project showing a significant cash requirement in the phase after exploration success to first revenue, followed by a significant revenue stream for the next twenty years. The indicative cash flow is based on a 100% project basis. Karoon's net capital expenditure is assumed at USD 3.2 billion dollars with the majority of the expenditure in the period from 2010 to 2013. Project Net Present Value ("NPV"), is USD 5 billion with an indicative internal rate of return of 22% on a 100% project basis. Major assumptions for this assessment are based upon a condensate price of USD 50 per barrel, LPG USD 40 a barrel, and LNG at USD 5 dollars per thousand cubic feet ("mcf") for the revenue stream, it is probable that the final costs will significantly exceed those assumed. The study does, however give an indication as to the sheer size of this project comparative to Karoon's current size.

It should be noted that Karoon has not yet completed its exploration program and that all figures included in the above concept evaluation are based on various assumptions which may or may not prove accurate.



South American Assets

During 2007, Karoon began working to acquire highly prospective exploration acreage that could match its prospectivity of its Browse Basin assets. After lengthy investigation it became apparent that South America provided great opportunities with a number of countries adopting new, internationally recognised investment policies. Karoon began work on assessing the geological setting and contracted local petroleum consultants to assist its exploration activities.

After the assessment of over 30 opportunities in South America, Karoon focused on opportunities that it considered to be prospective, that were located in proven basins, with a known regulatory framework and acceptable commercial terms. Peru and Brazil are emerging as areas of renewed exploration focuses as evidence by Shell investing in Peru and the discovery of the Tupi and Carioca fields by Petrobras in Brazil.

Karoon has established good relations with both governments and is ensuring that it is a good corporate citizen in these countries in order to remain on good terms with all stakeholders.

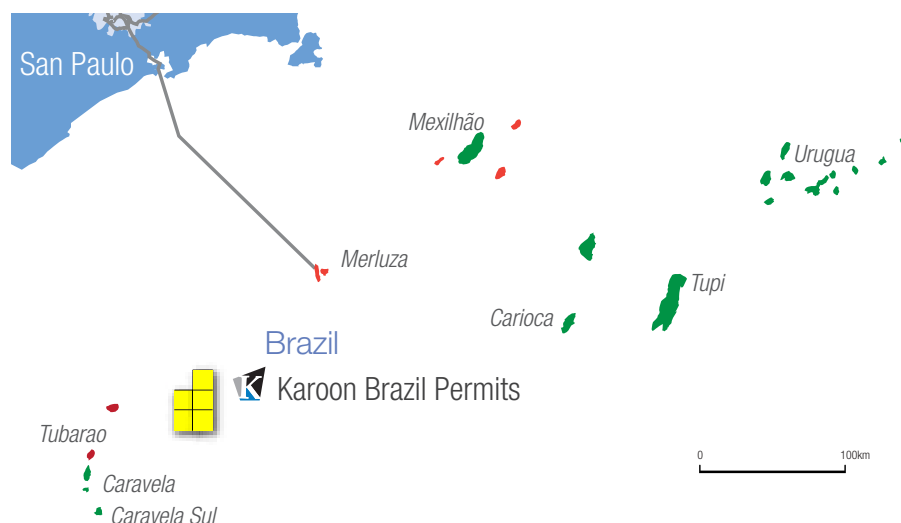
Brazil

During 2007, Karoon prequalified for bidding for exploration acreage in the bidding round in Brazil. Karoon was successful with their bid and signed concession agreements for five offshore exploration blocks in March 2008. Karoon was awarded blocks 1037, 1101, 1102, 1165 and 1166 covering 850 square kilometres in the Santos Basin, by the ANP (National Agency of Petroleum) in Brazil. During the bidding process, several large discoveries were made in the Santos Basin adding to Karoon's confidence in the region.

Karoon's blocks are located 200 kilometres off the coast of Santa Catarina state, just south of Rio de Janeiro. Historically the Santos Basin has been an oil and gas producing province with infrastructure in place for producing fields. The giant new Petrobras discoveries of the Tupi and Carioca fields lie 300 kilometres to the east of the new Karoon blocks. These discoveries have altered the profile of the Santos Basin. Other significant producing fields near Karoon in the Santos Basin include the Caravela and Coral fields which are 100 kilometres to the south-west and the Merluza field which is 100 kilometres to the north-west.

Karoon's early geotechnical interpretation of a newly acquired data set has indicated that there are three main leads with the potential to hold hundreds of mmbbl of oil and/or multi tcf of gas. Recent discoveries in the immediate area are on trend with Karoon's acreage and have highlighted a new geological play in the shallower Eocene section. Previously this play was not rated highly in Karoon's geological model due to migration concerns. Karoon has Eocene level leads in its permits which it is currently evaluating.

Karoon is currently planning a further 3D seismic survey which will cover the identified leads then combine this data with the previously acquired seismic in a state of the art multi-azimuth process to assist in defining prospects prior to drilling.



Location: On the trend Caravela/ Merzula fields.

Potential: 3 main leads with 100 to 200 mmbbl oil / or multi TCF gas prospective resources. Additional leads potential recognised yet to be defined.

Interest: Karoon 100% equity from bid round.

JV and work program:
3 year Work Program
Purchased 3D seismic for PSDM
Acquired 510sq.km. 3D over three blocks

Peru

During the year, Karoon acquired two blocks in Peru. A farm-in agreement was signed in January 2008 with VAMEX to earn a 60% interest in Block Z-38 located in the offshore Tumbes Basin, Northern Peru.

VAMEX is a subsidiary of Pitkin Petroleum, a United States independent oil and gas company and is an active explorer in South East Asia and South America. Karoon looks forward to a successful partnership with VAMEX.

Subject to the receipt of regulatory approvals, Karoon has the right to earn up to a 60% interest in Block Z-38. Karoon will earn an initial 20% interest in the block by funding a new 2000 kilometre 2D seismic survey with the option of earning an additional 40% interest in the block by acquiring 670 square kilometres of new 3D seismic data. Submissions for the required approvals for conducting the seismic acquisition programs are nearing finalisation. Tendering for the survey vessel has begun with the expectation that the seismic acquisition will commence late in 2008 to early in 2009.

The Z-38 joint venture has gone out to tender for a 2D and 3D seismic acquisition survey in Block Z-38. The existing seismic has what Karoon believes are Direct Hydrocarbon Indicators (“DHI’s”) Preliminary analysis of Block Z-38 has revealed two main leads with prospectively in the hundreds of mmbbl of oil and/or multi tcf of gas.

Block Z-38 is situated near existing producing oil and gas fields. Discoveries continue to be made in offshore Peru, the latest of which were discovered by Petro-Tech Peruana in April and June of this year. These new discoveries have been reported in the media to be 1.13 billion barrels of oil and 1.2 tcf of gas.

The farm-in further demonstrates Karoon’s strategy of diversifying its asset base by securing large equity interests in prospective exploration areas.

Block 144 is located in the Marañon Basin. Karoon completed negotiations to enter Block 144 during the financial year and is awaiting the supreme decree from the Peruvian Authorities before proceeding with exploration work in the area.

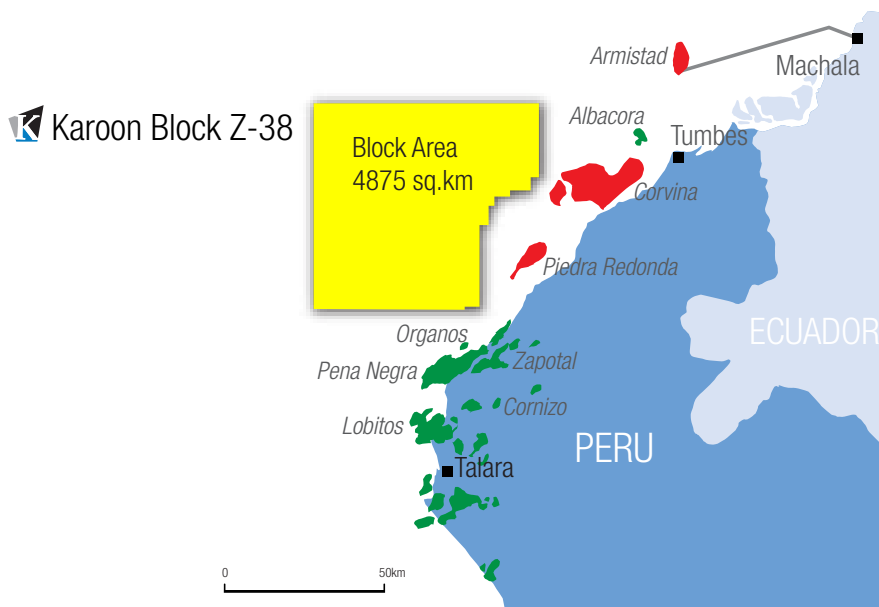
Location: Offshore Peru close to producing fields and discoveries.

Potential: 2 main leads with 100 to 200mmbbl oil or multi tcf gas prospective resources.

Interest: Karoon earning up to 60% equity from funding of 2D and 3D seismic.

JV and work program:

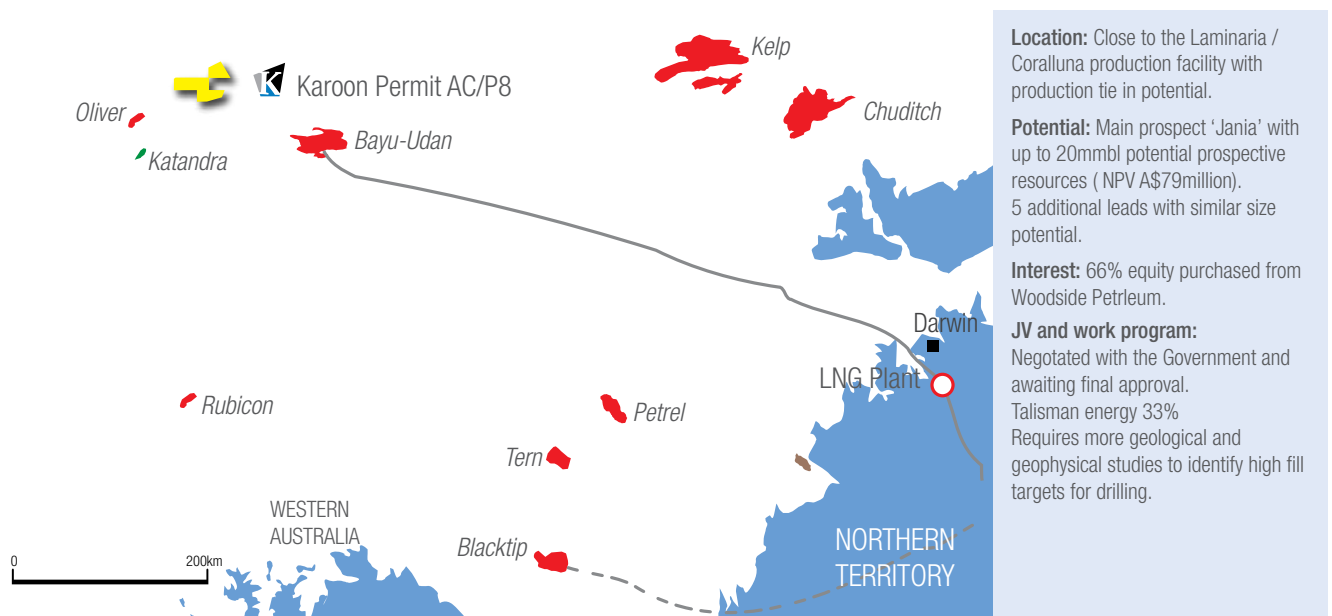
Vamex farm down to 40%
First phase (1.5year) Work Program
Fund 200km 2D seismic
Second phase Acquire 600 sq. km. 3D



Australia AC/P8

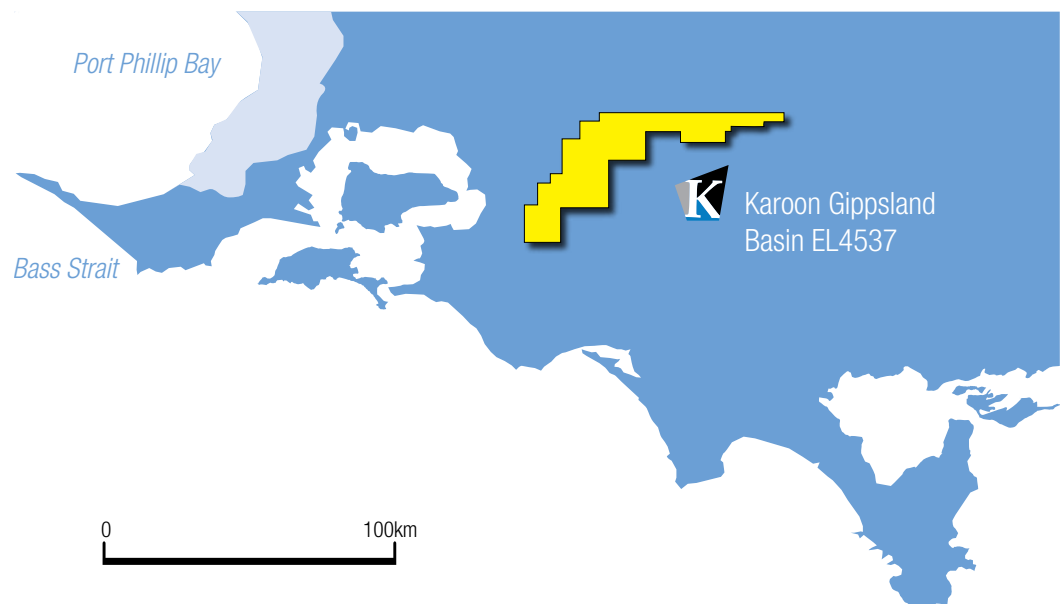
In December 2007, Karoon formally completed its agreement to acquire a 66.67% interest in petroleum permit AC/P8 from Woodside. The area around AC/P8 has oil and gas discoveries and production from a number of fields. Discoveries continue to be made, such as ENI Società per Azioni's Kitan-1 oil discovery in the neighbouring permit earlier this year.

Karoon has taken advantage of the opportunity to enter this area as it contains a number of leads with oil resource potential of up to around 20 mmbbl. The acreage is close to existing production facilities offering the potential for rapid tie-in to existing infrastructure, potentially reducing the development costs on success.



Australia Gippsland Basin Assets

Karoon has a 100% interest in mineral permit EL4537 in Gippsland Basin. Karoon is continuing to review its prospectivity.



Directors Report

Board of Directors and Company Secretary

The Directors present their report together with the Financial Report of Karoon Gas Australia Ltd ("Karoon") and subsidiaries for the financial year ended 30 June 2008 and the auditors report thereon.

The Directors of Karoon at any time during or since the end of the financial year are:

Mr Robert M. Hosking

Executive Chairman

Appointed 11 November 2003

Robert is the founding Director of Karoon and has more than 30 years of commercial experience in the administration of several companies. Robert has been involved in the oil and gas industry for 12 years and was the founding Director/Shareholder of both Karoon and Nexus Energy Limited.

Robert also has a background of more than 15 years commercial experience in the steel industry. He jointly owned and managed businesses involved in the transglobal sourcing, shipping and distribution of steel-related products, with particular expertise gained in Europe and the Asia/Pacific Rim.

Member of the Audit Committee.

Mr Mark A. Smith

Dip. App. Geol,
Bsc. (Geology)

Exc. Dir. & Exploration Man.

Appointed 1 December 2003.

Mark has over 25 years experience as a geologist and exploration manager in petroleum exploration and development in Australia, South East Asia and North America. The bulk of this experience was gained while working with BHP Petroleum. Mark has been directly involved with seven economic oil and gas discoveries.

Mark has geosciences 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, farmins/farmouts, well site operations management and management of on-shore and offshore drilling operations.

Member of the Remuneration Committee.

Mr Geoff Atkins

FIE Aust.
RMIT Dip. Civ Eng.

Non-Executive Director

Appointed 22 February 2005

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

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

Chairman of the Audit Committee

Chairman of the Remuneration Committee



Mr Stephen Power
B. Juris LLB
Non-Executive Director

Appointed 28 June 2005

Stephen Power is a commercial lawyer who has spent approximately 20 years providing advice to participants in the resources industry in Australia and overseas. Stephen is a partner in a boutique law firm that provides commercial advice to its predominantly listed client base. Stephen has extensive experience in all facets of commercial and resources law, including the oil and gas sector, both in an Australian and International context. Stephen regularly advises on farm-in arrangements, joint ventures, production agreements and other facets of resources-related commercial transactions. In addition to Stephen's experience in the resources area, Stephen has a significant practice advising on capital raisings, including the drafting of prospectuses, underwritings and related work, listing advice and the planning and implementation of mergers and acquisitions.

Member of the Remuneration Committee



Mr Scott Hosking
B. Commerce
Company Secretary

Appointed 10th March 2006

Scott has a significant international financial and commercial management background with expertise in equity capital raising. He has been involved with several commercial ventures over the past 11 years with experience in international trade, finance and internal corporate management. He has previously held support positions to Company Secretaries of listed companies and was involved in the listing of Karoon Gas.



Directors Meeting

Directors meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of Karoon during the financial year were:

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Mr Robert Hosking	9	9	3	3	-	-
Mr Mark Smith	9	9	-	-	3	3
Mr Geoff Atkins	9	7	3	3	3	3
Mr Stephen Power	9	9	-	-	3	3

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

B. Number of meetings attended.

Principal Activities

The principal activity of Karoon during the course of the financial year was investment in hydrocarbon exploration in Australia, Peru and Brazil.

In Australia, exploration included a 1900 square kilometre seismic survey followed by processing and interpretation in permit WA-398-P along with interpretation of existing seismic data in WA-314-P and WA-315-P. Karoon also purchased 66.67% of the Bonaparte Basin Permit AC/P8.

In South America, activities included the award by the Brazilian Petroleum Regulatory Body, the ANP, of Santos Basin blocks 1037, 1101, 1102, 1165 and 1166. Karoon has subsequently begun geological work on these areas in preparation for the acquisition of seismic. Karoon has also acquired the right to farm into Peru Block Z-38 in the Tumbes Basin. Karoon has the ability to obtain up to 60% equity in Block Z-38 by completing 2D and 3D seismic program.

There were no other significant changes in the nature of the activities of Karoon during the financial year other than as disclosed in the Financial Report.



Sedco - 703 semi - submersible drilling rig

Review of Operations

Browse Basin

Karoon is a 49% interest holder in oil and gas exploration permits WA-314-P and WA-315-P and a 40% interest holder of WA-398-P in the offshore Browse Basin located 350 kilometres offshore from the North-Western Australian coastline. Karoon's joint venture partner and operator in WA-314-P, WA-315-P and WA-398-P is ConocoPhillips.

Karoon and its joint venture partner ConocoPhillips have been continuing the interpretation of the 3D seismic to develop drilling targets in WA-314-P and WA-315-P. There has been frequent interaction within the joint venture through technical committee meetings and operating committee meetings.

The Endurance 3D Seismic Survey over permit WA-398-P was acquired in the first quarter 2008 and the data is now being interpreted to identify drilling locations leading up to the Browse Drilling Program. The survey covered approximately 1900 square kilometres, in excess of 1450 square kilometres of which was within the boundaries of WA-398-P. The Endurance 3D Seismic Survey in WA-398-P has fulfilled the Year 1 seismic portion of the governments work program commitment.

Bonaparte Basin

During the year Karoon purchased 66.67% of AC/P8 from Woodside. Since then, Karoon has been liaising with the Designated Authority, negotiating and seeking approval for a proposed permit renewal work program. The final agreement and work program is nearing finalisation.

No geological activity has occurred in AC/P8 as the joint venture is waiting on government approval of the proposed work program.

Karoon is a 66.67% interest holder and operator of AC/P8 in the Bonaparte Basin. Talisman is Karoon's joint venture partner in the permit and holds the remaining 33.33%.

Gippsland Basin

Karoon (through its 100% owned subsidiary Karoon Gas Pty Ltd) has a 100% registered interest in EL4537, located within the Western on-shore Gippsland Basin of Victoria. During the financial year no field work has occurred. Geological and commercial studies are continuing.

The previously held PEP162 oil and gas exploration permit was forfeited under State renewal laws in October 2007.

Brazil

In March 2008, final agreements were signed by the ANP for Karoon to take 100% ownership of Santos Basin blocks 1037, 1101, 1102, 1165 and 1166.

Work to fulfil the ANP work program commitments began with the Pre Stack Depth Migration (PSDM) seismic reprocessing. Tenders were sent out, awarded, and that work is now progressing. Work is also continuing toward the 3D seismic acquisition program expected to be acquired in the next six months. Geophysical mapping, gravity modelling and geological studies of existing data sets in the permits and surrounding areas are ongoing. These regional and permit data interpretation studies are being carried out in preparation for the integration of the new 3D seismic data expected early in 2009.

Peru

The Peruvian acreage work program is underway with tenders being prepared for completion of 2D and 3D seismic acquisition programs. Existing 2D seismic reprocessing is expected to commence in the new financial year. Other regional and permit data gathering exercises are being carried out in preparation for the full geological and geophysical interpretation of the acreage.

In January 2008, Karoon entered into a farmin agreement with VAMEX. The agreement is subject to the receipt of regulatory approvals; Karoon will earn an initial 20% interest in the block by funding a new 2000 kilometre 2D seismic survey with the option of earning an additional 40% interest in the block by acquiring 670 square kilometres of new 3D seismic data.

During the year Karoon continued to conduct geotechnical analysis and has begun the process of sourcing a seismic vessel to acquire 2D and 3D seismic within Block Z-38. The geotechnical analysis of the existing data indicates that the block is prospective for both oil and gas, while economic assessments indicate that success in this area could be rapidly brought to production due to the shallow water depths in the prospective areas and close proximity of existing oil and gas infrastructure.

The Peruvian Government offered Karoon Block 112 in January 2008. After regulatory approval the block will be renamed Block 144. Geotechnical and commercial assessments were conducted during the year. Final Peruvian regulatory approvals are expected in the coming months.

Karoon will be the 100% registered holder of Block 144.

Likely Developments

Karoon will progress with its joint venture partner ConocoPhillips toward a minimum 3 well drilling program over all of its Browse Basin permits, commencing later in this financial year 2008-2009.

Karoon will continue with its exploration activities in Brazil and Peru.

Planned exploration in Peru includes the award and completion of a 2D and 3D seismic acquisition in the Tumbes Basin. These seismic acquisition programs will be followed by processing and interpretation in preparation for drilling.

Planned exploration in Brazil includes a 3D seismic acquisition program. Karoon will continue its geological studies comprising specialised seismic processing, interpretation and geological work. This work is in preparation for drilling in the following work program term.

The consolidated entity's long-term objective is to achieve growth from exploration and development activities.

Further information about likely developments in the operations of Karoon and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to Karoon

New Ventures

Karoon has conducted due diligence on a number of hydrocarbon assets and is continuing with investigations at balance date. Any projects that are taken up will be announced to the Australian Stock Exchange ("ASX") at the appropriate time.

Operating Results

The consolidated loss of the Group for the financial year ended 30 June 2008 was a net loss of \$6,055,399 (2007: loss \$14,603,503).

Financial Position

During the financial year Karoon successfully raised capital through:

- \$ 5.516 million in exercise of various options; and
- \$ 100 million shares placed with sophisticated and institutional investors

Significant Changes in State of Affairs

During November 2007, 14.8 million shares were placed at \$3.45 raising \$51.06 million.

During June 2008, arrangements were made to place 14 million shares at \$3.50 raising \$49 million.

Between July 2007 and June 2008, 2.75 million Director Options were exercised at various prices raising \$4.95 million.

In March 2008 signed licencing agreements with the ANP entitling it to explore blocks: 1037, 1101, 1102, 1165 and 1166 covering 850 square kilometres.

In December 2007, Karoon entered into an agreement with Woodside Energy Ltd to acquire 66.67% interest in petroleum permit AC/P8 for the purchase price of \$1 million.

In January 2008, Karoon signed a farmin agreement with VAMEX for Block Z-38 located in the offshore Tumbes Basin in Northern Peru. Karoon will earn an initial 20% interest in the block by funding a new 2000 km 2D seismic survey with the option of earning an additional 40% interest in the block by acquiring an additional 670 square kilometres of new 3D seismic data.

Dividends

No dividend has been paid or declared by the Company to members since the end of the previous financial year.

After Balance date Events

On the 1st of August 2008, Karoon completed the placement of 14 million shares at \$3.50 raising 49 million dollars.

Remuneration Report

This section of the Directors Report is prepared in accordance with Section 300A of the Corporations Act 2001. Where appropriate, information which is included in other parts of the Financial Report is included in this report by reference.

Remuneration Policy

The Board regularly reviews remuneration of its senior executives and directors. This also includes responsibility for the Employee Share Option Plan ("ESOP"). The executive remuneration structure is based on a number of factors including length of service, particular experience, responsibilities of the individual and the overall performance of Karoon. Remuneration involves a balance between fixed and incentive pay, reflecting short and long-term performance objectives appropriate to Karoon's circumstances and objectives. A proportion of executive remuneration is structured in a manner designed to link rewards to corporate and individual performance. This is done by considering the following remuneration components:

- Fixed base remuneration;
- Equity-based remuneration within thresholds set by the Board.

The contracts for service between Karoon and Key Management Personnel are on a continuing basis. The terms of which are not expected to change in the immediate future. Upon retirement specified executives are paid employee benefit entitlements accrued to date of retirement.

Options are also issued under the Executive and ESOP Plan. Non-executive Directors do not receive any performance-related remuneration. Options are valued under the Black and Scholes option pricing model.

The Directors and other key management personnel receive a superannuation guarantee contribution as required by the Federal Government, which is currently 9% and do not receive any other retirement benefits. Individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

Details of existing contracts between Karoon and the executive administration are as follows;

<i>Name</i>	<i>Term</i>	<i>Expiry</i>	<i>Notice/Termination</i>	<i>Incentive Option Eligible</i>	<i>Remuneration amounts</i>
Mr Robert Hosking	3 years	01/05/2011	In writing 6 months	Yes	\$400,000
Mr Mark Smith	3 years	01/05/2011	In writing 3 months	Yes	\$400,000
Mr Scott Hosking	Ongoing	Ongoing	In writing 3 months	Yes	\$218,000
Mr David Ormerod	Ongoing	Ongoing	In writing 3 months	Yes	\$250,000
Mr Lino Barro	3 years	01/08/2009	In writing 3 months	Yes	\$265,000
Mr Jorg Bein	3 years	01/11/2009	In writing 3 months	Yes	\$240,000

Details of remuneration for the financial year ended 30 June 2008

This section of the Remuneration Report provides specific disclosures in relation to remuneration for the Directors and for the senior executives in Karoon with the greatest authority for strategic direction and management of Karoon. In this report these executives are referred to as "Key Management Personnel".

The remuneration for each Director and each of the Specified Executives during the financial year was as follows:

	Primary		Equity	
	Salary, Fees & Commissions \$	Superannuation Contributions \$	Fair Value of Options \$	Total \$
<i>Directors</i>				
Mr Robert Hosking	262,500	-	-	262,500
Mr Mark Smith	240,826	21,674	-	262,500
Mr Geoff Atkins	40,000	3,600	270,000	313,600
Mr Stephen Power	40,000	3,600	270,000	313,600
Total	583,326	28,874	540,000	612,200
<i>Key Management Personnel</i>				
Mr Scott Hosking	163,793	14,741	72,000	250,535
Mr Lino Barro	240,826	21,674	54,000	316,500
Mr David Ormerod	229,358	20,642	54,000	304,000
Mr Jorg Bein	210,350	19,541	54,000	283,891
Total	844,327	76,599	234,000	920,926

Options issued as part of remuneration for the financial year ended 30 June 2008

Options are issued to Key Management Personnel as part of their remuneration to increase goal congruence between executives and shareholders in accordance with the Senior Executive Remuneration Policy. 500,000 options were issued during the financial year to the Key Management Personnel.



Options

Issue of Options to Directors

During or since the end of the financial year, Karoon granted 3,250,000 options over unissued ordinary shares to Directors.

At the date of this report, the unissued ordinary shares of Karoon under option to Directors are as follows:

	Granted Number	Grant Date	Vested Number	Fair value per option at grant date \$	Exercise Price \$	First exercise date	Last exercise date
<i>Executive Directors</i>							
Mr Robert Hosking	375,000	18-Nov-2005	375,000	0.30	2.00	18-Nov-2005	30-Sep-2008
	750,000	18-Nov-2005	750,000	0.23	2.35	18-Nov-2005	30-Sep-2008
Mr Mark Smith	375,000	18-Nov-2005	375,000	0.30	2.00	18-Nov-2005	30-Sep-2008
	750,000	18-Nov-2005	750,000	0.23	2.35	18-Nov-2005	30-Sep-2008
	750,000	05-Sep-2008	750,000	1.02	4.00	05-Sep-2008	30-Apr-2011
	750,000	05-Sep-2008	-	0.75	4.50	01-May-2009	30-Apr-2011
	750,000	05-Sep-2008	-	0.54	5.00	01-May-2010	30-Apr-2011
<i>Non-Executive Directors</i>							
Mr Stephen Power	500,000	26-Oct-2007	500,000	0.54	2.95	26-Oct-2007	31-Oct-2010
Mr Geoff Atkins	500,000	26-Oct-2007	500,000	0.54	2.95	26-Oct-2007	31-Oct-2010

Issue of Options to Employees

During or since the end of the financial year, Karoon granted 945,000 options under the ESOP to employees of Karoon.

At the date of this report, the unissued ordinary shares of Karoon Gas Australia Ltd under option pursuant to the Karoon ESOP are as follows:

	Granted Number	Grant Date	Vested Number	Fair value per option at grant date \$	Exercise Price \$	First exercise date	Expiry date
<i>Key Management Personnel</i>							
Mr Scott Hosking	100,000	30-Oct-2007	100,000	0.18	2.03	31-Oct-2007	31-Oct-2008
	100,000	31-Oct-2007	100,000	0.54	2.95	31-Oct-2008	31-Oct-2010
Mr Lino Barro	100,000	01-Aug-2006	100,000	0.25	1.60	01-Aug-2007	01-Aug-2008
	100,000	31-Oct-2006	100,000	0.34	2.03	31-Oct-2007	31-Oct-2008
	100,000	31-Oct-2007	100,000	0.54	2.95	31-Oct-2008	31-Oct-2010
Mr David Ormerod	100,000	28-May-2007	100,000	0.34	2.03	31-Oct-2007	31-Oct-2008
	100,000	31-Oct-2007	100,000	0.54	2.95	31-Oct-2008	31-Oct-2010
Mr Jorg Bein	100,000	31-Oct-2006	100,000	0.34	2.03	31-Oct-2007	31-Oct-2008
	100,000	31-Oct-2007	100,000	0.54	2.95	31-Oct-2008	31-Oct-2010

At 30 June 2008, 1,100,000 options (2007:675,000) were outstanding as part of the Karoon ESOP.

Directors Report
Financial Year Ended 30 June 2008 (Continued)

During the financial year ended 30 June 2008, 300,000 ordinary shares were issued on the exercise of options granted under the Karoon ESOP. 130,000 shares have been issued since 30 June 2008 as a result of the conversion of ESOP options. No amounts were unpaid on any of the shares.

	Granted Number	Value of options included as part of remuneration \$	Total remuneration represented by options \$	Total \$
<i>Executive Directors</i>				
Mr Robert Hosking	-	-	-	-
Mr Mark Smith	-	-	-	-
<i>Non-Executive Directors</i>				
Mr Stephen Power	500,000	270,000	87%	270,000
Mr Geoff Atkins	500,000	270,000	87%	270,000
<i>Other key management personnel</i>				
Mr Scott Hosking	200,000	72,000	29%	72,000
Mr Lino Barro	100,000	54,000	18%	54,000
Mr David Ormerod	100,000	54,000	19%	54,000
Mr Jorg Bein	100,000	54,000	20%	54,000

During the financial year, 1,500,000 share options (2007: 400,000) were issued to Directors and Key Management Personnel. The movement of share options held by Directors and Key Management Personnel during the financial year is as follows:

	Balance 1 July 2007	Granted as remuneration	Options exercised in 2008	Balance 30 June 2008	Total vested 30 June 2008	Total exercisable 30 June 2008	Total unexercisable 30 June 2007
<i>Executive Directors</i>							
Mr Robert Hosking	2,250,000	-	(1,125,000)	1,125,000	1,125,000	1,125,000	-
Mr Mark Smith	2,250,000	-	(1,125,000)	1,125,000	1,125,000	1,125,000	-
<i>Non-Executive Directors</i>							
Mr Stephen Power	500,000	500,000	(500,000)	500,000	500,000	500,000	-
Mr Geoff Atkins	-	500,000	-	500,000	500,000	500,000	-
<i>Key Management Personnel</i>							
Mr Scott Hosking	-	200,000	-	200,000	200,000	100,000	100,000
Mr Lino Barro	200,000	100,000	(100,000)	200,000	200,000	100,000	100,000
Mr David Ormerod	100,000	100,000	-	200,000	200,000	100,000	100,000
Mr Jorg Bein	100,000	100,000	(100,000)	100,000	100,000	-	100,000
	5,400,000	1,500,000	(2,950,000)	3,950,000	3,950,000	3,550,000	400,000

In accordance with Section 300A of the Corporations Act, the table shows the value of options exercised by the Directors and Key Management Personnel during the financial year (calculated at the date of exercise).

	<i>Grant date of option</i>	<i>Number of shares issued</i>	<i>Paid per share \$</i>	<i>Value at date of exercise \$</i>
<i>Executive Directors</i>				
Mr Robert Hosking	18-Nov-2005	750,000	1.75	1.73
	18-Nov-2005	375,000	2.00	1.65
Mr Mark Smith	18-Nov-2005	750,000	1.75	1.73
	18-Nov-2005	375,000	2.00	1.65
<i>Non-Executive Directors</i>				
Mr Stephen Power	18-Nov-2005	500,000	1.65	1.49
Mr Geoff Atkins	-	-	-	-
<i>Key Management Personnel</i>				
Mr Scott Hosking	-	-	-	-
Mr Lino Barro	1-Aug-2006	50,000	1.60	1.81
	1-Aug-2006	50,000	1.60	1.76
Mr David Ormerod	-	-	-	-
Mr Jorg Bein	11-Oct-2006	100,000	2.03	1.43

Directors Interests

The relevant interest of each Director in the shares, debentures, interests in registered schemes and rights of options over such instruments issued by Karoon, as notified by the Directors to ASX in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	<i>Ordinary fully paid shares</i>	<i>Options Over Ordinary Shares</i>
Mr Robert Hosking	12,256,087	3,375,000
Mr Mark Smith	2,280,000	5,625,000
Mr Geoff Atkins	427,500	500,000
Mr Stephen Power	300,000	500,000

Indemnification of Directors and Officers

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

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of Karoon or to intervene in any proceedings to which Karoon is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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

Corporate Governance

In recognising the need for the highest standards of corporate governance and accountability, the Directors of Karoon support the principles of good corporate governance. The Statement of Corporate Governance Principles for Karoon is listed on pages 58 - 64 of this Annual Report.

Environmental Regulation

Karoon and its subsidiaries are subject to a range of commonwealth and state environmental law including:

- Petroleum (Submerged Lands) Act 1967 (Cth)
- Petroleum (Submerged Lands) (Management of Environment) Regulations 1999 (Cth)
- The Petroleum Act 1998 (Vic) the Petroleum Regulations 2000 (Vic)
- Environment Protection and Biodiversity Conservation Act 1999 (Cth)
- Mineral Resources Development Act 1990 (Vic)
- The Aboriginal and Torres Strait Islander Heritage and Protection Act 1994 (Cth)
- The Archaeological and Aboriginal relics Preservation Act 1972 (Vic)
- Law 9985 (Brazil)
- General Environmental Law 28611(Peru)

The Board believes that Karoon has adequate systems in place for managing its environmental requirements and is not aware of any breach of those environmental requirements as they apply to Karoon. No circumstances arose during the year that resulted in an incident to be reported under environmental legislation.

Statutory Auditors

Mitchell Wilson and Partners continues to act in its capacity as the statutory auditor of Karoon Gas Australia Ltd in accordance with Section 327 of the Corporations Act 2001.

Auditors Independence Declaration

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

The Directors have considered the position and, in accordance with advice received from the Audit Committee, are satisfied that the provision of these services is compatible with the standards of auditor independence imposed by the Corporations Act 2001. The services were subject to terms and conditions of engagement to ensure that auditor independence was not compromised.

A copy of the auditors independence declaration for the financial year ended 30 June 2008 has been received as required under Section 207C of the Corporations Act 2001 and is included on this page.

This Directors Report is made in accordance with a resolution of the Board of Directors made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the Directors:



Mr Robert Hosking

Executive Chairman

Dated Melbourne this 19 September 2008

I declare that, to the best of my knowledge and belief during the year ended 30 June 2008 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- No contraventions of any applicable code of professional conduct in relation to the audit.

Mitchell Wilson
Chartered Accountants
Melbourne



Doug Mitchell
Partner
19 September 2008

Financial Statements

Financial Year Ended 30 June 2008



Income Statements

Financial Year Ended 30 June 2008

	Notes	Consolidated Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenues from Ordinary Activities	2	5,320,930	2,878,695	4,976,510	2,876,840
Sundry Income	2	22,215	40,761	22,215	40,761
Accounting & Taxation Fees		(26,215)	(6,635)	(25,615)	(4,935)
Audit Fees	5	(14,600)	(23,750)	(9,600)	(12,250)
Bank Charges		(131,191)	(5,379)	(5,172)	(5,379)
Computer Support		(377,115)	(291,450)	(365,020)	(291,450)
Consulting Fees		(382,219)	(723,681)	(291,148)	(723,681)
Corporate Promotion and Annual Report		(97,917)	(73,512)	(126,713)	(73,512)
Depreciation and Amortization Expense	13	(345,152)	(219,932)	(337,122)	(202,806)
Directors Fees and Superannuation		(87,200)	(76,300)	(87,200)	(76,300)
Employee Benefits Expense (net)		(1,082,197)	(213,389)	(1,163,789)	(213,389)
Exploration/Evaluation Expenditure Expensed or Written Off		(1,175,837)	(12,319,304)	-	-
Foreign Exchange Variations		(4,456,827)	(1,590,878)	(4,058,676)	(1,590,878)
Legal Fees		(118,191)	(86,157)	(94,942)	(86,157)
Insurance		(40,862)	(80,090)	(40,862)	(80,090)
Loss on Impairment of Assets		(149,295)	-	(149,295)	-
Other Expenses from Ordinary Activities		(566,667)	(219,152)	(343,525)	(255,810)
Property Costs		(258,883)	(161,652)	(204,594)	(161,552)
Salaries and Superannuation		(1,681,904)	(1,167,732)	(477,640)	(1,167,732)
Share Registry and Listing Fees		(149,982)	(126,112)	(148,281)	(125,276)
Travel and Accommodation		(256,230)	(137,855)	(246,055)	(137,855)
Loss from Ordinary Activities Before Income Tax Expense	3	(6,055,339)	(14,603,503)	(3,176,524)	(2,291,451)
Income Tax (Expense)/Benefit Relating to Ordinary Activities	18				
Net loss from Ordinary Activities After Income Tax Expense Attributable to Members of the Parent Entity		(6,055,339)	(14,603,503)	(3,176,524)	(2,291,451)
Total Changes in Equity Other Than Those Resulting From Transactions with Owners as Owners		(6,055,339)	(14,603,503)	(3,176,524)	(2,291,451)
Basic Loss per Share	7	(0.0485)	(0.2035)	-	-
Diluted Loss per Share	7	(0.0466)	(0.1841)	-	-

The Income Statements are to be read in conjunction with the notes to the financial statements set out on pages 33 to 54.

Balance Sheets

Financial Year Ended 30 June 2008



	Notes	Consolidated Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
<i>Current assets</i>					
Cash assets	8	77,423,254	76,411,604	72,135,706	76,338,914
Security Deposits	8	9,598,385	-	52,966	-
Receivables	9	243,699	176,227	191,480	107,427
Inventories	10	-	17,916	-	-
Total current assets		87,265,339	76,605,747	72,380,152	76,446,341
<i>Non-current assets</i>					
Receivables	9	-	-	76,140,169	18,055,266
Property, Plant and Equipment	13	333,859	453,681	315,767	453,681
Intangible Assets	14	164,390	279,270	164,390	129,975
Exploration and Evaluation Expenditure Carried Forward	15	51,597,114	6,361,370	-	-
Other Financial Assets	16	-	-	1,005	150,300
Total non-current assets		52,095,363	7,094,321	76,621,331	18,789,222
Total assets		139,360,701	83,700,068	149,001,483	95,235,564
<i>Current liabilities</i>					
Payables	17	(5,914,656)	(2,463,093)	(245,053)	(1,583,540)
Funds held in Escrow	17	(2,625,000)	-	(2,625,000)	-
Provisions	19	(78,989)	(61,500)	(72,489)	(50,000)
Total current liabilities		(8,618,645)	(2,524,593)	(2,942,542)	(1,633,540)
Total liabilities		(8,618,645)	(2,524,593)	(2,942,542)	(1,633,540)
Net assets		130,742,056	81,175,475	146,058,941	93,602,024
<i>Equity</i>					
Contributed Equity	20	151,335,352	96,727,732	151,346,873	96,727,732
Accumulated Losses		(24,269,367)	(18,214,028)	(8,964,003)	(5,787,480)
Reserve		3,676,071	2,661,771	3,676,071	2,661,771
Total equity		130,742,056	81,175,475	146,058,941	93,602,024

The Balance Sheets are to be read in conjunction with the notes to the financial statements set out on pages 33 to 54

Statement of Changes in Equity

Financial Year Ended 30 June 2008

<i>Consolidated Entity</i>				
	Issued Capital \$	Accumulated Losses \$	Share based payments reserve \$	Total Equity \$
Balance as at 30 June 2006	34,267,689	(3,610,525)	2,452,521	33,109,885
Shares issued during the financial year	65,057,150	-	-	65,057,150
Transaction costs arising on share issues	(2,597,107)	-	-	(2,597,107)
Loss attributable to members of the parent entity	-	(14,603,503)	-	(14,603,503)
Share based payments	-	-	209,250	209,250
Balance as at 30 June 2007	96,727,732	(18,214,028)	2,661,771	81,175,475
Shares issued during the financial year	56,576,000	-	-	56,576,000
Transaction costs arising on share issues	(1,968,380)	-	-	(1,968,380)
Loss attributable to members of the parent entity	-	(6,055,339)	-	(6,055,339)
Share based payments	-	-	1,014,300	1,014,300
Balance as at 30 June 2008	151,335,352	(24,269,367)	3,676,071	130,742,056

<i>Parent Entity</i>				
	Issued Capital \$	Accumulated Losses \$	Share based payments reserve \$	Total Equity \$
Balance as at 30 June 2006	34,267,889	(3,496,029)	2,452,521	33,224,381
Shares issued during the financial year	65,056,950	-	-	65,056,950
Transaction costs arising on share issues	(2,597,107)	-	-	(2,597,107)
Loss attributable to members of the parent entity	-	(2,291,451)	-	(2,291,451)
Share based payments	-	-	209,250	209,250
Balance as at 30 June 2007	96,727,732	(5,787,480)	2,661,771	93,602,023
Shares issued during the financial year	56,576,000	-	-	56,576,000
Transaction costs arising on share issues	(1,956,858)	-	-	(1,956,858)
Loss attributable to members of the parent entity	-	(3,176,524)	-	(3,176,524)
Share based payments	-	-	1,014,300	1,014,300
Balance as at 30 June 2008	151,346,874	(8,964,004)	3,676,071	146,058,941

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 33 to 54.

Statement Of Cash Flow

Financial Year Ended 30 June 2008



	Notes	Consolidated Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
<i>Cash flows from Operating Activities</i>					
Receipt (inclusive of goods and services tax ("GST") refunds)		782,682	1,722,745	558,466	1,439,507
Payments to suppliers (inclusive of GST)		(6,299,419)	(1,423,112)	(4,602,109)	(2,239,631)
Interest received		5,320,930	2,034,305	4,976,510	2,032,450
Net cash flows used in operating activities	24	(195,807)	2,333,938	932,867	1,232,325
<i>Cash flows from Investing Activities</i>					
Purchase of property, plant and equipment (inclusive of GST)		(259,745)	(585,665)	(233,623)	(585,665)
Security Deposits		(9,517,741)	(32,295)	(3,015)	(33,887)
Purchase of investments		(1,000,000)	-	-	-
Payments for exploration and development expenditure		(40,790,850)	(1,874,657)	-	-
Net cash flows used in investing activities		(51,568,336)	(2,492,617)	(236,638)	(619,552)
<i>Cash flows from Financing Activities</i>					
Proceeds from issue of ordinary shares		54,607,620	62,459,843	54,619,142	62,459,843
Funds Held in Escrow	17	2,625,000	-	2,625,000	-
Loans to Subsidiaries		-	-	(58,084,903)	(832,507)
Net cash flows from Financing Activities		57,232,620	62,459,843	(840,761)	61,627,336
Net decrease in cash held		5,468,478	62,301,164	(144,533)	62,240,109
Cash at the beginning of the year		76,411,604	15,701,319	76,338,914	15,689,684
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currency		(4,456,827)	(1,590,878)	(4,058,676)	(1,590,878)
Cash at the end of the year		77,423,254	76,411,604	72,135,706	76,338,914

The Statement of Cash Flow is to be read in conjunction with the notes to the financial statements set out on pages 33 to 54.

Financial Statements

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1. Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, relevant Australian Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report includes separate financial statements for Karoon as an individual entity and the Group consisting of Karoon Gas Australia Ltd and its subsidiaries.

Karoon is a publicly listed company, limited by shares and is listed in Australia on the Australian Stock Exchange ("ASX"). It is incorporated and domiciled in Australia.

The registered office of Karoon and the principal place of business is located at Office 7A, 34-38 Lochiel Avenue, Mount Martha Victoria 3934. The technical office of Karoon is located on the 9th and 10th Floor, 406 Collins Street, Melbourne Victoria 3000.

The financial report of Karoon and the controlled entity and Karoon as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The consolidated financial statements comprise the financial statements of Karoon ("Company") and its subsidiaries (the "Group").

The following is a summary of the material accounting policies adopted by the Group in the preparation of this financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Convention

The financial report has been prepared on an accrual basis and is based on historical costs modified, when relevant, by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(a) Principles of Consolidation

The consolidated financial statements comprise the financial statements of Karoon Gas Australia Ltd ("Company") and its subsidiaries (the "Group").

A subsidiary is any entity controlled by Karoon Gas Australia Ltd whereby Karoon Gas Australia Ltd has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 12 to the financial statements.

All subsidiaries have a June financial year-end with the exception of Karoon Petroleo & Gas Ltda. This subsidiary has a December year end.

All inter-company balances and transactions between subsidiaries in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

Where subsidiaries have entered (left) the Group during the period, their operating results have been included (excluded) from the date control was obtained (ceased).

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

1. Statement of Significant Accounting Policies (Continued)

(b) Income Tax (Continued)

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income 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 assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date.

Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered.

Tax Consolidation

Karoon Gas Australia Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 July 2006. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their condition to the group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of casing and oilfield inventory includes direct materials, direct labour and transportation costs relating to oilfield activities.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and, when relevant, impairment losses.

The carrying amount of plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of plant and equipment constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation and amortisation

All assets have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives. The depreciation/amortisation rates and methods are reviewed annually to determine the most appropriate method.

The depreciation rates used for plant and equipment 25 – 50%. Assets are depreciated or amortised from the month following their acquisition.

(e) Intangibles

Computer software is recognised at cost of acquisition. Computer software costs have a finite life and are carried at cost less accumulated amortisation and any impairment losses. Computer software costs are amortised over their useful life ranging from 2 to 3 years.

(f) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward on the balance sheet where rights to tenure are current and to the extent that costs are expected to be recouped through either the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves and active and significant exploration activity in, or in relation to, the area is continuing.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Accumulated costs in relation to an abandoned area are written off in full in the income statement during the period in which the decision to abandon the area is made.

Provision for restoration is recognized when there is a legal or constructive obligation to do so. A corresponding restoration asset amount (included in exploration and evaluation expenditure carried forward) of an amount equivalent to the provision is also created. The amount recognised is the estimated cost of restoration, discounted to its net present value and is reassessed each year in accordance with local conditions and requirements. Changes in the estimates of restoration cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the restoration asset. The unwinding of the discount on the restoration provision is included in the income statement.

Where it is established that economically recoverable reserves exist in a particular area of interest, the carrying amount attributable to that discovery is reclassified as a development asset.

(g) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date.

(h) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified at fair value through profit or loss. Transaction costs related to instruments classified at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

1. Statement of Significant Accounting Policies (Continued)

(h) Financial Instruments (Continued)

Classification and Subsequent Measurement

(i) Financial assets at fair value through profit and loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payment.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Derivative Instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

(i) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(j) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post-acquisition reserves of its associates.

(k) Interests in Joint Ventures

The consolidated group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. Details of the consolidated group's interests are shown at Note 11.

The consolidated group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

(l) Foreign Currency Transactions and balances

Functional and Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

Transaction and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

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 the exchange difference is recognised in the income statement.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period which the operation is disposed.

(m) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(n) Revenue and Other Income

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Revenue from the rendering of a service is recognised upon the delivery of the service. All revenue is stated net of the amount of goods and services tax.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue when the right to receive a dividend has been established.

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

(o) Employee Benefits

Wages and salaries, leave entitlements

An accrual is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

1. Statement of Significant Accounting Policies (Continued)

(o) Employee Benefits (Continued)

Wages and salaries, leave entitlements

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In calculating the present value of future cash outflows in respect of long service leave, the probability of long service leave being taken is based on historical data.

Share Based Payments

Share based compensation benefits are provided to employees via the Karoon Gas Australia Limited Employee Share Option Plan.

For share options granted after 7 November 2002 and vested after 1 January 2005, the fair value of options granted is recognised as a share based payments expense with a corresponding increase in equity (the share base payments reserve). The fair value is measured at grant date and recognised over the period during which the individual become unconditionally entitled to the options. Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to issued capital.

(p) 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 Tax 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 balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. 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.

(q) Going Concern

On the basis of the Group's present level of operations, the Directors are of the opinion that for the next 12 month period from the date of signing the Directors' Declaration the Group and Company both have the ability to:

- i. farm-out interests in permits for a carry in order to meet future exploration expenditure commitments; and
- ii. raise additional capital through the issue of additional new ordinary shares to meet working capital requirements and short falls in exploration expenditure commitments.

2. Revenue

	<i>Consolidated Entity</i>		<i>Parent Entity</i>	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>Operating Activities</i>				
Interest income	5,320,930	2,034,305	4,976,510	2,032,450
Total Revenue	5,320,930	2,034,305	4,976,510	2,032,450
<i>Non-Operating Activities</i>				
Sundry Revenue	22,215	20,305	22,215	20,305
Total Other Income	22,215	20,305	22,215	20,305

3. Profit (Loss) For The Year

Loss before income tax includes the following specific expenses:

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2008 \$
1. Depreciation of plant and equipment and amortisation of software	(345,152)	(219,932)	(337,122)	(202,806)
2. Rental expense on operating leases	(201,685)	(124,648)	(166,726)	(124,648)
3. Exploration and evaluation expenses written off	(1,175,837)	(12,319,304)	-	-
4. Net foreign exchange variation	(4,456,827)	(1,590,878)	(4,058,676)	(1,590,878)

4. Key Management Personnel Compensation

Key Management Personnel remuneration has been included in the remuneration report section of the Directors Report.

5. Auditors Remuneration

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2008 \$
Auditing or reviewing the financial report	14,600	23,750	9,600	12,250
Other non-audit services	-	-	-	-
Total Auditors Remuneration	14,600	23,750	9,600	12,250

6. Dividends

There were no ordinary dividends proposed/paid during the year ended 30 June 2008 by the Company. (2007:\$NIL)

7. Earnings Per Share

Earnings used in the calculation of basic and dilutive earnings per share

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2008 \$
(a) Basic loss per share	(0.0528)	(0.2035)	-	-
(b) Diluted loss per share	(0.0466)	(0.1841)	-	-
Weighted average number of ordinary shares used in the calculation of basic earnings per share	124,914,931	92,222,559	-	-
Weighted average number of options outstanding	4,470,000	5,675,000	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating diluted earnings per share	129,890,546	120,102,897	-	-

8. Cash And Cash Equivalents

	<i>Consolidated Entity</i>		<i>Parent Entity</i>	
	2008 \$	2007 \$	2008 \$	2007 \$
Cash at bank on hand	15,820,053	4,057,274	10,532,504	3,984,384
Bank deposits at call	61,603,201	72,354,530	61,603,201	72,354,530
Total Cash and Cash Equivalents	77,423,254	76,411,804	72,135,705	76,338,914
<i>Security Deposits</i>				
Karoon Gas Pty Limited	32,441	30,692	-	-
Karoon Gas Australia Limited	52,967	49,951	52,967	49,951
Karoon Petroleo & Gas Ltda	9,512,976	-	-	-
Total Security Deposits	9,598,384	80,643	52,967	49,951

(a) Cash at Bank and on Hand

The Australian dollar cash at bank and on hand balance is non-interest bearing, except for the professional funds account which had an interest rate of 7.15% and the USD cheque account which had an interest rate of 1.25%. The United States dollar deposits (USD 34,435,079) had an average interest rate of 2.24% as at 30 June 2008

(b) Bank Deposits at Call

The weighted average interest rate on bank deposits as at 30 June 2008 was 4.75%. The Australian Term Deposit has a maturity of less than 180 days. The United States Dollar Term Deposits (USD 34,435,079) has a maturity of less than 30 days.

(c) Effective Interest Rates

Information concerning the weighted average interest rate for the prior year is set out in Note 21.

(d) Security deposits

Held in the name of Karoon Gas Pty Ltd as bonds for the EL4537 and PEP162 field operations.

Held in the name of Karoon Gas Australia Ltd as bank guarantees for the office leases in Melbourne and Mount Martha.

Held in the name of Karoon Petroleo & Gas Ltda as performance bonds in relation to the Santos Basin blocks 1037, 1101, 1102, 1165 and 1166.

9. Trade And Other Receivables

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>Current</i>				
Trade debtors	60	-	60	-
Other receivables	243,639	176,227	191,420	107,427
Total current trade and other receivable	243,699	176,227	191,480	107,427
<i>Non-Current</i>				
Amounts Receivable form Subsidiaries				
Karooon Gas Proprietary Limited	-	-	17,026,889	16,675,804
Eastern Pacific Coal	-	-	636	424
Karooon Gas Browse Basin Proprietary Limited	-	-	20,075,230	1,265,776
Karooon Energy International Limited	-	-	39,037,414	113,263
Total non-current trade and other receivables	-	-	76,140,169	18,055,267

a. (a) Trade debtors

Trade debtors are recognised initially at fair value and are due for settlement no more than 30 days from the date of recognition. Collectability of trade debtors is reviewed on an ongoing basis.

(b) Other receivables

Includes GST receivables of \$25,376 (2007: \$84,668) and \$17,603 (2007: \$46,560) as at 30 June 2008 for the Group and Parent Entity respectively.

(c) Effective interest rates and credit risk

Information concerning the Group's exposure to interest rate changes and credit risk on both current and non-current receivables is set out in Note 21.

10. Inventories

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
<i>Current</i>				
Inventory at cost	-	17,916	-	-
Total current inventories	-	17,916	-	-

11. Joint Venture

(a) Interest in Joint venture

A controlled entity, Karoon Gas (Browse Basin) Pty Ltd, is a 49% interest holder in oil and gas operation permits WA-314-P and WA-315-P in the offshore Browse Basin. Karoon's joint venture partner and operator in WA-314-P and WA-315-P is ConocoPhillips (Browse Basin) Pty Ltd.

A controlled entity, Karoon Gas (Browse Basin) Pty Ltd, is a 40% interest holder of WA-398-P in the offshore Browse Basin. Karoon's joint venture partner and operator in WA-398-P is ConocoPhillips (Browse Basin) Pty Ltd.

Karoon Energy International Ltd is a 66.67% interest holder and operator of AC/P8 in the Bonaparte Basin. Talisman Energy Oil and Gas (Australia) Pty Ltd is Karoon's joint venture partner in the permit.

	Consolidated Entity		Parent Entity		
	2008 \$	2007 \$	2008 \$	2007 \$	
The consolidated group's share of assets employed in the joint venture is:					
<i>Current Assets</i>					
Joint Venture cash on hands	5,171,955	-	-	-	
Inventories	-	-	-	-	
Total Current Assets	5,171,955	-	-	-	
<i>Non-Current Assets</i>					
Other costs carried forward in respect of areas of interest	-	-	-	-	
- Exploration Development Expenditure	(17,992,081)	(81,225)	-	-	
Total Non-Current Assets	(17,992,081)	(81,225)	-	-	
<i>Current Liabilities</i>					
Joint Venture Share of Accrued Liabilities	(5,470,874)	-	-	-	
Total Current Liabilities	(5,470,874)	-	-	-	

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

(b) Interests in Joint Venture Entities

Karoon Gas Australia Ltd has a 100 % interest in the joint venture entities Karoon Gas (Browse Basin) Pty Ltd and Karoon Energy International Ltd.

The interest in joint venture entities is accounted for in the consolidated statements using the equity method of accounting.

12. Controlled Entities

<i>Name</i>	<i>Country of incorporation</i>	<i>Percentage of equity and voting interests held</i>	
		<i>2008</i> %	<i>2007</i> %
Karoon Gas Pty Ltd	Australia	100%	100%
Karoon Gas (Browse Basin) Pty Ltd	Australia	100%	100%
Karoon Energy International Ltd	Australia	100%	100%
KEI (Peru Z-38) Pty Ltd	Australia	100%	-
KEI (Peru 112) Pty Ltd	Australia	100%	-
KEI (Brazil Santos) Pty Ltd	Australia	100%	-
Eastern Pacific Coal Pty Ltd	Australia	100%	100%
Karoon Petroleo & Gas Ltda	Brazil	100%	-
<i>Branches</i>			
KEI (Peru Z-38) Pty Ltd, Surcursal del Peru	Peru	100%	-
KEI (Peru 112) Pty Ltd, Surcursal del Peru	Peru	100%	-

13. Property, Plant and Equipment

	<i>Consolidated Entity</i>		<i>Parent Entity</i>		
	<i>2008</i> \$	<i>2007</i> \$	<i>2008</i> \$	<i>2007</i> \$	
<i>Plant and equipment</i>					
At cost	797,511	676,623	771,389	676,623	
Accumulated Depreciation	(463,652)	(222,942)	(455,622)	(222,942)	
Total plant and equipment	333,859	453,681	315,767	453,681	
Reconciliations of the carrying amounts for Plant and Equipment are set out below:					
<i>Plant and Equipment</i>					
Balance at beginning of financial year	453,681	88,992	453,681	88,992	
Additions	153,198	465,658	127,076	465,658	
Depreciation expense	(273,020)	(100,969)	(264,990)	(100,969)	
Carrying amount at end of financial year	333,859	453,681	315,767	453,681	

14. Intangible Assets

	Consolidated Entity		Parent Entity		
	2008 \$	2007 \$	2008 \$	2007 \$	
<i>Computer software</i>					
At cost	346,756	240,209	346,756	240,209	
Accumulated amortization	(182,366)	(110,234)	(182,366)	(110,234)	
Net carrying amount at end of financial year	164,390	129,975	164,390	129,975	
<i>Reconciliation of the carrying amount for computer software is set out below:</i>					
Balance at beginning of financial year	129,975	111,804	129,975	111,804	
Additions	106,547	93,539	106,547	93,539	
Amortization charge	(72,132)	(75,368)	(72,132)	(75,368)	
Net carrying amount at end of financial year	164,390	129,975	164,390	129,975	

15. Exploration and Evaluation Expenditure Carried Forward

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Balance at beginning of financial year	6,361,370	17,046,217	-	-
Expenditure incurred	45,350,327	13,849,102	-	-
Exploration and evaluation expenditure reimbursed by ConocoPhillips	-	(12,214,645)	-	-
Amounts expensed to income statement	(1,175,837)	(12,319,304)	-	-
Net carrying amount at end of the financial year	50,535,860	6,361,370	-	-

Exploration and evaluation expenditure carried forward relates to the areas of interest in the exploration phase for oil and gas exploration permits WA-314-P, WA-315-P and WA-398-P and Brazil blocks 1037, 1101, 1102, 1165 and 1166.

The expenditure is carried forward on the basis that exploration and evaluation expenditure activities in the areas have not reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant activity in, or in relation to, the areas is continuing.

The ultimate recovery of capitalised exploration and evaluation expenditure is dependent on the successful development and commercial exploitation or the commercial sale of the relevant areas of interest.

16. Other Financial Assets

	Consolidated Entity		Parent Entity		
	2008 \$	2007 \$	2008 \$	2007 \$	
<i>Non-current</i>					
Investment in subsidiary companies at cost	-	-	1,005	150,300	
Total non-current other financial assets	-	-	1,005	150,300	

Information concerning the Group's exposure to interest rate changes and credit risk on the security deposit is set out in Note 21.

17. Trade and Other Payables

	Consolidated Entity		Parent Entity		
	2008 \$	2007 \$	2008 \$	2007 \$	
<i>Current-unsecured liabilities</i>					
Trade payables	5,848,340	2,421,115	178,738	1,541,562	
Funds held in escrow	2,625,000	-	2,625,000	-	
Provisions	78,989	61,500	72,489	50,000	
Sundry payables and accrued expenditure	66,315	41,978	66,315	41,978	
Total trade and other payables	8,618,644	2,524,593	2,942,542	1,633,540	

Information concerning the weighted average interest rate other payables is set out in Note 19.

Trade payables includes \$377,466 for creditors and accruals along with \$5,470,874 as our share in the joint venture accrued liability.

Funds held in escrow includes funds from capital raisings paid in advance of shareholder approval and held in an escrowed bank account pending approval of shareholders at the 1st August 2008 meeting of the shareholders.

18. Tax

(a) Income tax expense

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

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Prima facie tax payable on the loss from ordinary activities before income tax calculated at the Australian tax rate of 30% (2007: 30%)	(1,816,602)	(4,392,677)	(952,957)	(687,435)
Tax effect of amounts in calculating taxable income:	-	-	-	-
Add:	-	-	-	-
- Accumulated losses not brought into account	4,769,190	950,049	-	455,399
- Other non-deductible items	7,418,320	4,245,398	1,671,229	544,469
	12,187,510	5,195,447	1,671,229	999,868
Less:				
- Effect of accumulated losses not previously brought into account	-	-	(298,881)	-
- Exploration expenses deductible for tax purposes	(9,951,517)	(490,337)	-	-
- Other deductible items	(419,391)	(312,433)	(419,391)	(312,433)
	(10,370,909)	(802,770)	(718,272)	(312,433)

(b) Tax consolidation

Karoon and its wholly-owned Australian subsidiaries are a tax consolidated group. Karoon is the head entity within the tax consolidated group. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group. In addition, the agreement provides for the allocation of income tax liabilities between entities, should the head entity default on its tax payment obligations.

19. Provisions

	<i>Consolidated Entity</i>		<i>Parent Entity</i>	
	2008 \$	2007 \$	2008 \$	2007 \$
Provision for Fringe Benefits Tax	7,862	3,178	7,862	3,178
Provision for long service leave	6,627	1,861	6,627	1,861
Provision for administration expenditure	64,500	56,461	58,000	44,961
Total	78,989	61,500	72,489	50,000

Movements in each class of provision during the financial year are set out below:

<i>Consolidated and Company</i>	<i>Provision for Long Service Leave</i>
	\$
Balance at beginning of financial year	1,861
Additional provisions	4,766
Amounts used	-
Balance at end of financial year	6,627

(a) Fringe Benefits Tax Provision

Fringe Benefits Tax ("FBT") is a tax payable by the Company on the value of certain benefits, known as fringe benefits that have been provided to employees or to associates of those employees in respect to their employment during an FBT year ending 31 March. The Company's FBT liability is due and payable during May each year, along with lodgement of the annual FBT return. A provision is raised for the estimated FBT amount. The Company is required to pay the tax in quarterly 'notional tax' instalments.

(b) Provision for Long-term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 of this report.

20. Issued Capital

	<i>Consolidated Entity</i>		<i>Parent Entity</i>	
	2008 \$	2007 \$	2008 \$	2007 \$

(a) Share Capital

132, 227, 897 (2007 : 114,427,897) fully paid ordinary shares	157,860,082	96,727,932	157,860,082	96,727,932
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Ordinary shares participate in dividends as declared from time to time and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meeting, 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 share is entitled to one vote.

(b) Movements in ordinary share capital

<i>Date</i>	<i>Details</i>	<i>Notes</i>	<i>Number of shares</i>	<i>Issue Price</i>	<i>\$</i>
1 July 2007	Opening balance		114,427,897		96,727,932
22 October 2007	Exercise of Options	(d)	500,000	\$1.65	825,000
08 November 2007	Exercise of Options	(d)	30,000	\$2.03	60,900
21-27 November 2007	Share Placement	(c)	14,800,000	\$3.45	51,060,000
4-11 December 2007	Exercise of options	(d)	1,500,000	\$1.75	2,625,000
4-11 December 2007	Exercise of options	(d)	750,000	\$2.00	1,500,000
8 May 2008	Exercise of options	(d)	100,000	\$2.03	203,000
9 May 2008	Exercise of options	(d)	50,000	\$1.60	80,000
19 May 2008	Exercise of options	(d)	30,000	\$2.03	60,900
21 May 2008	Exercise of options	(d)	50,000	\$1.60	80,000
23 May 2008	Exercise of options	(d)	40,000	\$2.03	81,200
	Less: Transaction costs arising on share issue				(1,968,380)
30 June 2008	Closing balance		132,277,897		151,415,552

(c) Share Placement

Funds raised by placement are planned for use in carrying on exploration in the Browse Basin permits and initiating exploration in Peru and Brazil.

(d) Employee share option plan

Information relating to the Karoon ESOP, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year is set out in Note 25.

21. Financial Instruments Disclosure

The main purpose of non-derivative financial instruments is to raise finance for Group operations. The Group's activities expose it primarily to the financial risk of changes in foreign exchange rate movements and interest rates. The Group may enter into various derivative financial instruments to manage its exposure to these risks. The Group does not enter into or trade in derivative financial instruments for speculative purposes. For the financial year ended 30 June 2008, the Group and Company did not enter into any derivative financial instruments.

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.

(a) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for impairment, as disclosed in the balance sheet and notes to the financial statements.

The Group does not have any material credit risk exposure to any single debtor or group of debtors under non-derivative financial instruments entered into by the Group.

(b) Net fair values

The net fair values of listed investments will be valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For other assets and other liabilities the net fair value approximates their carrying value. Financial assets and financial liabilities are not readily traded on organised markets in standardised form other than listed investments.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements.

(c) Foreign exchange risk

The Group is exposed to fluctuations in foreign currencies arising from the purchase of goods and services in currencies other than Australian dollars. The main foreign currency exposure is United States dollars. The Group manages foreign exchange risk by following a pre defined foreign exchange.

(d) Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, and the weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	<i>Weighted average interest rate</i>	<i>Floating interest rate</i>	<i>Fixed interest maturing 1 year or less</i>	<i>Non-interest bearing</i>	<i>Total</i>
	%	\$	\$	\$	\$
2008					
Financial assets					
Cash and cash equivalents	4.75	10,470,094	61,603,201	5,349,959	77,423,254
Trade and other receivables		-	-	-	-
Other financial assets		-	-	-	-
Total financial assets		10,470,094	61,603,201	5,349,959	77,423,254
2007					
Financial assets					
Cash and cash equivalents	6.19	3,986,940	72,354,530	70,134	76,411,604
Trade and other receivables		-	-	-	-
Other financial assets		-	-	-	-
Total financial assets		3,986,940	72,354,530	70,134	76,411,604

22. Capital And Leasing Commitments

(a) Capital expenditure (expenditure commitments as a result of contracts with third parties. Includes joint venture expenditure)

Description	Not later than 1 year	Later than 1 Year but not Later than 5 Years	Later than 5 Years
Drilling Contract	31,232,667	-	-

(b) Operating lease commitments

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Payable - minimum lease payments				
- not later than 12 months	166,540	158,267	132,025	126,767
- between 12 months and 5 years	225,815	255,123	116,999	152,859
- greater than 5 years	-	-	-	-
Total	392,355	413,390	249,024	279,626

The Company has an office lease at Office 7A, 34-38 Lochiel Avenue, Mount Martha Victoria, 3934, with a primary 3-year term that expires on the 31st January 2010. Rent is payable monthly in advance. There is an option to extend for another 3 years.

The Company has an office at lease Level 9, 406 Collins Street, Melbourne Victoria 3000, with a 4 year primary term and a 4% per annum increase, expiring 18/6/2010. Rent is payable monthly in advance. There is an option for a 4 year extension. The Company also has an office lease at Level 10, 406 Collins Street, Melbourne Victoria, 3000, with a 5 year primary term and a 4 % per annum increase, expiring 31/5/2012. Rent is payable monthly in advance. There is an option for another 5 years.

(c) Other expenditure commitments (Firm commitments only)

Commitments for exploration expenditure arising from obligations to government, to perform minimum exploration work and expend minimum amounts of money on such work in exploration licence areas. The commitments existing at balance date attributable to the consolidated entity, which are not provided for in the financial statements are expected to fall due as follows:

Description	Not later than 1 year	Later than 1 Year but not Later than 5 Years	Later than 5 Years
Browse Basin	45,200,000	160,900,000	-
Bonaparte Basin	-	-	-
Santos Basin	9,906,728	-	-
Tumbes Basin	2,555,556	4,428,889	2,866,667
Gippsland Basin	120,000	640,000	-
Total	57,782,284	165,968,889	2,866,667

Notes:

Estimates for future exploration expenditure commitments are based on estimated well and seismic costs which will change as actual drilling locations and seismic surveys are organised and are determined in current dollars on an undiscounted basis.

Where exploration expenditure included in this category relates to an existing contract for expenditure as at 30 June 2008, the amount will be included in both categories (a) and (c) above.

23. Segment Reporting

(a) Business Segment

The Group operates exclusively in one segment: investment in energy related projects.

(b) Geographical Segment

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-Current Segment Assets	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
<i>Geographical Location</i>						
Australia	5,343,145.03	4,272,272.00	24,648,005	6,361,370	18,286,636	10,684,847
South America	-	-	25,887,855	-	25,887,855	-
Total	5,343,145.03	4,272,272.00	50,535,860	6,361,370	44,174,491	10,684,847

The consolidated group's business segments consist of two main focus groups, the first being the Australian based assets and the second being the South American assets. The Australian based assets are held by direct subsidiaries within Australia. The South American assets are all held by a subsidiary of Karoon, named Karoon Energy International Ltd. Each asset has its own subsidiary in which it is held. The two segments are consolidated together under the Karoon parent entity.

(c) Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include exploration and evaluation expenditure incurred. While most assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment assets and liabilities do not include deferred income taxes.

24. Cash Flow Information

(a) Reconciliation of Loss after Income Tax to Cash Flow from Operations

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
(Loss)/Profit after income tax	(6,055,339)	(14,433,007)	(3,176,524)	(2,082,201)
Add/(subtract) non-cash items				
Depreciation of plant and equipment and amortisation of software	345,152	219,929	337,122	219,929
Impairment losses for non-current receivables (subsidiaries)	149,295	-	149,295	-
Net foreign currency losses (gains)	4,456,827	1,590,878	4,058,676	1,590,878
Items classified as investing/financing activities:				
Exploration and evaluation expenditure expensed	1,175,837	12,319,304	-	-
Change in operating assets and liabilities:				
(Increase)/Decrease in assets				
Trade and other receivables – current	(209,369)	30,692	162,900	30,692
Other assets – current	(1,000,000)	(10,916)	(25,941)	(10,916)
Increase/(decrease) in liabilities				
Trade and other payables – current	932,340	2,620,426	(582,111)	1,487,311
Short-term provisions	4,684	1,260	4,684	1,260
Long-term provisions	4,766	1,372	4,766	1,372
Net cash used in operating activities	(195,807)	2,333,938	932,867	1,232,325

25. Share Based Payments

(a) Employee Share Option Plan

The Company has one ESOP, which was approved by shareholders at the 2006 Annual General Meeting. Options expire two years after they are granted. The exercise price of options, issued during the financial year, is based on the volume weighted average price at which the Company's shares are traded on ASX during the two months of trading days before the options are granted. Options may be exercised after the date the option was granted. If there is a change of control in the Company, all unexercised options will become immediately exercisable. Options granted under ESOP carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

The following reconciles the outstanding share options granted under ESOP at the beginning and end of the financial year:

	<i>Consolidated and Company</i>		<i>Consolidated and Company</i>	
	2008		2007	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at beginning of financial year	675,000	\$1.97	-	-
Granted during the financial year	845,000	\$2.84	675,000	\$1.97
Exercised during the financial year	(300,000)	\$1.86	-	-
Forfeited during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at end financial year	1,220,000	\$2.95	675,000	\$1.97
Exercisable at end of financial year	475,000	\$2.03	-	-

The options outstanding as at 30 June 2008 had a weighted average exercise price of \$2.03 (2007: \$1.97) with a weighted average remaining contractual life of 471 days.

(b) Details of ESOP options outstanding at the end of the financial year

<i>Grant date</i>	<i>Expiry and exercise date</i>	<i>Exercise Price</i> \$	<i>Number</i>
23 September 2006	31 October 2008	2.03	375,000
26 October 2007	31 October 2008	2.03	100,000
31 October 2007	31 October 2009	2.95	745,000
Total			1,220,000

25. Share Based Payments (Continued)

(c) Other Options

The Company has granted other options during the financial year. The exercise price of options is based on the weighted average price at which the Company's shares are traded on ASX during the six months of trading days before the options are granted. Options may be exercised after the date the option was granted. If there is a change of control of the Company, all unexercised options will become immediately exercisable. Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

The following reconciles the other outstanding share options granted at the beginning and end of the financial year:

	<i>Consolidated and Company</i>		<i>Consolidated and Company</i>	
	<i>2008</i>		<i>2007</i>	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at beginning of financial year	5,000,000	2.00	7,000,000	1.91
Granted during the financial year	1,000,000	2.95	-	-
Exercised during the financial year	(2,750,000)	1.80	(2,000,000)	0.25
Forfeited during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at end of financial year	3,250,000	2.45	5,000,000	2.00
Exercisable at end of financial year	3,250,000	2.45	5,000,000	2.00

The weighted average share price when the share options were exercised during 2007-2008 was \$3.48 (2007: \$2.07).

The options outstanding as at 30 June 2008 had a weighted average exercise price of \$1.97 with a weighted average remaining contractual life of 471 days.

(d) Details of other options outstanding at the end of the financial year

<i>Grant date</i>	<i>Expiry and exercise date</i>	<i>Exercise Price</i> \$	<i>Number</i>
18 November 2005	30 September 2008	2.00	750,000
18 November 2005	30 September 2008	2.35	1,500,000
31 October 2007	31 October 2010	2.95	500,000
10 January 2008	31 October 2010	2.95	500,000
Total			3,250,000

(e) Fair Value of Options

The weighted average fair value of the ESOP and other options granted during the financial year was \$0.52 (2007: \$0.31). The fair value of each option during the financial year was estimated on grant date using the Black & Scholes option pricing model. The Black & Scholes option pricing model takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The Company has applied the following assumptions and inputs:

	2008	2007
Weighted average exercise price	\$2.90	\$1.97
Weighted average life of options	1,025 days	722 days
Weighted average share price	\$3.31	\$1.94
Expected share price volatility	42%	20%
Risk free interest rate	6.58%	6%
Weighted average option value	\$0.52	\$0.31

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

Included under employee benefits expense in the income statement is \$1,014,300 relating to the fair value of Karoon's ESOP (2007: \$209,250).

(f) Employee share option plan

Information relating to the Karoon ESOP, including details of options issued, exercised and expired during the financial year and options outstanding at the end of the financial year, is set out in Subsection (a).

(g) Superannuation plans

During the financial year, the Company contributed to accumulation type benefit funds administered by external fund managers. The funds cover all Australian domiciled employees of the Company. Employee and employer contributions are based on a fixed percentage of cash salary. The current contribution is 9% (2005: 9%) of employee cash remuneration.

(h) Employees

The number of employees as at 30 June 2008 was 12 (2007: 10) for Karoon and the Group. The number of employees includes both full time employees and part time employees measured on a full time equivalent basis.

26. Events After The Balance Sheet Date

Since the end of the financial year, the following material events have occurred:

On the 1st August 2008, shareholders approved a placement of 14 million shares to sophisticated and professional investors that was conducted on the 26th of June 2008

27. Related Party Transactions

(a) Parent entity

The ultimate parent entity within the group is Karoon Gas Australia Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 12.

During the financial year, the Company provided accounting, administrative and technical services to subsidiaries at cost. Other transactions that occurred were advancement of intercompany loans at nil interest rate and no fixed term for repayment. Loans are unsecured. These transactions are eliminated on consolidation. Loans advanced to and repayments from subsidiaries are set out in the Cash Flow Statements.

27. Related Party Transactions (Continued)

(c) Directors and Key Management Personnel

Disclosures relating to Directors and Key Management Personnel are set out in the Directors Report. Apart from the details disclosed in this note, no Director or Key Management Personnel has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors or Key Management Personnel interests subsisting as at 30 June 2008.

Key Management Personnel at Karoon include:

<i>Name</i>	<i>Position</i>
Mr Robert Hosking	Executive Chair
Mr Mark Smith	Executive Director and Exploration Manager
Mr Stephen Power	Non-Independent, Non-Executive Director
Mr Geoff Atkins	Independent, Non-Executive Director
Mr Scott Hosking	Company Secretary and Chief Financial Officer
Mr Lino Barro	Engineering Manager
Mr David Ormerod	South America Exploration Manager
Mr Jorg Bein	Geophysical Manager

(d) Options over ordinary shares

During the financial year, 1,500,000 share options (2007:400,000) were issued to Directors and Key Management Personnel. The movement of share options held by Directors and Key Management Personnel during the financial year is as follows:

	<i>Balance 1 July 2007</i>	<i>Granted as remuneration</i>	<i>Options exercised in 2008</i>	<i>Net change other</i>	<i>Balance 30 June 2008</i>	<i>Total vested 30 June 2008</i>	<i>Total exercis- able 30 June 2008</i>	<i>Total unexercis- able 30 June 2007</i>
<i>Executive Directors</i>								
Mr Robert Hosking	2,250,000	-	(1,125,000)	-	1,125,000	1,125,000	1,125,000	-
Mr Mark Smith	2,250,000	-	(1,125,000)	-	1,125,000	1,125,000	1,125,000	-
<i>Non-Executive Directors</i>								
Mr Stephen Power	500,000	500,000	(500,000)	-	500,000	500,000	500,000	-
Mr Geoff Atkins		500,000	-	-	500,000	500,000	500,000	-
<i>Key Management Personnel</i>								
Mr Scott Hosking	-	200,000	-	-	200,000	200,000	100,000	100,000
Mr Lino Barro	200,000	100,000	(100,000)	-	200,000	200,000	100,000	100,000
Mr David Ormerod	100,000	100,000	-	-	200,000	200,000	100,000	100,000
Mr Jorg Bein	100,000	100,000	(100,000)	-	100,000	100,000	-	100,000
Total	5,400,000	1,500,000	(2,950,000)	-	3,950,000	3,950,000	3,550,000	400,000

(e) Other transactions with the company

During the financial year, a Director, Mr Stephen Power had an interest in Salter Power Pty Ltd, which provided legal services to Karoon. These services were made on normal commercial terms and conditions and at market rates. The total income derived by Salter Power Pty Ltd during 2008 was \$357,983 (2007: \$278,593).

Mark Smith had an interest in IERS Pty Ltd, which has an ongoing agreement with the company to provide geophysical fault seal analysis software. This contract has been negotiated at commercial terms and does not include monetary compensation. The company provides testing and ongoing development of the software in return for its use.

Directors Declaration

Financial Year Ended 30 June 2008



The Directors of the company declare that:

There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

The financial statements and notes are in accordance with the Corporations Act 2001, including:

Section 296 (compliance with accounting standards); and

Section 297 (true and fair view);

That the Directors have been given the declarations required by section 295A of the Corporations Act.

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

Dated at Melbourne this 19 September 2008

A handwritten signature in black ink, appearing to read 'Robert Hosking'.

Robert Hosking

Executive Chair

Independent Audit Report

Financial Year Ended 30 June 2008

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INDEPENDENT AUDITOR'S REPORT

To the members of Karoon Gas Australia Limited

Report on the Financial report and AASB 124 Remuneration disclosures Contained in the Directors Report.

We have audited the accompanying financial report of Karoon Gas Australia Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in pages 21 to 25 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

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

Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

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

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

Independence

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

Auditor's Opinion on the Financial Report

In our opinion the financial report of Karoon Gas Australia is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in pages 21 to 25 of the directors' report comply with Accounting Standard AASB 124.

Mitchell Wilson
Chartered Accountants
Melbourne



Doug Mitchell
Partner
19 September 2008

Statement of Corporate Governance Principles

Financial Year Ended 30 June 2008

The revised ASX Corporate Governance Council Principles and Recommendations published in August 2007 (*revised Corporate Governance Council Principles*) establishes the framework for how the Board oversees the Company and performs its functions on behalf of shareholders. The Company's objective is to achieve best practice in corporate governance and the Company's directors and employees are committed to achieving this objective.

Role of the Board

The roles and responsibilities of the Board are to oversee and direct the management of the Company by:

- defining and monitoring the strategic direction of the Company;
- defining policies and procedures to ensure the Company operates within the legal, ethical and social requirements of its environment;
- establishing control and accountability systems within the consolidated entity's operations to conform to the legal requirements and the expectations of shareholders and other stakeholders;
- defining and monitoring the management of an effective risk assessment strategy;
- securing funds to develop the Company's assets;
- driving Company performance;
- from time to time, reviewing and monitoring the management and Company performance;
- appointing and appraising the Executive Chair and any other executive director;
- ensuring that there are adequate plans and procedures for succession planning;
- reviewing and approving the remuneration of the Executive Chair and senior management;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures; and
- approving and monitoring financial and other reporting.

The Company's Board Charter can be found at www.karoongas.com.au.

Composition of the Board

The Board is constituted by four directors. The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

The non-executive directors of the Company are Mr Geoff Atkins and Mr Stephen Power. Mr Geoff Atkins is an independent director. The Company considers Mr Stephen Power to be a non-independent director, due to Salter Power Pty Ltd, a law firm in which Stephen Power has an interest, providing legal services to the Company. These services are provided by Salter Power Pty Ltd on normal commercial terms and conditions and at market rates.

Recommendation 2.1 of the revised Corporate Governance Council Principles provides that a majority of the Board should be independent directors. The Company does not currently comply with this Recommendation. The Board's composition will be reviewed from time to time having regard to the growth of the Company's business with a view to having a majority of independent directors.

A non-executive director is independent under the ASX Corporate Governance Principles and Recommendations if he or she does not fall within any of the following materiality thresholds:

- less than 10% of Company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- none of the director's income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with the Company other than income derived as a director of the Company.

Recommendation 2.2 of the revised Corporate Governance Council Principles provides that the Chair should be an independent director. Also, Recommendation 2.3 of the revised Corporate Governance Council Principles provides that the roles of the Chair and the Chief Executive Officer should not be exercised by the same individual. The Chair of Karoon is an executive of the Company, its founding director, the Company's largest shareholder and has previously exhibited transparency in relation to Board and management decisions. In these circumstances, the Board considers that it is acceptable at this stage of the Company's evolution for the Chair to be an executive director and not independent. The position will, however, be monitored by the Audit Committee.

Meeting Schedule

The Board schedules meetings at least every two months with additional committee meetings, if and when required, to discuss technical and specific matters.

Advice to Directors

Subject to the approval of the Board, an individual director may engage an independent professional adviser at the expense of the Company in appropriate circumstances.

Board Committees

The Board may establish appropriate committees to assist in its roles and responsibilities at appropriate points in the Company's evolution.

The Board has established a Remuneration Committee.

The Board has established an Audit Committee.

The Board has not established a nomination committee; the Board will establish a nomination committee when necessary.

Audit Committee

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal control and the appropriate ethical standards for the management of the consolidated entity. The Company has formally adopted the Audit Committee Charter. A copy of the Audit Committee Charter can be found at www.karoongas.com.au.

The Audit Committee also reviews the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The Audit Committee consists of:

- Mr Geoff Atkins (Chairman)
- Mr Hector Peeters (Company Accountant)
- Mr Robert Hosking

Recommendation 4 of the revised Corporate Governance Council Principles recommends that the Audit Committee be structured so that it:

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the Board; and
- has at least three members.

The recommendation is to ensure that the Audit Committee is of sufficient size, independence and technical expertise to discharge its mandate effectively. The Company has not complied with this recommendation. The Company proposes appointing another non-executive director to the Audit Committee.

The responsibilities of the Audit Committee include:

- review the integrity of the Company's financial reporting and oversee the independence of the external auditors;
- liaising with external auditors and ensuring that the annual and half yearly statutory audits are conducted in an effective manner;
- reviewing internal controls and recommending improvements;
- reviewing the half year financial statements prior to lodgement of these documents with the ASX, and any significant adjustments required as a result of the audit;
- reviewing the draft financial statements and the audit report and making the necessary recommendations to the Board for approval of the financial statements;
- reviewing treasury recommendations and making necessary recommendations to the Board for approval; and
- reviewing and reporting on any special reviews deemed necessary by the Board.

The Audit Committee reports to the Board after each Committee Meeting and relevant papers and minutes are provided to all directors.

Audit Committee Meetings

<i>Director</i>	<i>No. of meetings held during year</i>	<i>No. of meetings attended</i>
Mr Geoff Atkins(Chairman)	3	3
Mr Hector Peeters	3	3
Mr Robert Hosking	3	3

External Auditors

Recommendation 4.4 of the revised Corporate Governance Council Principles provides that the Company should make publicly available information on procedures for the selection and appointment of the external auditor and the rotation of external audit engagement partners.

The Company did not appoint new auditors during the 2007/2008 financial year but the Company is currently in discussions to appoint a new auditor for the 2008/2009 new financial year.

The Company has prepared a Selection and Appointment of External Auditor Policy. Whereby the company reviews every three years and assesses performance and potentially rotates the external auditor. Upon the Selection and Appointment of External Auditor Policy being adopted by the Board, it will be made available on the Company's website at www.karoongas.com.au.

Nomination Committee

Recommendation 2.4 of the revised Corporate Governance Council Principles provides that a Board should establish a nomination committee. Given the size of the Board, the Board considers that the same efficiencies that may be derived from a nomination committee with respect to a larger board may not, in the current circumstances, be derived from a formal committee structure. However, the Board has processes in place which address the issues that would otherwise be considered by a nomination committee.

The Company's constitution provides that, at each Annual General Meeting of shareholders, one third of the directors (excluding the Managing Director) must resign, with directors resigning by rotation based on the date of their appointment. Directors resigning by rotation may offer themselves for re-election. This procedure ensures that no director can serve for more than three years without being re-elected.

No new directors were appointed in the 2007/2008 financial year. The Board proposes adopting a Selection and Appointment of Directors Policy. Once adopted, the Selection and Appointment of Directors Policy will be made available from the Company's website at www.karoongas.com.au.

Remuneration Committee

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

- the company's remuneration, recruitment, retention and termination policies and procedures for senior executives;
- senior executives remuneration and incentives;
- superannuation arrangements; and
- the remuneration framework for directors.

The Company's remuneration policy is designed to ensure that:

- remuneration is kept competitive in order to attract and retain talented and motivated employees and directors to Karoon;
- there is a clear relationship between performance, responsibility and remuneration;
- a performance evaluation process is created to monitor the Board and executives.

The Remuneration Committee consists of:

Mr Geoff Atkins

Mr Mark Smith

Mr Stephen Power

Recommendation 8.1 of the revised Corporate Governance Council Principles recommends that the Remuneration Committee be structured so that it:

- consists of a majority of independent directors;
- is chaired by an independent director; and
- has at least three members.

The Company does not currently comply with all of these Recommendations. The Committee's composition will be reviewed from time to time having regard to the growth of the Company's business with a view to having a majority of independent directors.

Remuneration Committee Meetings

<i>Director</i>	<i>No. of meetings held during year</i>	<i>No. of meetings attended</i>
Mr Geoff Atkins (Chairman)	3	3
Mr Mark Smith	3	3
Mr Stephen Power	3	3

A copy of the Remuneration Committee Charter can be found at www.karoongas.com.au.

Remuneration Policy

As an overall policy, the Company will remunerate in such a way that it motivates directors and employees to pursue the long-term growth and success of the Company within an appropriate control framework that demonstrates a clear relationship between key executive performance and remuneration. The Remuneration Committee is responsible for reviewing all remuneration and making recommendations to the Board.

Executive remuneration is set by the Board and may contain salary bonuses and share options.

Non-executive directors are remunerated by way of fees in the form of cash and superannuation contribution at marketplace levels as well as director options.

Fees and equity based payments payable to directors are set and may not be increased without prior approval of the shareholders at a general meeting.

Karoon has not established any schemes for retirement benefits, other than superannuation, for non-executive directors.

Further information on the remuneration of the Board and executives can be found in the Remuneration Report section of the Directors Report.

Performance Review

Recommendation 2.5 of the revised Corporate Governance Council Principles provides that companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

During the Reporting Period no formal performance evaluation of the Board, its committees and individual directors was undertaken. Due to the nature and stage of the Company's operations and its evolution, the Board was of the view that a formal performance review was not necessary.

The Board, however, proposes to adopt a Board and Senior Executives Evaluation Policy. Upon the adoption of the Board and Senior Executives Evaluation Policy, it will be made available on the Company's website at www.karoongas.com.au.

Management Performance Review

Recommendation 1.2 of the revised Corporate Governance Council Principles provides that the performance of senior executives should be reviewed regularly against appropriate measures.

Performance Evaluation for senior executives has taken place in the reporting period.

Role of the Company Secretary

Under the revised Corporate Governance Council Principles all directors are to have access to the Company Secretary and the appointment and removal of the Company Secretary is a matter for decision by the Board as a whole.

The Company Secretary supports the effectiveness of the Board by monitoring compliance with Board policy and procedures and co-ordinating the completion and dispatch of Board agenda and briefing materials.

The Company Secretary is accountable to the Board, through the Chair, on all governance matters.

Ethical standards, compliance with obligations and responsible decision making

The directors, senior executives and employees are required to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. The Company also strives to comply with legal and other obligations to stakeholders.

The Company has developed a Code of Conduct for the Board, management and employees of the Company. The Company's Code of Conduct can be found at www.karoongas.com.au. The Code includes:

- the practices necessary to maintain confidence in the Company's integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Fair dealings and related party transactions

A director, or entities in which a director has a significant interest and/or influence, who enters into a transaction with the Company must make full disclosure of all material elements of the transaction to the Chair, or, if the director involved is the Chair, to the Board.

In addition, contracts with directors, or entities in which directors have a significant interest and/or influence, must be approved by the Audit Committee in advance of committing the Company to:

- contracts for the supply of goods and/or services which extend beyond one year, or where the total value of goods and/or services supplied under the contract will, in any one year, exceed \$25,000;
- all agreements to lease and/or leases of property;
- all agreements for acquisition or disposal of property except by way of public auction.

Any director who is a member of the Audit Committee and who has a significant interest and/or influence in relation to a contract to be approved by the Audit Committee must absent themselves from the meeting and not participate in any vote to approve such contract.

Policy and procedure for share trading

Directors and officers (including employees) are prohibited from dealing in securities of the Company if they are in possession of information concerning the Company which, if made public, a reasonable person would expect to have a material impact on the price or value of Company's securities ("price sensitive information").

Directors, officers, employees and consultants are prohibited from dealing in securities of the Company during any embargo period declared by the Chair. Embargo periods may typically include the period of two weeks prior to the release of the Company's half-yearly results and preliminary final results to the ASX;

These restrictions in dealing in securities of the Company are subject to any discretion exercised by the Chair.

Prior to dealing in securities of the Company, directors and officers (including employees) must:

- advise a director or Company Secretary of the proposed dealing to ensure that there is not any imminent ASX announcement that contains price sensitive information; and
- confirm to the director or Company Secretary that he or she is not aware of any price sensitive information that has not been released to the ASX.

Directors and officers (including employees and consultants) must advise the Company Secretary of any dealing in securities of the Company within 2 days of such dealing.

The Company's Share Trading Policy can be found at www.karoongas.com.au.

Environment

The Company has a Health Safety and Environmental policy and is committed to conducting all its activities in an environmentally responsible manner.

The Company's Health Safety and Environment Policy can be found at www.karoongas.com.au.

Disclosure of information

The Company aims to provide honest and open disclosure of information in dealing with stakeholders, subject to appropriate commercial considerations associated with competitive and sensitive information.

The Company has developed a Continuous Disclosure Policy to ensure the compliance of the Company with the various laws and ASX listing rule obligations in relation to disclosure of information to the market and to ensure accountability at a senior executive level for that compliance.

The Company's Continuous Disclosure Policy can be found at www.karoongas.com.au.

The role of shareholders

The Board aims to ensure that all shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to the shareholders as follows.

the annual report is distributed to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs of the consolidated entity and other disclosures required by the Corporations Act;

- half yearly financial statements prepared in accordance with the requirements of the Corporations Act are subject to an audit review. The financial statements are sent to any shareholder who requests them;
- proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders; and
- the Company posts all reports, ASX and media releases and copies of significant presentations on the Company's website www.karoongas.com.au.

In addition, news announcements and other information are sent by email to all persons who have requested their details be added to the Company's electronic mailing list. If requested, the Company, where appropriate, will provide general information by email, facsimile or post.

The Company will ensure that the Annual General Meeting is held in a manner that enables as many shareholders as possible to attend and encourages effective participation by shareholders at the Annual General Meeting.

The Company will arrange to have its external auditor attend the Company's Annual General Meeting and be available to answer shareholder questions about the conduct and the preparation and content of the auditor's report.

The Chair of the Annual General meeting will allow a reasonable opportunity for shareholders to ask questions about the Company's performance and operations and ask questions of the external auditor concerning the conduct of the audit and the preparation and content of the auditor's report.

Risk assessment and management

Recommendation 7.1 of the revised Corporate Governance Council Principles provides that companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. The Company is currently preparing a Risk Assessment Policy. Once the Risk Assessment Policy is adopted, it will be available from the Company's website www.karoongas.com.au.

Currently, as part of the consolidated entity's strategy to implement an integrated framework of control, the Board continually identifies and monitors the key business and financial risks that could jeopardise the consolidated entity achieving its objectives. The Board is developing appropriate controls that would effectively manage those risks. These include:

- identification of risks;
- policy to manage risk;
- monitoring compliance with the risk management policy;
- procedures to manage financial exposures; and
- commitment and expenditure levels exceeding certain levels are submitted to the Board for approval.

Management accountability

The Board encourages management accountability for the Company's financial reports by requiring the Executive Chairman to state in writing to the Board that:

the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and

that the financial statements are compiled in accordance with best practice and are properly monitored using the Audit Committee and the external auditors to ensure a sound system of risk management and control, as per Recommendation 7.3 of the ASX Corporate Governance Best Practice Recommendations.

Recommendation 7.2 of the revised Corporate Governance Council Principles provides that the Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. Risk management, internal compliance and control policies are in various steps of developments and implementation and therefore cannot be assessed for material efficiency and effectiveness and therefore this recommendation has not been complied with. The Company will endeavour to complete and institute these controls in order to begin monitoring efficiency and effectiveness through the next financial year.

Shareholdings as at 9 September 2008

Substantial shareholders

The number of shares held by substantial shareholders are:

	Fully paid Ordinary Shares	Percentage of Shares Held
Talbot Group Holdings	20,055,862	13.72
Wellington Management (Institutional Group)	18,521,706	12.67
Robert Hosking	12,256,087	8.38
Total	50,833,655	34.77

Twenty largest shareholders

Name of holder	Number of ordinary Shares held	Percentage of Shares held
Talbot Group Investments Pty Ltd <Talbot Equities A/C>	17,165,187	11.73
HSBC Custody Nominees (Australia) Limited	11,208,505	7.66
Ropat Nominees Pty Ltd	11,132,380	7.61
HSBC Custody Nominees (Australia) Limited A/C 2	10,802,649	7.38
J P Morgan Nominees Australia Limited	4,862,971	3.32
National Nominees Limited	4,742,013	3.24
Talbot Group Investments Pty Ltd	3,813,601	2.61
IERS (Australia) Pty Ltd <Smith Family Investment A/C>	1,960,000	1.34
Copulos Superannuation Pty Ltd <Copulos Provident Fund A/C>	1,610,038	1.10
ANZ Nominees Limited <Cash Income A/C>	1,471,366	1.01
Citicorp Nominees Pty Limited	1,444,973	0.99
Merrill Lynch (Australia) Nominees Pty Ltd <Berndale A/C>	1,345,000	0.92
UBS Wealth Management Australia Nominees Pty Ltd	1,212,600	0.83
Pressure Drop Pty Ltd	1,125,000	0.77
Mrs Mara Spong	1,125,000	0.77
Citywest Corp Pty Ltd <Copulos (Sunshine) Unit A/C>	1,000,000	0.68
AMMF Investments Pty Ltd <AM Family A/C>	975,000	0.67
Rose Burton Pty Ltd	900,000	0.61
Mr Ross Stansfield-Smith <Narong Super Fund A/C>	898,198	0.61
John Bailey Investments Pty Ltd <General Super Fund A/C>	886,292	0.61
Total shares on issue	79,680,773	54.46

Distribution of share and option holdings

Number of holders by size of holdings at 9 September 2008 were as follows:

	1 - 1,000	1,001-5,000	5,001 - 10,000	10,001-100,000	100,001 and above	Total
Ordinary fully paid shares	1,108	1,924	703	884	135	4,754
Options expiry 30/09/08 exercisable @ \$2.00	-	-	-	-	2	2
Options expiry 30/09/08 exercisable @ \$2.35	-	-	-	-	2	2
Options expiry 31/10/08 exercisable @ \$2.03	-	-	-	3	2	5
Options expiry 31/10/10 exercisable @ \$2.95	-	-	-	4	7	11
Options expiry 30/04/10 exercisable @ \$4.00	-	-	-	1	-	1
Options expiry 30/04/11 exercisable @ \$4.00	-	-	-	-	1	1
Options expiry 30/04/11 exercisable @ \$4.50	-	-	-	-	1	1
Options expiry 30/04/11 exercisable @ \$5.00	-	-	-	-	1	1

Issued capital

(a) At 9 September 2008, the following securities in the parent entity were on issue:

Type Security	Number of Securities	Number of Holders
Fully paid ordinary shares	146,367,897	4,754
Options Exercisable at \$2.00 by 30 September 2008 – Unquoted	750,000	2
Options Exercisable at \$2.35 by 30 September 2008 – Unquoted	1,500,000	2
Options Exercisable at \$2.03 by 31 October 2008 – Unquoted	385,000	5
Options Exercisable at \$2.95 by 31 October 2010 – Unquoted	1,745,000	11
Options Exercisable at \$4.00 by 30 April 2010 – Unquoted	100,000	1
Options Exercisable at \$4.00 by 30 April 2011 – Unquoted	750,000	1
Options Exercisable at \$4.50 by 30 April 2011 – Unquoted	750,000	1
Options Exercisable at \$5.00 by 30 April 2011 – Unquoted	750,000	1

(b) At 9 September 2008, 33 shareholders held less than a marketable parcel of fully paid ordinary shares

Voting rights

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Schedule of interests
As at 9 September 2008*

<i>Exploration Permits</i>	<i>Interest %</i>
WA-314-P - Browse Basin, Australia	49
WA-315-P - Browse Basin, Australia	49
WA-398-P - Browse Basin, Australia	40
Block 1037 - Santos Basin, Brazil	100
Block 1101 - Santos Basin, Brazil	100
Block 1102 - Santos Basin, Brazil	100
Block 1165 - Santos Basin, Brazil	100
Block 1166 - Santos Basin, Brazil	100
Block Z-38 - Tumbes Basin, Peru	20
AC/P8 - Bonaparte Basin, Australia	66.67
EL 4537 - Gippsland Basin, Australia	100

The above interests are held by Karoon Gas Pty Ltd, Karoon Gas (Browse Basin) Pty Ltd, and Karoon Energy International Ltd.

<i>Term</i>	<i>Definition</i>
2D	Two-dimensional seismic.
3D	Three-dimensional seismic.
AUD, \$ or cents	Units of Australian currency.
AIFRS	Australian equivalents to International Financial Reporting Standards.
Appraisal well	A well drilled to confirm the size of quality of a hydrocarbon discovery.
Associated gas	Natural gas found in association with oil, either dissolved in the oil or as a cap of free gas above the oil.
ASX	Australian Securities Exchange Ltd
Barrel or BBL	Barrel of oil inclusive of condensate. A quantity of 42 United States gallons (159 litres).
Basin	An ancient natural depression on the earth's surface in which sediments eroded from higher surrounding ground levels accumulated and were preserved.
BCF	One billion cubic feet of natural gas i.e. 1,000 million cubic feet (equivalent to approximately 28.3 million cubic metres) of gas.
Block	A license or concession area. It may be almost any size or shape, although usually part of a grid pattern.
BOE	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalence at the time.
Condensate	Hydrocarbons which are predominantly pentane and heavier compounds which spontaneously separate out from natural gas at the well head and condense to liquid.
ConocoPhillips	ConocoPhillips SH2 Pty Ltd.
Discovery	The first successful well on a new prospective reservoir structure.
Eocene	A major division of the geologic timescale and the second epoch of the Palaeogene period in the Cenozoic era. The Eocene spans the time from the end of the Palaeocene epoch to the beginning of the Oligocene epoch.
Exploration	The process of identifying prospective hydrocarbon regions and structures, mainly by reference to regional and specific geochemical, geological and geophysical surveys.
Farmin or Farmout	An agreement where the owner of a working interest in an oil and gas lease assigns the working interest or a portion thereof to another party who desires to drill on the leased acreage. Generally, the assignee is required to drill one or more wells in order to earn its interest in the acreage. The assignor usually retains a royalty or reversionary interest in the lease. The interest received by an assignee is a farmin while the interest transferred by the assignor is a farmout.
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.
Group or Parent Entity	Karoon Gas Australia Ltd and its subsidiaries.
GST	Australian Goods and Services Tax.
Hydrocarbon	Organic compounds of carbon and hydrogen. Hydrocarbons include natural gas, liquefied petroleum gas, crude oil and condensate.
Karoon and Company	Karoon Gas Australia Limited.
Km	Kilometre
Km ²	Square kilometres.
Lead	A potential petroleum trap which has been identified but has not been adequately defined.
LNG	Liquefied natural gas.
LPG	Liquid Petroleum Gas.

<i>Term</i>	<i>Definition</i>
M	Metres
Market capitalisation	The product of a company's share price multiplied by the total number of shares issued by that company.
Mcf	Thousand cubic feet.
Migration	Hydrocarbons are often found in formations other than those in which their organic source was deposited. This movement often covers considerable distances is known as migration
Mm	Million.
Mmbl	Million barrels.
Mmscf/d	Millions of standard cubic feet per day = 28,317 cubic metres per day.
NPV	Net present value.
Operator	One of the companies in a joint venture which has been appointed to carry out all operations on behalf of the other joint venture participant/s.
Permit	A hydrocarbon tenement, lease, licence or block.
Petroleum	A naturally occurring mixture composed predominantly of hydrocarbons in the gaseous, liquid or solid phase.
Play	A geological concept which, if proven correct, could result in the discovery of hydrocarbons.
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.
Prospectivity	referring to the likelihood of finding commercial oil and gas
Prospective resources	Those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.
Recoverable gas	An estimate measure of the total amount of gas which could be brought to the surface from a given reservoir – this is usually in order of 70-80% of the estimated gas in place.
Reserves	Quantities of economically recoverable hydrocarbons estimated to be present within a trap.
Rig	The permanent equipment needed for drilling a well. It includes the onshore and offshore vehicles, mobile platforms or vessel on which the equipment is stored.
Risk	An expression of uncertainty relating to the presence of principal geological factors controlling hydrocarbon accumulation.
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 sense back to the surface from subsurface boundaries. This data is typically used to determine the depths to the tops of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
Spud	To start drilling a new well.
Tcf	Trillion cubic feet of gas i.e. 1,000 billion cubic feet of gas.
Unrisked	Without risk.
USD	United States dollars.

Directors

Mr Robert Hosking – Executive Chairman
Mr Mark Smith – Executive Director
Mr Geoff Atkins – Non-Executive Director
Mr Stephen Power – Non-Executive Director

Company Secretary

Mr Scott Hosking

Audit Committee

Mr Robert Hosking
Mr Hector Peeters
Mr Geoff Atkins

Auditors

Mitchell Wilson & Partners
261 -271 Wattletree Road
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Bankers

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271 Collins Street
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Registered Office and Head Office

Suite 7A, 34 – 38 Lochiel Avenue
Mt Martha VIC 3934
Australia
Telephone: +61 3 5974 1044
Facsimile: +61 3 5974 1644
Email: info@karoongas.com.au
Website: www.karoongas.com.au

Location of Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia
Telephone: +61 3 9415 5000
Website: www.computershare.com

Stock Exchange

The Company is listed on the Australian Stock Exchange.
The Home Exchange is Melbourne, Victoria.

Other Information

Karoon Gas Australia Ltd, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

