Annual Report 2009

KAROON
Gas Australia Ltd

Contents

Karoon Gas Australia Ltd Annual Report

Karoon's market capitalisation has grown rapidly on the back of its exploration success in the Browse Basin, increasing from $600 million as at 30 June 2008 to $2 billion as at 24 July 2009.

Notice of Annual General Meeting

The Annual General Meeting of Karoon Gas Australia Ltd

will be held at:	River Rooms 2 & 3 at the Crown Towers
	Level 1, 8 Whiteman Street
	Southbank VIC 3006
time:	11am (registration from 10am)
date:	Thursday 12 November 2009

Cover: Sedco - 703
Source: Transocean

2008/09 Activities

- A significant gas discovery in the Poseidon-1 exploration well, Browse Basin, Western Australia.
- The Poseidon structure, as currently mapped, has an interpreted gross gas column of over 430m.
- Karoon estimates a contingent resource range from 3 TCF to 15 TCF with a mid-range of 7 TCF.
- A 2300 kilometre 2D seismic acquisition over Block Z-38 within the Tumbes Basin in Peru was completed.
- Cash in bank $228 million as at 30 June 2009.
- July 2009 market capitalisation high of $2 billion.

Exploration work continued in the Browse Basin - Western Australia, the Bonaparte Basin - Northern Australia, the Santos Basin - Brazil, the Tumbes Basin - Peru and the Maranon Basin - Peru.

May 2009 was marked by the discovery of hydrocarbons in Poseidon-1, in the Browse Basin, off the coast of Western Australia.

Karoon/ConocoPhillips joint venture is preparing to acquire a new 3D seismic survey late in the calendar year 2009, over the greater Poseidon feature, in preparation for a multi-well exploration and appraisal drilling program during 2010.

Following the Poseidon-1 success the next phase of exploration in the Browse Basin began with the spudding of the Kontiki-1 well during July 2009 using the semi-submersible drilling rig, Transocean Legend.

Building on its success during the financial year Karoon raised $205 million through share issues to Karoon shareholders and placements to sophisticated and institutional investors. These funds will provide Karoon with sufficient funds for the Company to finance its aggressive exploration efforts in the upcoming 2010 financial year.

Karoon's market capitalisation has grown rapidly on the back of its exploration success in the Browse Basin, increasing from $600 million as at 30 June 2008 to $2 billion as at 24 July 2009.

Karoon, as operator of the AC/P8 permit in the Bonaparte Basin, is planning a CSEM geophysical survey during the last quarter of calendar year 2009. AC/P8 is located in the Bonaparte Basin near Woodside Petroleum's producing Laminaria and Corallina fields. Recent discoveries in the immediate area have renewed interest in the area and further support the decision to acquire this permit.

Karoon was awarded five blocks in the Santos Basin, offshore southern Brazil, during March 2008. 3D seismic data has been purchased and processing is currently underway. Further wide azimuth 3D seismic data is to be acquired in the coming months. Recent oil discoveries in nearby blocks have highlighted the strong potential of Karoon's Santos Basin blocks.

During January 2008, Karoon signed a farm-in agreement with Vietnam American Exploration Company LLC ("VAMEX") allowing Karoon to earn up to 60% of Block Z-38 in the Tumbes Basin, Peru. Karoon has completed over 2300 kilometres of new 2D seismic and reprocessed old seismic data. Karoon, now as operator, has gone to tender for a new 3D seismic program to be acquired late in calendar year 2009 or early 2010. Block Z-38 is close to the existing Corvina and Albacora oil and gas fields.

Chairman's Report

- Karoon's first gas discovery, Poseidon-1, in the Browse Basin.
- Company is in a strong financial position after raising $205 million in new equity during the financial year.
- Market capitalisation grows to $1.5 billion at the end of the 2009 financial year.

It has been an exciting year for Karoon with the Company's first gas discovery from the Poseidon-1 exploration well in the Browse Basin. Poseidon-1 intersected a gross gas column of over 317m which Karoon equates to a contingent resource in the range of 3 TCF at the P90 value and 15 TCF at the P10 value. Karoon believes the discovery has a mid-case or P50 value of 7 TCF of gas.

A multi-well appraisal and exploration drilling program and the acquisition of a 3D seismic survey are planned over the coming year to better define the size, quality and commercial potential of the discovery.

In a financial and commercial sense Karoon has performed strongly during the financial year. The Company started the financial year with a market capitalisation of $600 million and a share price of $4.54. At 30 June 2009, the Karoon/ConocoPhillips joint venture had completed one of the deepest offshore wells in Australia, while making a significant gas discovery. Following this success, Karoon reached a market capitalisation of $2 billion on 24 July 2009.

Since the completion of this well, Karoon has raised $182 million through the issue of new shares to existing shareholders and a range of major international and local institutional and sophisticated investors.

The Poseidon gas discovery was no accident. The discovery came after several years of intensive work, following the acquisition of the Browse Basin permits, WA-315-P, WA-314-P and WA-398-P and the acquisition, processing and interpretation of a number of 2D and 3D seismic surveys.

Poseidon-1 spudded during January 2009 and was the first well in a planned multi-well exploration program. Poseidon-1 intersected three gross gas-bearing sand packages of 10m, 67m and 140m thickness. Due to a mechanical failure in the well, gas samples could not be recovered and a planned production test could not be performed. However, with a full set of petrophysical logs and pressure data, the joint venture had sufficient information to announce a discovery and to immediately plan a full 3D seismic survey over the greater Poseidon feature.

The joint venture has now secured the Transocean Legend, a semi-submersible drilling rig, for four wells with another option to drill an additional four wells. The Poseidon-2 exploration well is planned to be drilled immediately following the Kontiki-1 exploration well, with the new 3D seismic to be acquired over the field in the next six months. This will allow accurate positioning of additional exploration and appraisal wells.

Karoon is encouraged by the August 2009 announcement by the Federal Government of a reported USD50 billion LNG deal between Exxon-Mobil and Petro China for the sale of 2.25 million tonnes per annum over 20 years.

The Browse Basin success is not the only factor behind Karoon's recent performance. The Company's South American offshore hydrocarbon interests are now known to lie in highly prospective areas, in some cases close to recent major oil discoveries.

Shortly after the March 2008 award to Karoon of its Santos Basin blocks in Brazil, the Brazilian state-owned oil company, Petrobras, discovered Tupi, a reported 8 billion boe field, followed by the Carioca discovery, a field reported to have the potential to hold 18 billion boe, both in the Santos Basin.

This financial year the reported 550 mmboe Piracuca field was discovered just five kilometres from Karoon's blocks in a play type similar to that being worked up by Karoon. Twenty five kilometres to the southwest, another two wells drilled by Petrobras have discovered the reported 150 mmbbls of oil in the BM-S-40 Block. Karoon's Santos Basin blocks have the potential to contain prospective resources in the multi-TCF of gas range and/or several hundred mmbbls of oil.

In Karoon's Block Z-38 in Northern Peru, a 2300 kilometre 2D seismic acquisition program was completed during February 2009 and the data is currently being interpreted. Preliminary results are encouraging and completion of this interpretation will aid in the planning and completion of the 3D seismic acquisition planned for later in the 2010 financial year. Existing seismic data will be reprocessed to enhance interpretation work.

Karoon estimates that potential prospective resources in its blocks in Peru could be in the multi-TCF and/or hundreds of mmbbls of oil range.

As detailed on the following pages, the planned new 3D seismic acquisition programmes in both Peru and Brazil are expected to develop numerous leads to drillable prospect level. In both countries, preparations have begun for drilling from early in calendar year 2011.

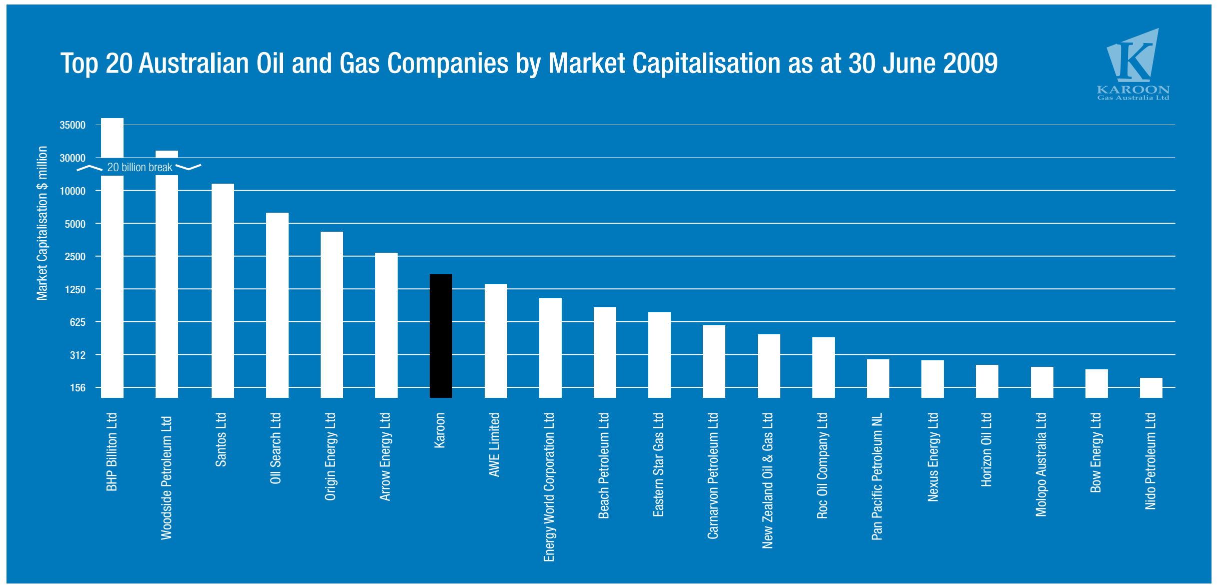
The Karoon Board and management have continued their commitment to maintaining the Company's mission, which is to create wealth for its shareholders through the acquisition of high quality prospective hydrocarbon exploration permits and blocks in the right place, at the right time.

Karoon is now ranked 7th, among the top twenty largest oil and gas stocks listed on the ASX, and has before it a challenging and exciting exploration and appraisal program both within Australia and overseas.

Karoon's exploration and appraisal assets in Australia, Brazil and Peru provide great opportunities and have set the stage for a very exciting 2010 financial year. Karoon believes that the energy sector is still very strong and will continue to grow during the next financial year.

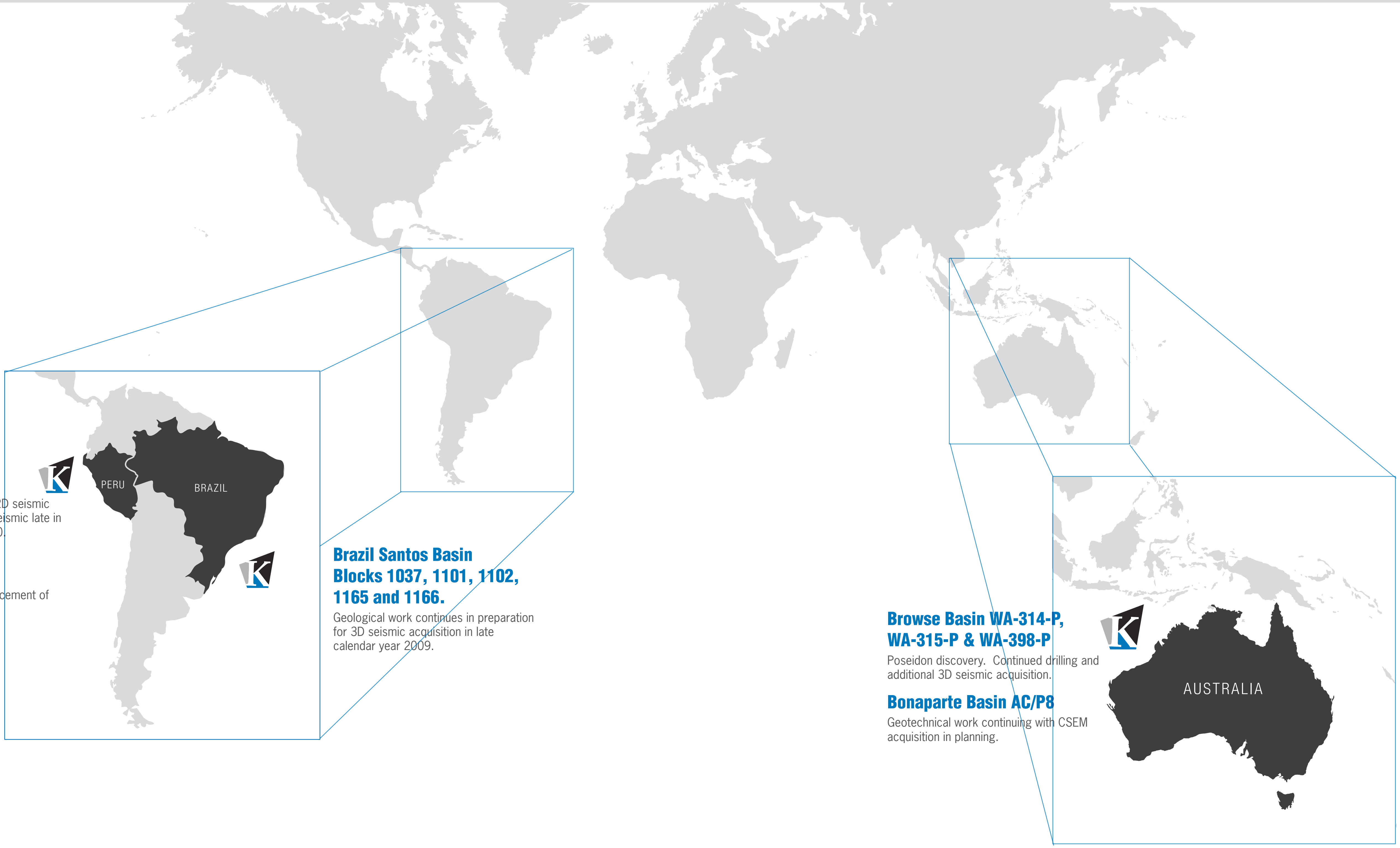
The Board would like to thank Karoon shareholders for their continued support.

Robert Hosking
Executive Chairman



Source: Resource Invest Pty Ltd

2008/09 Operations



Peru Tumbes Basin Block Z-38

Completion of a 2300 kilometre 2D seismic acquisition. Preparation for 3D seismic late in calendar year 2009 or early 2010.

Peru Maranon Basin Block 144

Award of Block 144 and commencement of technical work.

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

Geological work continues in preparation for 3D seismic acquisition in late calendar year 2009.

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

Poseidon discovery. Continued drilling and additional 3D seismic acquisition.

Bonaparte Basin AC/P8

Geotechnical work continuing with CSEM acquisition in planning.

Karoon Gas Australia Ltd Annual Report

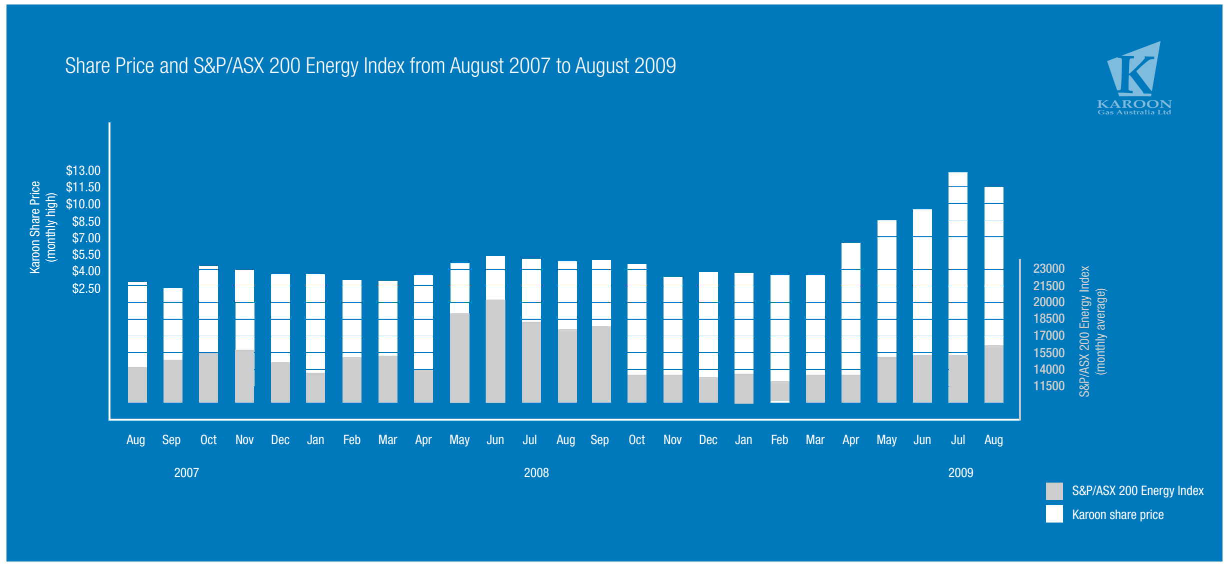
2008/09 Operations
Continued

Financial Snapshot

Karoon ended the financial year with $228 million in cash and cash equivalents after three successful equity capital raising exercises designed to provide the Company with the financial strength and a strong balance sheet to fulfil its extensive exploration and appraisal commitments across Australia and South America.

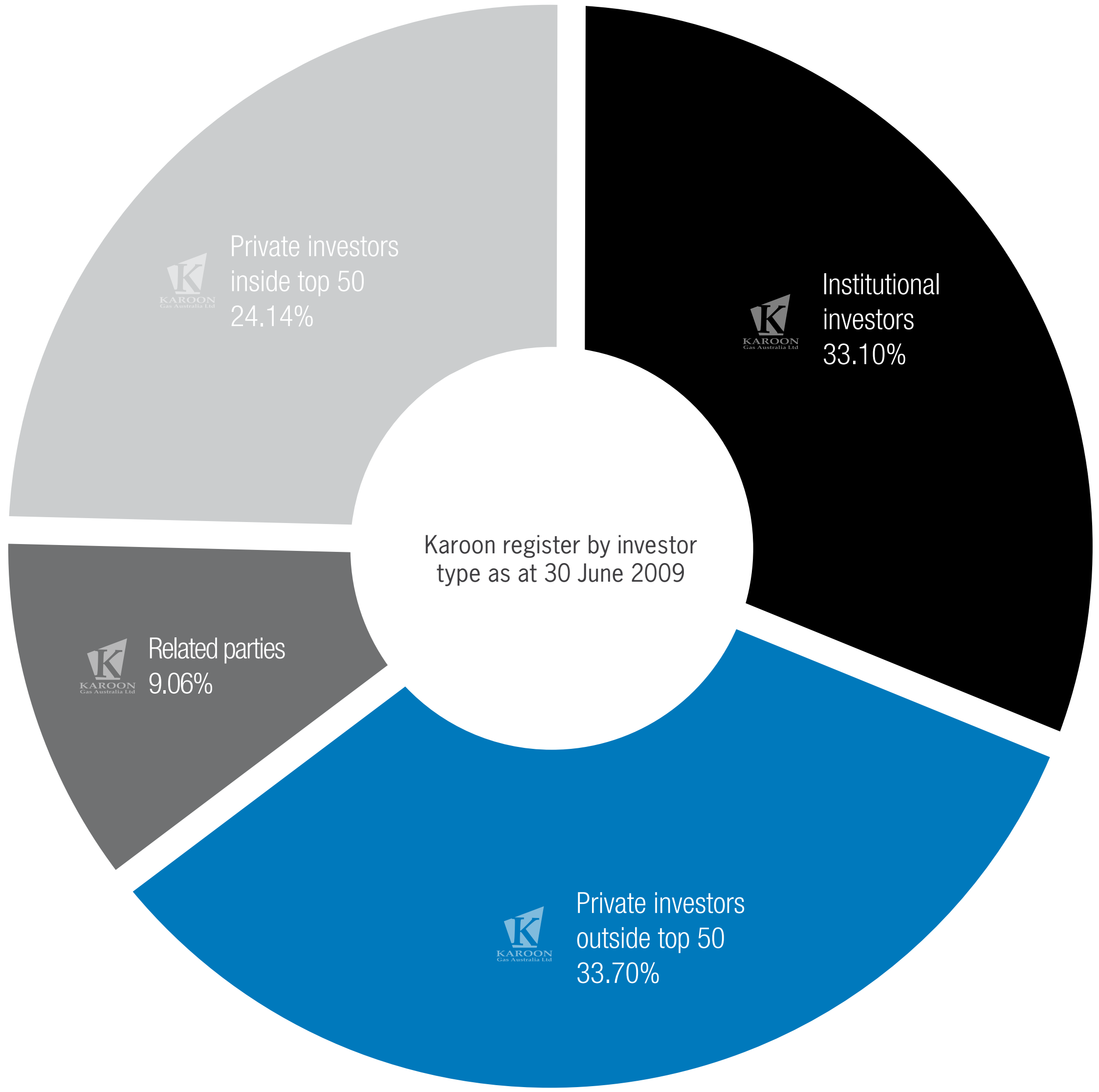
Exploration and evaluation expenditure incurred was $51 million on the back of the Poseidon-1 exploration well, the Peruvian 2D seismic acquisition and geological data purchases in Brazil. Drilling in the Browse Basin will continue to be the highest capital expenditure in the next financial year followed by the Brazilian and Peruvian seismic.

Despite the worst economic crisis in decades, Karoon has continued to grow in every way. The Company's market capitalisation has grown through the financial year from $600 million as at 30 June 2008 to a 24 July 2009 high of $2 billion after the positive results from Poseidon-1 and with the anticipation of more exploration success to come. There was strong demand for Karoon shares in the June 2009 placement to sophisticated and professional investors as well as a 75% shareholder uptake in its July 2009 Share Purchase Plan to shareholders. The success of the three share placements and/or offerings since 30 June 2008 has provided Karoon with a total of $222 million in gross proceeds.



Karoon's share price rose from $4.54 at the beginning of the financial year closing at $8.74 on 30 June 2009, before continuing to a high of $12.10 during July 2009. As a result of its share price performance and capital raising success, Karoon has been admitted to the S&P/ASX200 and at a share price of $12.10 climbed to a position in the Top 100 ASX listed companies in Australia by market capitalisation.

Karoon's investor base has diversified with the addition of several larger international and domestic institutional investors during the financial year that provide it with a robust register. Karoon management has attracted significant overseas investor support through briefing sessions in Asia, Europe and the United States.



2008/09 Operations
Continued

Australia Browse Basin

The Browse Basin is rapidly assuming a major role in the expansion of Australia's LNG industry, originally based around the North West Shelf region.

Karoon secured its Browse Basin permits during 2005. The fields in the area immediately surrounding Karoon's permits contain reported discovered contingent resources of approximately 32 TCF of gas reserves and 800 mmbbls of condensate. These fields are currently being appraised by the Woodside and Inpex joint ventures respectively.

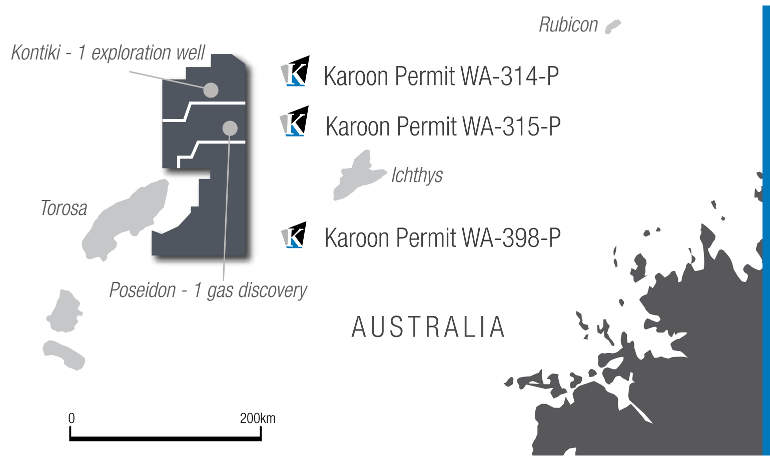
During 2006, Karoon signed a farm-in agreement with ConocoPhillips to explore Karoon's Browse Basin permits. Under the terms of the farm-in agreement, ConocoPhillips will earn a 51% interest in the WA-314-P and WA-315-P permits by funding the drilling and testing (if required) of an exploration well in each permit. ConocoPhillips also has an option to acquire an additional 9% interest in each of these two permits by funding 80% of USD125 million of joint venture expenditure after the initial farm-in has been completed. Karoon also has a 40% interest in permit WA-398-P.

During May 2009 the joint venture completed the Poseidon-1 exploration well, resulting in the discovery of a significant hydrocarbon column. Karoon's estimates show that Poseidon has a contingent resource in the range 3 TCF at the P90 level and 15 TCF at the P10 level. Karoon believes that the discovery has a mid-case or P50 level contingent resource of 7 TCF of gas.

As Karoon has currently mapped, Poseidon-1 is located over 100m below the trap crest of the Poseidon structure with an interpreted gross gas column for the structure of over 430m. A multi-well exploration and appraisal drilling program and 3D seismic survey are planned to better define the size, quality and commercial potential of the discovery.

The seismic acquisitions within WA-398-P, WA-314-P and WA-315-P continue to be interpreted in light of the Poseidon-1 drilling results. Over the Poseidon structure, detailed post-well reinterpretation is currently underway ahead of planned further exploration and appraisal drilling.

The 2009 drilling program began with the drilling of the Poseidon-1 exploration well using the Sedco-703 semi-submersible rig and will be completed using the Transocean Legend semi-submersible drilling rig. The Transocean Legend has now been contracted for four wells, with options for an additional four wells. The drilling program recommenced during July 2009 with the spudding of the Kontiki-1 exploration well.



Location: Browse Basin, close to Torosa, Brecknock and Ichthys gas/condensate fields.

Potential: Poseidon discovery with contingent resource range of 3 TCF at P90, 7 TCF at P50 and 15 TCF at P10.

Three additional prospect/leads with a prospective resource range of 2-7 TCF and 20-400 mmbbls of condensate and LPG each.

Interest: 49% equity WA-314-P and WA-315-P, and 40% equity WA-398-P.

Work Program: 3D seismic acquisition and drilling program to continue throughout calendar year 2010.

Karoon anticipates, in the event of a successful appraisal program, first LNG sales to market by around calendar year 2015. This assumption is based on an unrisked prospective resource case and information that is currently available to the Karoon technical team.

Sedco - 703
Source: Transocean

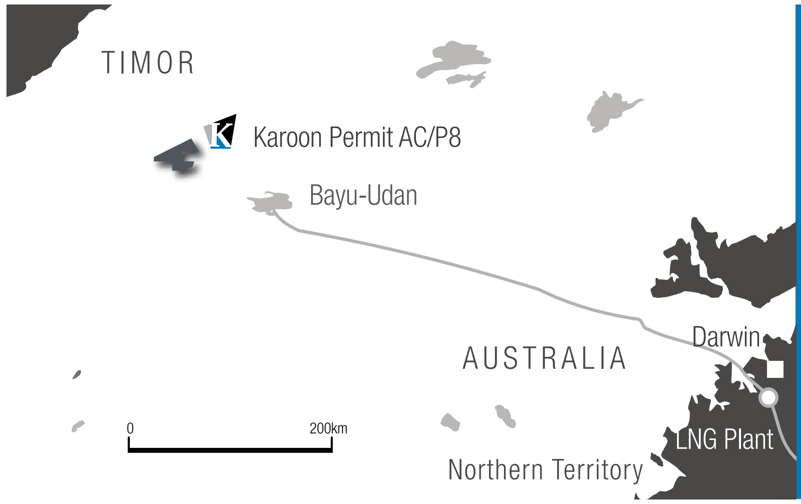
2008/09 Operations
Continued

Australia AC/P8

During December 2007, Karoon formally completed its agreement to acquire a 66.67% equity interest in permit AC/P8 from Woodside Energy Ltd. The area surrounding AC/P8 is one of Australia's proven hydrocarbon precincts, with significant oil and gas discoveries and production from a number of fields in the basin. Discoveries continue to be made, such as the Kitan-1 oil discovery made during 2008 by the ENI led joint venture.

Karoon had taken advantage of the opportunity to enter this basin as it contains a number of leads with prospective oil resource potential of around 20 mmbbls in each. The permit is proximal to existing production facilities, offering the potential for rapid tie-in to existing infrastructure and reducing development costs on success.

Karoon is well advanced with the Year-1 work program progressing with permit and adjacent area mapping and fault seal studies. The CSEM survey planning and implementation program is well advanced and is currently in the approvals stage.



Location: Bonaparte Basin, close to Kitan, Laminaria and Coralina fields.

Potential: One prospect and 5 leads with prospective resource range of around 20 mmbbls of oil per prospect/lead.

Interest: 66.67% equity and operator.

Work Program: CSEM survey, continued geotechnical works to identify targets for drilling.

South American Assets

During 2007, Karoon commenced working to acquire prospective exploration acreage that could match its Australian Browse Basin exploration assets. After lengthy investigation on many regions around the world it became apparent to Karoon that South America provided exceptional geological opportunities with many of the countries adopting new, internationally friendly, investment policies. Karoon began work on assessing the geological setting, drawing from its internal pool of expertise and contracting consultants of high repute in the local petroleum industry in South America.

After the assessment of over thirty South American opportunities, Karoon focused on locations that were highly prospective, in proven basins, with stable governments and good commercial terms. Brazil and Peru are emerging as highly prospective oil and gas precincts. Karoon has established excellent relationships with local stakeholders in both countries ensuring it is a good corporate citizen and remaining on good terms with all stakeholders.

Karoon has commenced work directed at drilling its South American blocks from early in calendar year 2011. An environmental impact assessment process began recently. Well planning is currently underway, including well design, rig identification, service company and key consulting personnel engagement as a precursor to drilling approval during calendar year 2010.

Brazil

During late 2007, Karoon prequalified for bidding for exploration acreage in Brazil. Karoon's bid was successful and the Company was awarded offshore exploration Blocks 1037, 1101, 1102, 1165 and 1166, covering 850 square kilometres within the Santos Basin, during March 2008. The blocks are 220 kilometres off the coast of Santa Catarina state, just south of Rio de Janeiro.

The Santos Basin has long been an oil and gas producing province with infrastructure already in place for producing fields. New technology has allowed exploration to advance into deeper waters in the Santos Basin which has yielded some major discoveries.

Shortly after the March 2008 award to Karoon of its Santos Basin blocks in Brazil, the Brazilian state-owned oil company, Petrobras, discovered Tupi, a reported 8 billion boe field, followed by the Carioca discovery, a field reported to have the potential to hold 18 billion boe, both in the Santos Basin.

These discoveries have dramatically altered the status of the Santos Basin and created major international exploration interest in the area. Other significant producing fields near Karoon's Santos Basin blocks include the Caravela and Coral group oil fields, just 100 kilometres to the south-west and the Merluza gas field, 100 kilometres to the north-west.

In the last financial year, Petrobras has made more discoveries close to Karoon's blocks. These include the BM-S-7 Piracuca oil discovery, 5 kilometres to the northeast of Karoon acreage and reported to contain 550 mmboe. Just 25 kilometres to the south west, in BM-S-40 Block, two oil discoveries reported to total 120 mmboe were made in a shallower Eocene age target. Both of the target levels which produced these recent discoveries are interpreted to be present in Karoon's blocks.

Karoon considers its Brazilian blocks highly prospective and interpretation work to date has indicated the presence of up to six leads, some with the potential to hold hundreds of mmbbls of oil and/or multi-TCF of gas. As work progresses, it is expected that at least three of these leads will mature to be drillable prospects.

Karoon has been conducting extensive geological and geophysical work over the financial year on its Brazilian blocks. This includes reprocessing of the purchased 3D seismic data using a process called Pre Stack Depth Migration ("PSDM"), which allows better imaging (and prospect delineation) beneath and around salt bodies present in permits.

This new processed data will also help to prepare Karoon for a new wide azimuth 3D seismic acquisition program in the 2010 financial year. This seismic acquisition program, over more than 510 square kilometres, will cover all of the defined prospects and any new leads that come out of the previously interpreted data. To the best of Karoon's knowledge, this will be the first application of wide azimuth 3D seismic acquisition in Brazil. This seismic will fulfill the first three year work program commitments and prepare Karoon for a future drilling campaign.

Karoon's economic assessments of its blocks indicate that this area could be rapidly brought into production due to the relatively shallow water depths and proximity to existing oil and gas infrastructure.

Location: Santos Basin, on trend with Piracuca, Merluza and Caravela fields.

Potential: up to six leads with prospective resource range of multi-TCF of gas and/or 100 to 200 mmbbls oil.

Interest: 100% equity and operator.

Work Program: 3D seismic acquisition during the 2010 financial year followed by drilling during the 2011 financial year.

2008/09 Operations
Continued

Peru

Karoon has invested a large amount of time in building a presence in Peru. This effort has allowed it to establish an excellent contact base in the Peruvian Government and oil and gas industry, with good relationships with all stakeholders. This has been demonstrated by Karoon's success in signing a farm-in agreement with VAMEX for an interest in Block Z-38 located in the offshore Tumbes Basin, northern Peru and the award of the large onshore Block 144 in the Maranon Basin.

Block Z-38

During 2008, Karoon signed a farm-in agreement to acquire a 60% interest in Block Z-38 in the Tumbes Basin in northern Peru with VAMEX, a United States independent oil and gas Company active in both South East Asia and South America.

Karoon funded a new 2300 kilometre 2D seismic survey to earn its initial 20% interest in the block and during this calendar year has exercised its option to earn an additional 40% interest in the block and assumption of operator by agreeing to fund the acquisition of new 3D seismic data. The commencement of this new 3D seismic programme is expected to commence in late calendar year 2009 or early 2010.

The area around Block Z-38 contains a number of existing producing fields, as shown in the map below.

New discoveries continue to be made in offshore Peru. During April and June 2008, Petro-Tech Peruana made two new discoveries reported to contain 1.13 billion barrels of oil and 1.2 TCF of gas to the south of Karoon's block.

Karoon has been progressing the analysis of existing and new 2D seismic data over the area. The 2D seismic data shows what Karoon believes are Direct Hydrocarbon Indicators ("DHI"). A DHI occurs where hydrocarbon charged reservoirs are discernable in the seismic record from water bearing reservoirs. When quantified, the DHI's can reduce exploration risk. Preliminary analysis of Block Z-38 has revealed many interesting leads, with two main leads with prospective resource range in the hundreds of mmbbls of oil and/or multi-TCF of gas range.

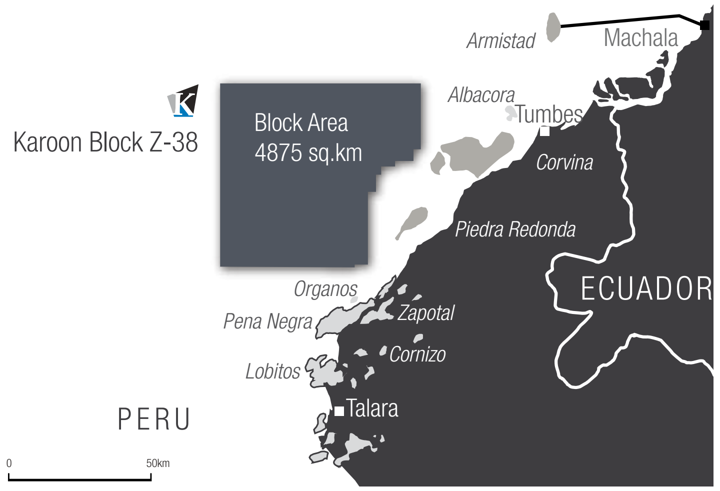
Karoon's economic assessment of its blocks indicate that this area could be rapidly brought into production due to the relatively shallow water depths and proximity to existing oil and gas infrastructure.

Location: Offshore Peru close to existing production fields and infrastructure.

Potential: Two main leads with a prospective resource range in the hundreds of mmbbls of oil and/or multi-TCF of gas range.

Interest: 60% equity and operator.

Work Program: 3D seismic acquisition during the 2010 financial year followed by drilling during the 2011 financial year.



Block 144

This block is located within the onshore Maranon Basin, on the eastern side of the Andes mountain range. The block was awarded during April 2009 and is currently held 100% by Karoon.

The Maranon Basin is a proven petroleum producing basin with many fields in production, mainly to the east of Karoon's block. Karoon's Block 144 is on trend with the 100+mmbbls Situche field to the north. Karoon has a commitment work program involving, initially, the reprocessing of 1000 kilometres of 2D seismic data set. Karoon is undertaking a review of the basin and also monitoring work in surrounding blocks.

To date, Karoon has identified leads with unrisked potential in the 50 to 250 mmbbls range.

Oil rig at sunset

Directors' Report

The Board of Directors presents its Directors' Report on Karoon Gas Australia Ltd (the "Company") and its subsidiaries (the "Group") for the financial year ended 30 June 2009 (the "financial year").

Board of Directors

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

The following persons were Directors of the Company during the financial year and up to the date of this Directors' Report:

Mr Robert M. Hosking

Executive Chairman

Appointed 11 November 2003.

Robert is the founding Director of the Company 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 13 years and was the founding Director/Shareholder of Nexus Energy Limited.

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

Member of the Audit Committee.

Mr Mark A. Smith

Dip. App. Geol, Bsc. (Geology)
Executive Director and Exploration Manager

Appointed 20 November 2003.

Mark has 29 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 had been directly involved with eight 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, farm-ins/ farm-outs, well site operations management and management of onshore and offshore drilling operations.

Member of the Remuneration Committee.

Mr Geoff Atkins

FIE Aust. RMIT Dip. Civ Eng.
Independent Non-Executive Director

Appointed 22 February 2005.

Geoff has over 40 years experience in investigation, planning, design, documentation and project management of numerous significant port, harbour and maritime projects, 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.

Directors' Report
Continued

Mr Stephen Power
B. Juris LLB
Non-Executive Director

Appointed 28 June 2005.

Stephen is a commercial lawyer who has spent over 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.

Company Secretary
Mr Scott Hosking
B. Commerce

Appointed as Company Secretary of the Company on 10 March 2006.

Scott has a significant international financial and commercial management background with expertise in equity capital raisings. He has been involved with several commercial ventures over the past 12 years with experience in international trade, finance and internal corporate management. He had previously held support positions to Company Secretaries of listed companies and was involved in the listing of Karoon Gas Australia Ltd.

Meetings

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

Director	Board meetings		Audit Committee meetings		Remuneration Committee meetings	
	A	B	A	B	A	B
Mr Robert Hosking	9	9	3	3	-	-
Mr Mark Smith	9	9	-	-	1	1
Mr Geoff Atkins	9	9	3	3	1	1
Mr Stephen Power	9	9	-	-	1	1

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

Directors' Interests in Shares and Options

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

Director	Ordinary shares, fully paid	Unlisted other share options
Mr Robert Hosking	12,103,820	1,750,000
Mr Mark Smith	2,555,000	1,500,000
Mr Geoff Atkins	417,500	500,000
Mr Stephen Power	300,000	500,000

Principal Activities

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

Significant Changes in State of Affairs

During the financial year, the Company successfully completed $204,795,308 in new equity capital raisings:

- 14,000,000 ordinary shares were issued to sophisticated and professional investors via a share placement at $3.50 per ordinary share raising gross proceeds of $49,000,000 during August 2008;
- 22,333,934 ordinary shares were issued to sophisticated and professional investors via a share placement at $6.70 per ordinary share raising gross proceeds of $149,637,358 during June 2009; and
- 2,690,000 unlisted options were exercised that raised gross proceeds of $6,157,950.

Directors' Report
Continued

Results

The consolidated result of the Group for the financial year was a profit after tax of $4,452,766 (2008: loss of $6,055,339).

Financial Position

The net assets of the Group increased by $203,916,783 from 30 June 2008 to $334,658,839 during the financial year. This net increase is largely due to the following factor:

- Gross proceeds of $204,795,308 raised from the issue of fully paid ordinary shares in the Company; partly offset by transaction costs of $8,810,911.

The Group's working capital, being current assets less current liabilities, has improved from $69,054,936 as at 30 June 2008 to $223,326,426 as at 30 June 2009.

Review of Operations

Browse Basin

Karoon and its joint venture partner ConocoPhillips began a multi - well exploration drilling program during January 2009. Drilling targets have been identified and will be drilled in WA-314-P, WA-315-P and WA-398-P over the next financial year. Preliminary results from the first well show three gross gas - bearing sand packages of 10m, 67m, and 140m were penetrated over the Plover Formation. Based on mud logging and LWD petrophysical data, the three gross sand packages were interpreted to contain hydrocarbons. Additional wells will be required to appraise the size and extent of the discovery.

Bonaparte Basin

During the financial year, Karoon as operator of AC/P8 progressed with the Year-1 work program involving seismic mapping, fault seal analysis and a CSEM field survey. The CSEM field survey planning and implementation program is in the approvals stage.

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

After a lengthy review process, exploration licence EL4537 was relinquished on 12 March 2009.

Brazil

During the financial year, work to fulfil work program commitments began with the PSDM seismic reprocessing and continued geological data purchases and interpretation. A 570 square kilometre, wide azimuth 3D seismic is expected to commence in late calendar 2009 or early 2010. Geophysical mapping, gravity modelling and geological studies of existing data sets in the permits and surrounding areas are ongoing.

Peru

Block Z-38

The block work program is underway with the 2D acquisition and processing now complete with interpretation ongoing. Existing 2D seismic has also been reprocessed to generate a consistent database for interpretation. A 1600 square kilometre 3D seismic program has been tendered with acquisition expected to commence in late calendar 2009 or early 2010. Other regional and permit data gathering exercises are being carried out in preparation for the full geological and geophysical interpretation of the acreage.

Block 144

A signing ceremony was conducted for Block 144 during April 2009. Geotechnical work on this block is continuing, including the reprocessing of 1000 km of 2D seismic.

New Ventures

Karoon conducted due diligence on a number of exploration new ventures during the financial year and was continuing with investigations as at 30 June 2009. Any projects that are taken up will be announced to the ASX at the appropriate time.

Further information on the operations of the Group is set out in the 2008/2009 Operations on pages 6 to 15 of this Annual Report.

Future Developments, Business Strategies and Prospects

Other than the matters included in this Directors' Report or elsewhere in the Annual Report, future developments, business strategies and prospects of the Company and the expected results of those operations have not been disclosed as the Directors believe that the inclusion would most likely result in unreasonable prejudice to the Company and/or the Group.

Dividends

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

Options

As at the date of this Directors' Report, the details of unissued ordinary shares of the Company under option were as follows:

Type of option	Grant date	Date of expiry	Exercise price	Number under option
ESOP options	27 November 2007	31 October 2010	$2.95	285,000
Other share options	27 November 2007	31 October 2010	$2.95	500,000
Other share options	22 January 2008	31 October 2010	$2.95	500,000
Other share options	1 August 2008	30 April 2011	$4.50	750,000
Other share options	1 August 2008	30 April 2011	$5.00	750,000
ESOP options	3 November 2008	30 April 2010	$4.00	440,000
ESOP options	3 November 2008	30 April 2011	$5.00	905,000
Other share options	27 November 2008	30 April 2011	$4.00	250,000
Other share options	27 November 2008	30 April 2011	$4.50	750,000
Other share options	27 November 2008	30 April 2011	$5.00	750,000
ESOP options	28 November 2008	30 April 2010	$4.00	100,000
ESOP options	28 November 2008	30 April 2011	$5.00	100,000
ESOP options	29 June 2009	30 October 2011	$6.85	230,000
				6,310,000

2,200,000 fully paid ordinary shares have been issued since 30 June 2009 as a result of the exercise of Employee Share Option Plan ("ESOP") options and other share options since that date.

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

Directors' Report

Continued

Information relating to the Company's ESOP and other share options, including details of options granted, exercised, forfeited and expired during the financial year and options outstanding at the end of the financial year, is set out in Note 29.

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

During the financial year, the following ordinary shares of the Company were issued on the exercise of options granted. No amounts are unpaid on any of the ordinary shares issued.

Type of option	Grant date	Exercise price	Number of ordinary shares issued
Other share options	18 November 2005	$2.00	750,000
Other share options	18 November 2005	$2.35	1,500,000
ESOP options	31 October 2006	$2.03	265,000
ESOP options	27 November 2007	$2.95	100,000
ESOP options	3 November 2008	$4.00	75,000
			2,690,000

Indemnification of Directors and Officers

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

Proceedings on Behalf of the Company

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

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

Corporate Governance

In recognising the need for the highest standards of corporate governance and accountability, the Directors support the principles of good corporate governance. The Company's Statement of Corporate Governance Principles is set out on pages 91 to 97 of this Annual Report.

Environmental Regulation

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

- 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);
- The Brazilian Federal Constitution (Brazil);
- The Brazilian Petroleum Law (Law No. 9,478, of August 6, 1997) (Brazil);
- The Brazilian Civil Code (Law No. 10,406, of January 19, 2002) (Brazil);
- The Brazilian Corporations Law (Law No. 6,404, of December 15, 1976) (Brazil);
- The Brazilian Bid Law (Law No. 8,666, of June 21, 1993) (Brazil);
- The Brazilian Federal Environmental Law (Law No. 6,938, of August 31, 1981) (Brazil);
- National – Ministry of Energy and Mines – Supreme Decree Nº 042-2005-EM – Unique Comprised Text of the Organic Law of Hydrocarbons (which text of the law was approved by Law Nº 26221) (Peru);
- National- Congress of the Republic – Law Nº 28611 – General Environmental Law (Peru);
- National – Ministry of Energy and Mines – Supreme Decree Nº 015-2006-EM – Regulations for Environmental Protection in Hydrocarbon Activities (Peru);
- National – Ministry of Energy and Mines – Supreme Decree Nº 043-2007-EM – Safety Rules for Hydrocarbon Activities (Peru);
- Supreme Decree – National – Ministry of Energy and Mines – Supreme Decree Nº 032-2004-EM Rules of Hydrocarbon Exploration and Exploitation Activities (Peru); and
- National – Ministry of Energy and Mines – Supreme Decree Nº 052-93-EM – Safety Rules for Hydrocarbon Storage (Peru).

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

Greenhouse Gas and Energy Data Reporting Requirements

The introduction of the new Carbon Pollution Reduction Scheme ("CPRS") for the reporting and audit of greenhouse gas emissions, energy consumption and energy production has been delayed by the Government until 1 July 2010. However, greenhouse gas emissions, energy consumption and energy production reporting obligations under the National Greenhouse and Energy Reporting Act 2007 ("NGER Act") still apply.

Karoon was not required to register and report greenhouse gas emissions, energy consumption and energy production under the NGER Act for this financial year as Karoon did not meet any of the thresholds from activities conducted within the specified Australian territory between 1 July 2008 and 30 June 2009.

Similarly, Karoon's current exploration, as the operator of AC/P8, is not expected to result in Karoon meeting one of the thresholds under the NGER Act for the next reporting period and, therefore, it is not expected that Karoon will be required to register and report under the NGER Act for the next reporting period.

However, Karoon has begun the process of assessing a cost effective, reliable and environmentally efficient method of dealing with its future greenhouse gas emissions, energy consumption and energy production reporting obligations. Several companies have been engaged in the process and work will continue over the next financial year.

Directors' Report
Continued

Non-Audit Services

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

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

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

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

b. None of the services undermine the general principles relating to external auditor independence as set out in APES110 'Code of Ethics for Professional Accountants', including reviewing or auditing the external auditor's own work, acting in a management or a decision making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and reward.

External Auditor's Independence Declaration

A copy of the external auditor's independence declaration for the financial year, as required under Section 307C of the Corporations Act 2001, is set out on page 35.

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

Matters Arising Subsequent to the End of the Financial Year

Other than the matters disclosed in Note 32 of the financial report, there has not been any matter or circumstance which has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

a. The Group's operations in future financial years;

b. The results of those operations in future financial years; or

c. The Group's state of affairs in future financial years.

Remuneration Report (Audited)

The Remuneration Report forms part of this Directors' Report. The information provided in the Remuneration Report has been audited by the external auditor as required by Section 308(3)(c) of the Corporations Law 2001.

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

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

B. Details of remuneration

C. Service agreements

D. Share-based remuneration

E. Additional information

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

A. Remuneration policy

The Board of Directors annually reviews remuneration of its Directors and employees aided by the Remuneration Committee. Remuneration includes base salaries and equity-based bonuses and incentive schemes.

The remuneration structure is based on a number of factors including length of service, particular experience, responsibilities of the individual and the overall performance of the Company. Remuneration involves a balance between fixed and incentive pay, reflecting short and long-term performance objectives appropriate to the Company's circumstances and objectives. A proportion of executive remuneration is structured in a manner designed to align the success of Karoon with the employees who contributed. Notwithstanding that the Company is still in the exploration and evaluation phase of activities and is still incurring operating losses (excluding net foreign currency gains), the Company believes this policy was effective in increasing shareholder wealth over the past four years through share price appreciation.

This is done by considering the following remuneration components:

- Fixed base remuneration; and
- Equity-based remuneration within limits set by the Board of Directors.

Options are issued under the ESOP and via other share options. Non-Executive Directors do not receive any performance-related remuneration.

The Directors and other key management personnel receive a superannuation contribution as required by the Federal Government, which is currently 9% p.a., and do not receive any other retirement benefits. Individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation. It is at their discretion to seek individual financial advice with regards to each of their own personal superannuation funds.

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

The Board of Directors has established a Remuneration Committee which provides overview and recommendations on recruitment, retention and termination policies and procedures for executives and the remuneration framework for Directors. The Corporate Governance Statement provides further information on the role of this committee.

Non-Executive Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $200,000 p.a., including superannuation contribution, and was approved by shareholders at the Annual General Meeting held on 3 November 2006.

Directors' Report

Continued

Remuneration Report (Audited)(continued)

B. Details of remuneration

This section of the Remuneration Report provides specific disclosures in relation to remuneration for the Directors and other key management personnel listed below. In addition to the Directors of the Company, key management personnel are identified in accordance with AASB 124 'Related Party Disclosures' as those who had authority for planning, directing and controlling the Group and/or Company activities during the financial year.

The remuneration for each Director and other key management personnel during the financial year and previous financial year was as follows:

Ended 30 June 2009	**Short-term benefits**		**Post-employment benefits**	**Long-term benefits**	**Share-based payments expense**	
Name	Cash salary and fees $	Non-monetary benefits $	Superannuation contributions $	Long service leave provision $	Fair value of options $	Total remuneration $
Executive Directors						
Mr Robert Hosking	403,030	7,300	-	-	1,374,393	1,784,723
Mr Mark Smith	366,972	10,509	33,027	16,454	1,810,722	2,237,684
Non-Executive Directors						
Mr Geoff Atkins	54,800	-	3,600	-	-	58,400
Mr Stephen Power	40,000	-	3,600	-	-	43,600
Total Directors' remuneration	864,802	17,809	40,227	16,454	3,185,115	4,124,407
Other key management personnel						
Mr Scott Hosking	202,447	3,934	18,220	22,763	212,000	459,364
Mr Lino Barro	252,294	-	22,706	11,737	77,710	364,447
Mr David Ormerod	240,826	-	21,674	8,862	155,420	426,782
Mr Jorg Bein	228,593	-	20,573	9,715	77,710	336,591
Total Key Management Personnel remuneration	1,788,962	21,743	123,400	69,531	3,707,955	5,711,591

Ended 30 June 2008	**Short-term benefits**		**Post-employment benefits**	**Long-term benefits**	**Share-based payments expense**	
Name	Cash salary and fees $	Non-monetary benefits $	Superannuation contributions $	Long service leave provision $	Fair value of options $	Total remuneration $
Executive Directors						
Mr Robert Hosking	262,500	-	-	-	-	262,500
Mr Mark Smith	240,826	-	21,674	-	-	262,500
Non-Executive Directors						
Mr Geoff Atkins	40,000	-	3,600	-	270,000	313,600
Mr Stephen Power	40,000	-	3,600	-	270,000	313,600
Total Directors' remuneration	583,326	-	28,874	-	540,000	1,152,200
Other key management personnel						
Mr Scott Hosking	163,793	-	14,741	-	72,000	250,534
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 Key Management Personnel remuneration	1,427,653	-	105,472	-	774,000	2,307,125

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

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

The options have been granted subject to continued employment with the Company but are not subject to the individual meeting predetermined performance criteria (for example, profitability and sales targets), given the Company is still in the exploration and evaluation phase of activities.

Options have vesting periods of zero to 18 months dependent upon the tranche of options being granted and the time elapsed between formal approval and issue of options.

The Board does not currently have in place a policy in relation to an individual limiting his or her exposure to risk in relation to securities (including options) but is currently in the process of formulating such a policy.

Fair values of options are assessed under the Black-Scholes option pricing model. The Black-Scholes option pricing model takes into account the exercise price, the term of the option, the vesting 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.

Further information on options is set out in Note 29 of the financial report.

Directors' Report

Continued

Remuneration Report (Audited)(continued)

C. Service agreements

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

The contracts for service between the Company and Executive Directors and other key management personnel are on a continuing basis. The terms of which are not expected to change in the immediate future.

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

Name	Term	Expiry	Notice/ termination period	Termination payments	Related entity	Share option eligible	Base salary (including superannuation) amount
Executive Directors							
Mr Robert Hosking	3 years	1 May 2011	In writing 6 months	--	Ropat Nominees Pty Ltd Hosking Superannuation Fund	Yes	$400,000
Mr Mark Smith	3 years	1 May 2011	In writing 3 months	Redundancy: 1 year; Change of control: 1 year	IERS (Australia) Pty Ltd Bonnie Doon Superannuation Fund	Yes	$400,000
Other key management personnel							
Mr Scott Hosking	Ongoing	Ongoing	In writing 3 months	Redundancy: 1 year; Change of control: 1 year	-	Yes	$250,000
Mr David Ormerod	Ongoing	Ongoing	In writing 3 months	Redundancy: 3 months; Change of control: 1 year	-	Yes	$265,000
Mr Lino Barro	Ongoing	Ongoing	In writing 3 months	Redundancy: 1 year; Change of control: 1 year	Barro Superannuation Fund	Yes	$277,000
Mr Jorg Bein	Ongoing	Ongoing	In writing 3 months	Redundancy: 1 year; Change of control: 1 year	The J. Bein Superannuation Fund	Yes	$251,000

D. Share-based remuneration

The Company has one ESOP, which was approved by shareholders at the 2006 Annual General Meeting.

The Company also granted other share options during the financial year to Directors. Options issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

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. 5,500,000 options were issued during the financial year to Key Management Personnel.

The terms and conditions of each grant of options affecting remuneration in the previous, current or future financial years are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Fair value per option at grant date	% vested
ESOP options					
30 October 2007	31 October 2007	31 October 2008	$2.03	$0.18	100
27 November 2007	31 October 2008	31 October 2010	$2.95	$0.54	100
20 August 2008	20 August 2008	30 April 2010	$4.00	$0.51	100
3 November 2008	30 April 2009	30 April 2010	$4.00	$0.50	100
3 November 2008	30 April 2010	30 April 2011	$5.00	$0.63	-
28 November 2008	28 November 2008	30 April 2010	$4.00	$1.04	100
28 November 2008	28 November 2008	30 April 2010	$5.00	$1.08	100
29 June 2009	30 June 2010	30 October 2011	$6.85	$4.33	-
Other share options					
27 November 2007	27 November 2007	31 October 2010	$2.95	$0.54	100
22 January 2008	27 November 2007	31 October 2010	$2.95	$0.54	100
1 August 2008	1 August 2008	30 April 2011	$4.00	$1.06	100
1 August 2008	1 May 2009	30 April 2011	$4.50	$0.94	100
1 August 2008	1 May 2010	30 April 2011	$5.00	$0.79	-
27 November 2008	27 November 2008	30 April 2011	$4.00	$0.81	100
27 November 2008	1 May 2009	30 April 2011	$4.50	$0.74	100
27 November 2008	1 May 2010	30 April 2011	$5.00	$0.69	-

Options are granted for no consideration.

ESOP options expire two years after they are granted. The exercise price of ESOP options, issued during the financial year, was based on the volume weighted average price at which the Company's ordinary shares traded on ASX during the two months of trading days before the ESOP options were granted.

The exercise price of other share options is based on the weighted average price at which the Company's ordinary shares traded on ASX during the six months of trading days before the options were granted.

If there is a change of control in the Company, all unexercised options become immediately exercisable.

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

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

Further information on options is set out in Note 29 of the financial report

Directors' Report

Continued

Remuneration Report (Audited)(continued)

Number of options provided as remuneration during the financial year

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

Name	Number of options granted during financial year	Number of options vested during financial year
Executive Directors		
Mr Robert Hosking	2,250,000	1,500,000
Mr Mark Smith	2,250,000	1,500,000
Non-Executive Directors		
Mr Geoff Atkins	-	-
Mr Stephen Power	-	-
Other key management personnel		
Mr Scott Hosking	200,000	200,000
Mr Lino Barro	200,000	100,000
Mr David Ormerod	400,000	200,000
Mr Jorg Bein	200,000	100,000
Total Key Management Personnel	5,500,000	3,600,000

Shares issued on the exercise of options provided as remuneration

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

Name	Grant date of option	Date of exercise of options	Number of ordinary shares issued	Amount paid per ordinary share
Executive Directors				
Mr Robert Hosking	18 November 2005	19 September 2008	375,000	$2.00
	18 November 2005	25 September 2008	750,000	$2.35
Mr Mark Smith	18 November 2005	19 September 2008	375,000	$2.00
	18 November 2005	25 September 2008	750,000	$2.35
Non-Executive Directors				
Mr Geoff Atkins	-	-	-	-
Mr Stephen Power	-	-	-	-
Other key management personnel				
Mr Scott Hosking	31 October 2006	31 October 2008	100,000	$2.03
Mr Lino Barro	-	-	-	-
Mr David Ormerod	31 October 2006	21 July 2008	20,000	$2.03
	31 October 2006	19 August 2008	30,000	$2.03
	31 October 2007	1 June 2009	100,000	$2.95
	3 November 2008	29 June 2009	50,000	$4.00
Mr Jorg Bein	-	-	-	-

No amounts are unpaid on any ordinary shares issued on the exercise of the above options.

E. Additional information

Details of remuneration - options

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

Name	Financial year end granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
Mr Robert Hosking	2009	66.67	-	30 June 2011	-	305,607
Mr Mark Smith	2009	66.67	-	30 June 2011	-	281,778
Mr Scott Hosking	2009	100.00	-	-	-	-
Mr Lino Barro	2009	50.00	-	30 June 2011	-	35,290
Mr David Ormerod	2009	50.00	-	30 June 2011	-	70,580
Mr Jorg Bein	2009	50.00	-	30 June 2011	-	35,290

No options will vest if the service criteria conditions are not met, therefore the minimum value of the option yet to vest is $Nil.

The maximum value of options yet to vest was determined as the amount of the grant date fair value of the options that is yet to be expensed.

Share-based remuneration – options

Further details relating to options are set out below:

	A	B	C	D
Name	Remuneration consisting of options %	Value at grant date $	Value at exercise date $	Value at lapse date $
Mr Robert Hosking	77.0	1,680,000	2,066,250	-
Mr Mark Smith	80.9	2,092,500	2,066,250	-
Mr Geoff Atkins	-	-	-	-
Mr Stephen Power	-	-	-	-
Mr Scott Hosking	46.2	212,000	13,000	-
Mr Lino Barro	21.3	113,000	-	-
Mr David Ormerod	36.4	226,000	713,900	-
Mr Jorg Bein	23.1	113,000	-	-

A = *The percentage of the value of remuneration consisting of options, based on the value at options expensed during the financial year.*

B = *The value at grant date calculated in accordance with AASB 2 of options granted during the financial year as part of remuneration.*

C = *The value at exercise date of options that were granted as part of remuneration and were exercised during the financial year, being the intrinsic value of the options at that date.*

D = *The value at lapse date of options that were granted as part of remuneration and that lapsed during the financial year because a vesting condition was not satisfied. The value was determined at the time of lapsing, but assumed the condition was satisfied.*

Directors' Report

Continued

Loans to Directors and other key management personnel

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

Other transactions with Directors and other key management personnel

Refer to Note 31 for other transactions with Directors and other key management personnel during the financial year.

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

On behalf of the Directors:

Mr Robert Hosking
Executive Chairman
Dated Melbourne, 16 September 2009

The Karoon Board and management have continued their commitment to maintaining the Company's mission which is to create wealth for its shareholders through the acquisition of high quality prospective hydrocarbon exploration permits in the right place, at the right time.

Auditor's Independence Declaration

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website: www.pwc.com.au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Auditor's Independence Declaration

As lead auditor for the audit of Karoon Gas Australia Ltd for the financial year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
16 September 2009

Liability limited by a scheme approved under Professional Standards Legislation

Financial Report

For the Financial Year Ended 30 June 2009

KAROON
Gas Australia Ltd

Income Statements

Financial Year Ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Revenue	4	4,868,541	5,320,930	3,748,793	4,976,510
Other income	4	9,787,639	22,215	11,562,228	22,215
Computer support		(367,657)	(377,115)	(367,539)	(365,020)
Consulting fees		(929,587)	(382,219)	(816,365)	(291,148)
Corporate promotion and annual report		(70,853)	(97,917)	(70,853)	(126,713)
Depreciation and amortisation expense	5	(396,488)	(345,152)	(381,474)	(337,122)
Employee benefits expense (net)		(5,431,983)	(2,851,301)	(5,431,982)	(1,728,629)
Exploration and evaluation expenditure expensed or written off	5	(1,075,643)	(1,175,837)	-	-
Finance costs	5	(218,173)	(131,191)	(67,427)	(5,172)
Impairment losses	5	-	(149,295)	(19,555,612)	(149,295)
Legal fees		(164,223)	(118,191)	(63,687)	(94,942)
Net foreign currency losses		-	(4,456,827)	-	(4,058,676)
Property costs		(237,873)	(258,883)	(189,163)	(204,594)
Share registry and listing fees		(334,559)	(149,982)	(307,967)	(148,281)
Travel and accommodation expenses		(331,606)	(256,230)	(319,247)	(246,055)
Other expenses		(644,769)	(648,344)	(521,368)	(419,602)
Profit (loss) before income tax		4,452,766	(6,055,339)	(12,781,663)	(3,176,524)
Income tax income/(expense)	6	-	-	-	-
Profit (Loss) Attributable to Members of Company		4,452,766	(6,055,339)	(12,781,663)	(3,176,524)
Basic profit (loss) per ordinary share	9	0.0302	(0.0485)		
Diluted profit (loss) per ordinary share	9	0.0300	(0.0485)		

The accompanying notes form an integral part of these financial statements.

Balance Sheets

As at 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current Assets					
Cash and cash equivalents	10	228,238,280	77,423,254	219,700,959	72,135,705
Trade and other receivables	11	1,785,266	25,436	718,334	17,663
Inventories	12	1,448,793	-	-	-
Security deposits	13	3,172,610	-	3,172,610	-
Other assets	14	299,002	218,263	299,002	173,817
Total current assets		234,943,951	77,666,953	223,890,905	72,327,185
Non-Current Assets					
Trade and other receivables	11	-	-	114,717,760	76,140,169
Property, plant and equipment	15	618,562	333,859	587,223	315,767
Intangible assets	16	240,689	164,390	240,689	164,390
Exploration and evaluation expenditure carried forward	17	100,235,662	51,597,114	-	-
Security deposits	13	10,331,455	9,598,384	13,824	52,967
Other financial assets	18	-	-	1,005	1,005
Total non-current assets		111,426,368	61,693,747	115,560,501	76,674,298
Total assets		346,370,319	139,360,700	339,451,406	149,001,483
Current Liabilities					
Trade and other payables	19	7,105,297	5,987,017	1,269,559	310,915
Funds held in escrow	20	4,512,228	2,625,000	4,512,228	2,625,000
Total current liabilities		11,617,525	8,612,017	5,781,787	2,935,915
Non-Current Liabilities					
Long-term provisions	21	93,955	6,627	93,955	6,627
Total non-current liabilities		93,955	6,627	93,955	6,627
Total liabilities		11,711,480	8,618,644	5,875,742	2,942,542
Net Assets		334,658,839	130,742,056	333,575,664	146,058,941
Equity					
Issued capital	22	347,331,271	151,335,352	347,331,271	151,346,874
Accumulated losses		(19,816,601)	(24,269,367)	(21,745,667)	(8,964,004)
Share-based payments reserve		7,990,060	3,676,071	7,990,060	3,676,071
Foreign currency translation reserve		(845,891)	-	-	-
Total Equity		334,658,839	130,742,056	333,575,664	146,058,941

The accompanying notes form an integral part of these financial statements.

Statements of Changes in Equity

Financial Year Ended 30 June 2009

					Consolidated
	Issued capital $	Accumulated losses $	Share-based payments reserve $	Foreign currency translation reserve $	Total Equity $
Balance as at 1 July 2007	96,727,732	(18,214,028)	2,661,771	-	81,175,475
Loss attributable to members of Company	-	(6,055,339)	-	-	(6,055,339)
Total recognised income and expense	-	(6,055,339)	-	-	(6,055,339)
Ordinary shares issued	56,576,000	-	-	-	56,576,000
Transaction costs arising on ordinary shares issued	(1,968,380)	-	-	-	(1,968,380)
Share-based payments expense	-	-	1,014,300	-	1,014,300
Balance as at 30 June 2008	151,335,352	(24,269,367)	3,676,071	-	130,742,056
Profit attributable to members of Company	-	4,452,766	-	-	4,452,766
Net foreign currency difference on translation of financial statements of foreign subsidiaries	-	-	-	(845,891)	(845,891)
Total recognised income and expense	-	4,452,766	-	(845,891)	3,606,875
Ordinary shares issued	204,795,308	-	-	-	204,795,308
Transaction costs arising on ordinary shares issued	(8,799,389)	-	-	-	(8,799,389)
Share-based payments expense	-	-	4,313,989	-	4,313,989
Balance as at 30 June 2009	347,331,271	(19,816,601)	7,990,060	(845,891)	334,658,839

				Company
	Issued capital $	Accumulated losses $	Share-based payments reserve $	Total Equity $
Balance as at 1 July 2007	96,727,732	(5,787,480)	2,661,771	93,602,023
Loss attributable to members of Company	-	(3,176,524)	-	(3,176,524)
Total recognised income and expense	-	(3,176,524)	-	(3,176,524)
Ordinary shares issued	56,576,000	-	-	56,576,000
Transaction costs arising on ordinary shares issued	(1,956,858)	-	-	(1,956,858)
Share-based payments expense	-	-	1,014,300	1,014,300
Balance as at 30 June 2008	151,346,874	(8,964,004)	3,676,071	146,058,941
Loss attributable to members of Company	-	(12,781,663)	-	(12,781,663)
Total recognised income and expense	-	(12,781,663)	-	(12,781,663)
Ordinary shares issued	204,795,308	-	-	204,795,308
Transaction costs arising on ordinary shares issued	(8,810,911)	-	-	(8,810,911)
Share-based payments expense	-	-	4,313,989	4,313,989
Balance as at 30 June 2009	347,331,271	(21,745,667)	7,990,060	333,575,664

The accompanying notes form an integral part of these financial statements.

Cash Flow Statements

Financial Year Ended 30 June 2009

		Consolidated		Company	
	Note	2009 $	2008 $	2009 $	2008 $
Cash Flows From Operating Activities					
Receipts from customers (inclusive of GST refunds)		526,211	782,682	380,936	558,466
Payments to suppliers and employees (inclusive of GST)		(5,525,364)	(6,168,228)	(4,203,049)	(4,596,937)
Interest received		4,627,077	5,320,930	3,507,736	4,976,510
Interest and other costs of finance paid		(218,173)	(131,191)	(67,427)	(5,172)
Net cash flows (used in) provided by operating activities	28(a)	(590,249)	(195,807)	(381,804)	932,867
Cash Flows From Investing Activities					
Purchase of plant and equipment		(562,020)	(153,199)	(533,758)	(127,077)
Purchase of computer software		(195,470)	(106,546)	(195,470)	(106,546)
Payments for exploration and evaluation expenditure		(52,086,188)	(41,790,850)	-	-
Payment of security deposits		(3,905,681)	(9,517,741)	(3,133,467)	(3,015)
Net cash flows (used in) provided by investing activities		(56,749,359)	(51,568,336)	(3,862,695)	(236,638)
Cash Flows From Financing Activities					
Funds held in escrow	20	4,512,228	2,625,000	4,512,228	2,625,000
Proceeds from issue of ordinary shares		202,170,307	56,576,000	202,170,308	56,576,000
Payments for transaction costs arising on ordinary shares issued		(8,298,410)	(1,968,380)	(8,298,409)	(1,956,858)
Provision of funds to subsidiaries	31	-	-	(58,133,203)	(58,084,903)
Net cash flows provided by (used in) financing activities		198,384,125	57,232,620	140,250,924	(840,761)
Net increase (decrease) in cash held		141,044,517	5,468,477	136,006,425	(144,532)
Cash at beginning of financial year		77,423,254	76,411,604	72,135,705	76,338,914
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		9,770,509	(4,456,827)	11,558,829	(4,058,677)
Cash at End of Financial Year	10	228,238,280	77,423,254	219,700,959	72,135,705

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements
Financial Year Ended 30 June 2009

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes separate financial statements and notes for Karoon Gas Australia Ltd (the "Company") as an individual entity and the consolidated financial statements and notes consisting of Karoon Gas Australia Ltd and its subsidiaries (the "Group").

Karoon Gas Australia Ltd is a public company limited by shares and is listed on ASX. It is incorporated and domiciled in Australia. The registered office of Karoon Gas Australia Ltd and the principal place of business is Office 7A, 34-38 Lochiel Avenue, Mount Martha, VIC, 3934. The technical office is located at 406 Collins Street, Melbourne, VIC, 3000.

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

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

Basis of Preparation

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. Compliance with Australian Accounting Standards ensures that the financial report of the Company and the Group complies with International Financial Reporting Standards.

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

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

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

i. Farm-out its interests in exploration permits/blocks in order to fund future exploration expenditure commitments;

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

iii. Manage its existing cash and future cash flows to meet its current obligations and future plans,

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

Significant Accounting Estimates, Assumptions and Judgements

The preparation of financial reports in conformity with relevant Australian Accounting Standards requires the use of certain significant accounting estimates. It also requires management to exercise its judgement in the process of applying Group accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial report are disclosed in Note 2.

(a) Principles of Consolidation

Interests in subsidiaries are set out in Note 23.

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

Investments in subsidiaries are accounted for at cost of acquisition in the separate financial statements, within other financial assets, of Karoon Gas Australia Ltd. The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisition.

The Group does not designate any investments in subsidiaries as being subject to the requirements of Australian Accounting Standards specifically applicable to financial instruments. There is no present intention to dispose of such investments. They are held for strategic and not trading purposes.

(a) Principles of Consolidation (continued)

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

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

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

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

Investments in subsidiaries are tested for impairment in accordance with the accounting policy described in Note 1(l).

(b) Revenue

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

Sales revenue

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

Dividend revenue

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

Interest income

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

(c) Foreign Currency Transactions and Balances

Functional and presentation currency

The consolidated financial report is presented in Australian dollars, which is the Company's functional and presentation currency. The functional currency of each of the Group's subsidiaries is measured using the currency of the primary economic environment in which that subsidiary operates.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing at the date of the transaction.

Foreign currency monetary items are translated at balance sheet date foreign exchange rates. Foreign exchange differences arising on the translation of monetary items are recognised in income statements.

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

Group companies

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

- Assets and liabilities are translated at balance sheet date foreign exchange rates prevailing at that reporting date;
- Income and expenses are translated at average foreign exchange rates for the financial period; and
- Retained earnings or accumulated losses are translated at the foreign exchange rates prevailing at the date of transaction.

Foreign exchange differences arising on translation of foreign subsidiary financial statements are transferred directly to the foreign currency translation reserve in Group balance sheets. The relevant differences are recognised in income statements during the financial period when the investment in a foreign subsidiary is disposed.

(d) Income Taxes and Other Taxes

Current tax

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

Deferred tax

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

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

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

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

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

Tax consolidation

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

Due to the existence of a tax funding agreement between the companies in the tax-consolidated group, each company contributes to the income tax payable or receivable in proportion to their contribution 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 agreement are recognised as either a contribution by, or distribution to, the head entity.

(d) Income Taxes and Other Taxes (continued)

Goods and Services Tax ("GST")

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

Receivables and payables in balance sheets are shown inclusive of GST.

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

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

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

(e) Cash and Cash Equivalents

Cash and cash equivalents in balance sheets comprise cash at banks and on hand (including share of joint venture cash balances) and short term bank deposits that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

For the purposes of cash flow statements, cash consists of cash and cash equivalents, as defined above, net of outstanding bank overdrafts. When relevant, bank overdrafts are included within current interest bearing liabilities in balance sheets.

(f) Trade and Other Receivables

Trade and other receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any accumulated impairment losses. They are included in current assets, except for those with maturities greater than one year after the balance sheet date which are classified as non-current assets.

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

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

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

(g) Inventories

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

The cost of casing and other drilling inventory includes direct materials, direct labour and transportation costs relating to exploration and evaluation activities.

(h) Security Deposits

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

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

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

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

(i) Property, Plant and Equipment

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

Commencing from the time the plant and equipment is held ready for use, depreciation expense is calculated on a straight-line basis to allocate their cost amount, net of their residual values, over their estimated useful lives of the specific assets as follows: plant and equipment two to ten years.

Plant and equipment residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial half-year end.

Gains and losses on disposals are determined by comparing proceeds with the net carrying amount. These gains and losses are included in income statements.

Property, plant and equipment are tested for impairment in accordance with the accounting policy described in Note 1(l).

(j) Intangibles

Computer software

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

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

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial half-year end.

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

Goodwill

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

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

Impairment of goodwill

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

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

An impairment loss is recognised as an expense in income statements for the amount by which the asset's carrying amount exceeds its estimated recoverable amount.

Any impairment loss recognised for goodwill is not subsequently reversed.

(k) Exploration and Evaluation Expenditure

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

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

Otherwise, exploration and evaluation expenditure is expensed as incurred.

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

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

Cash flows associated with exploration and evaluation expenditure (comprising both amounts expensed and amounts capitalised) are classified as investing activities in cash flow statements.

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

Farm-out

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

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

Impairment of capitalised exploration and evaluation expenditure

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

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

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

(l) Impairment of Assets (other than goodwill and capitalised exploration and evaluation expenditure)

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

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

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

Impairment losses are recognised as an expense in income statements.

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

(m) Trade and Other Payables

Trade and other payables are carried at amortised cost. Due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to balance sheet date that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. They are included in current liabilities, except for those with maturities greater than one year after balance sheet date which are classified as non-current liabilities.

(n) Employee Benefits

Wages, salaries, annual leave and personal leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating personal leave expected to be settled within one year of balance sheet date are recognised in respect of employees' services up to the balance sheet date. They are measured at the amounts expected to be paid when the liabilities are settled plus related on-costs. Expenses for non-accumulating personal leave are recognised when the leave is taken and are measured at the rates paid or payable.

Share-based payments

Share-based remuneration benefits are provided to employees via the Company's ESOP and Directors via other share options (refer Note 29).

The fair value of options granted is recognised as a share-based payments expense in income statements with a corresponding increase in the share-based payments reserve. Fair value is measured at grant date, ascertained using a Black-Scholes pricing model, and recognised as an expense in income statements over the financial periods during which the individual becomes unconditionally entitled to the options. For options that vest immediately, the value is expensed immediately.

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

(o) Provisions

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the time value of money and the risks specific to the obligation. The increase in the provision resulting from the passage of time is recognised as finance costs in income statements.

(o) Provisions (continued)

Long service leave

The provision for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance sheet date using the projected unit credit method. Consideration is given to expected future wage and salary levels, related on-costs, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the balance sheet date on Australian government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Restoration

Restoration costs incurred during exploration and evaluation activities are provided when the obligation to incur such costs arises; a corresponding restoration asset (included in exploration and evaluation expenditure carried forward) of an amount equivalent to the provision is also created. The amount recognised is the estimated cost of restoration, discounted to its present value, and is reassessed each financial half-year end in accordance with local conditions and requirements. Expected future payments are discounted using market yields at the balance sheet date on Australian government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows. Changes in the estimates of restoration costs are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the restoration asset. The unwinding of the discount on the restoration provision is included within finance costs in income statements.

(p) Issued Capital

Ordinary shares are classified as equity.

Cash received from shareholders and investors at balance date, pending allotment and issue of fully paid ordinary shares, is held as funds in escrow in the balance sheet. They are included in current liabilities as set out in Note 20.

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

The costs of an equity raising that is abandoned are recognised as an expense in income statements.

(q) Interests in Joint Venture Operations

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

The Group's share of assets and liabilities employed in joint venture operations is set out in Note 25.

(r) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

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

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

Certain new Australian Accounting Standards and interpretations have been published that are not mandatory for this financial year. The Group's and Company's assessment of the impact of these new Australian Accounting Standards and interpretations is set out on the next page.

i. AASB 8 Operating Segments and AASB 2007 - 3 Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009)

AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information to be reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group will adopt AASB 8 from 1 July 2009. It could result in an increase in reportable segment information presented. In addition, the segment information will be reported in a manner that is more consistent with the internal reporting provided to the Executive Chairman and/or Board of Directors.

ii. Revised AASB 123 Borrowing Costs and AASB 2007 - 6 Amendments to Australian Accounting Standards arising from AASB 123 (effective from 1 January 2009)

The revised AASB 123 has removed the option to expense all borrowing costs and will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no current impact on the financial report, as neither the Group nor Company have borrowings. The revised standard will be applied prospectively to any borrowing costs.

iii. Revised AASB 101 Presentation of Financial Statements and AASB 2007 - 8 Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. There will be no measurement or recognition impact on the Group or Company. If an entity has made a previous financial period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet, this one being as at the beginning of the comparative financial period. The revised standard will apply from 1 July 2009.

iv. AASB 2008 - 1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009)

AASB 2008 - 1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for share-based payments.

v. Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008 - 3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective 1 July 2009)

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all acquisition related costs must be expensed. The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. These standards are applicable prospectively and so will only affect relevant transactions occurring from the date of application. In this regard, its impact on the Group and Company is therefore unable to be determined.

vi. AASB 2008 - 6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective 1 July 2009)

The amendments to AASB 5 Discontinued Operations and AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held-for-sale if a partial disposal sale plan results in loss of control. Application of this standard will be applied prospectively.

vii. AASB 2008 - 7 Amendments to Australian Accounting Standards Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009)

During July 2008, the AASB approved amendments to AASB 1 First time Adoption of International Financial Reporting Standards and AABS 127 Consolidated and Separate Financial Statements. After 1 July 2009, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Management has determined there will be no effect on the Group as a policy of recognising dividend income has been maintained by the Group.

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

viii. AASB Interpretation 15 Agreements for the Construction of Real Estate (effective 1 January 2009)

AASB - I 15 clarifies whether AASB 118 Revenue or AASB 111 Construction Contracts should be applied to particular transactions. There will be no impact on either the Group or Company as they do not hold or construct real estate.

ix. AASB Interpretation 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)

AASB - I 16 clarifies which foreign currency risks qualify as hedged risk in the hedge of a net investment in a foreign operation and that hedging instruments may be held by any entity or entities within the group. It also provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. There will be no impact on either the Group or Company financial report as there currently are no hedging instruments or hedged items. The interpretation will be applied prospectively to all hedging instruments and hedged items.

x. AASB 2008 - 8 Amendment to AASB 139 Financial Instruments: Recognition and Measurement (effective 1 July 2009)

AASB 2008 - 8 amends AASB 139 Financial Instruments: Recognition and Measurement and must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. There will be no impact on either the Group or Company financial report as there currently are no borrowings or hedged items. The amendments will be applied prospectively.

xi. AASB Interpretation 17 Distribution of Non - cash Assets to Owners and AASB 2008 - 13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 (effective 1 July 2009)

AASB - I 17 applies to situations where an entity pays dividends by distributing non-cash assets to its shareholders. These distributions will need to be measured at fair value and the entity will need to recognise the difference between the fair value and the carrying amount of the distributed assets in the income statement on distribution. This standard is applicable prospectively and so will only affect relevant transactions occurring from the date of application. In this regard, its impact on the Group and Company is therefore unable to be determined.

The Group has not early adopted any of the above reporting requirements.

Note 2 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

(a) Capitalised Exploration and Evaluation Expenditure

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

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

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

(b) Share-based Payments

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

(c) Income Tax

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

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

Note 3 FINANCIAL RISK MANAGEMENT

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

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

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

The Group's and Company's financial instruments consist of cash and cash equivalents, current trade and other receivables, loans to subsidiaries, security deposits, trade and other payables and funds held in escrow.

The Group had no off-balance sheet financial assets or financial liabilities as at either 30 June 2009 or 30 June 2008.

Notes to the Financial Statements
Financial Year Ended 30 June 2009

Note 3 FINANCIAL RISK MANAGEMENT (continued)

The totals for each category of financial instruments in balance sheets are as follows:

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Financial assets					
Cash and cash equivalents	10	228,238,280	77,423,254	219,700,959	72,135,705
Trade and other receivables	11	1,785,266	25,436	115,436,094	76,157,832
Security deposits	13	13,504,065	9,598,384	3,186,434	52,967
		243,527,611	87,047,074	338,323,487	148,346,504
Financial liabilities					
Trade and other payables (refer note (a) below)		7,023,179	5,942,007	1,187,441	265,905
Funds held in escrow	20	4,512,228	2,625,000	4,512,228	2,625,000
		11,535,407	8,567,007	5,699,669	2,890,905

Note:

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

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Trade and other payables	19	7,105,297	5,987,017	1,269,559	310,915
Less: Leave liabilities		(82,118)	(45,010)	(82,118)	(45,010)
		7,023,179	5,942,007	1,187,441	265,905

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

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

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

Consolidated	2009 AUD $	2009 USD $	2009 REAL $	2009 Total $	2008 AUD $	2008 USD $	2008 REAL $	2008 Total $
Financial assets								
Cash and cash equivalents	156,124,409	71,399,811	714,060	228,238,280	40,848,526	36,574,300	428	77,423,254
Trade and other receivables	913,587	871,679	-	1,785,266	25,436	-	-	25,436
Security deposits	89,858	3,130,591	10,283,616	13,504,065	85,408	-	9,512,976	9,598,384
	157,127,854	75,402,081	10,997,676	243,527,611	40,959,370	36,574,300	9,513,404	87,047,074
Financial liabilities								
Trade and other payables	1,915,909	4,173,026	934,244	7,023,179	421,436	5,520,571	-	5,942,007
Funds held in escrow	4,512,228	-	-	4,512,228	2,625,000	-	-	2,625,000
	6,428,137	4,173,026	934,244	11,535,407	3,046,436	5,520,571	-	8,567,007

Company	2009 AUD $	2009 USD $	2009 Total $	2008 AUD $	2008 USD $	2008 Total $
Financial assets						
Cash and cash equivalents	156,091,450	63,609,509	219,700,959	40,757,161	31,378,544	72,135,705
Trade and other receivables (current)	718,334	-	718,334	17,663	-	17,663
Trade and other receivables (non-current)	114,717,760	-	114,717,760	76,140,169	-	76,140,169
Security deposits	55,843	3,130,591	3,186,434	52,967	-	52,967
	271,583,387	66,740,100	338,323,487	116,967,960	31,378,544	148,346,504
Financial liabilities						
Trade and other payables	1,187,441	-	1,187,441	265,905	-	265,905
Funds held in escrow	4,512,228	-	4,512,228	2,625,000	-	2,625,000
	5,699,669	-	5,699,669	2,890,905	-	2,890,905

Note 3 FINANCIAL RISK MANAGEMENT (continued)

Foreign exchange sensitivity analysis

The following table details the Group's and Company's sensitivity to a 10.0% increase or decrease in the Australian dollar against the United States dollar, with all other variables held constant. The sensitivity analysis includes only outstanding foreign currency denominated amounts at the end of the financial year and adjusts their translation for a 10.0% change in the relevant foreign exchange rate.

The sensitivity analysis is not fully representative of the inherent foreign exchange risk, as the year end exposure does not necessarily reflect the exposure during the course of a financial year. These sensitivities should also not be used to forecast the future effect of movements in US dollar exchange rates on future cash flows.

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Change in profit (loss)				
- Improvement in AUD to USD by 10.0%	(6,405,963)	(2,822,475)	(6,067,282)	(2,825,595)
- Decline in AUD to USD by 10.0%	7,829,510	3,449,692	7,415,567	3,486,505
Change in financial assets				
- Improvement in AUD to USD by 10.0%	(6,854,735)	(3,324,936)	(6,067,282)	(2,825,595)
- Decline in AUD to USD by 10.0%	8,378,009	4,063,811	7,415,567	3,486,505
Change in financial liabilities				
- Improvement in AUD to USD by 10.0%	379,366	502,461	-	-
- Decline in AUD to USD by 10.0%	(463,670)	(614,119)	-	-
Change in foreign currency translation reserve				
- Improvement in AUD to USD by 10.0%	69,406	-	-	-
- Decline in AUD to USD by 10.0%	(84,829)	-	-	-

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of financial assets and financial liabilities will fluctuate because of changes in market interest rates. Interest rate risk is managed on a Group basis at the corporate level.

As at 30 June 2009 and 30 June 2008, there was no borrowing outstanding and there was no interest rate hedging in place.

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

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

Consolidated 2009	Weighted average interest rate % p.a.	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Fair value $	Carrying amount $
Financial assets						
Cash and cash equivalents	3.0	38,117,425	183,081,923	7,038,932	228,238,280	228,238,280
Trade and other receivables	-	-	-	1,785,266	1,785,266	1,785,266
Security deposits	8.9	3,231	13,500,834	-	13,504,065	13,504,065
		38,120,656	196,582,757	8,824,198	243,527,611	243,527,611
Financial liabilities						
Trade and other payables	-	-	-	7,023,179	7,023,179	7,023,179
Funds held in escrow	-	-	-	4,512,228	4,512,228	4,512,228
		-	-	11,535,407	11,535,407	11,535,407

Company 2009	Weighted average interest rate % p.a.	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Fair value $	Carrying amount $
Financial assets						
Cash and cash equivalents	3.1	38,117,425	177,022,399	4,561,135	219,700,959	219,700,959
Trade and other receivables (current)	-	-	-	718,334	718,334	718,334
Trade and other receivables (non-current)	-	-	-	114,717,760	114,717,760	114,717,760
Security deposits	0.8	3,231	3,183,203	-	3,186,434	3,186,434
		38,120,656	180,205,602	119,997,229	338,323,487	338,323,487
Financial liabilities						
Trade and other payables	-	-	-	1,187,441	1,187,441	1,187,441
Funds held in escrow	-	-	-	4,512,228	4,512,228	4,512,228
		-	-	5,699,669	5,699,669	5,699,669

Note 3 FINANCIAL RISK MANAGEMENT (continued)

Consolidated 2008	Weighted average interest rate % p.a.	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Fair value $	Carrying amount $
Financial assets						
Cash and cash equivalents	4.7	10,470,094	61,603,201	5,349,959	77,423,254	77,423,254
Trade and other receivables (current)	-	-	-	25,436	25,436	25,436
Security deposits	11.4	3,194	9,595,190	-	9,598,384	9,598,384
		10,473,288	71,198,391	5,375,395	87,047,074	87,047,074
Financial liabilities						
Trade and other payables	-	-	-	5,942,007	5,942,007	5,942,007
Funds held in escrow	-	-	-	2,625,000	2,625,000	2,625,000
		-	-	8,567,007	8,567,007	8,567,007

Company 2008	Weighted average interest rate % p.a.	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Fair value $	Carrying amount $
Financial assets						
Cash and cash equivalents	4.7	10,470,094	61,603,201	62,410	72,135,705	72,135,705
Trade and other receivables (current)	-	-	-	17,663	17,663	17,663
Trade and other receivables (non-current)	-	-	-	76,140,169	76,140,169	76,140,169
Security deposits	6.1	3,194	49,773	-	52,967	52,967
		10,473,288	61,652,974	76,220,242	148,346,504	148,346,504
Financial liabilities						
Trade and other payables	-	-	-	265,905	265,905	265,905
Funds held in escrow	-	-	-	2,625,000	2,625,000	2,625,000
		-	-	2,890,905	2,890,905	2,890,905

Interest rate sensitivity analysis

The following table details the Group's and Company's sensitivity to a 1.0% p.a. increase or decrease in interest rates, with all other variables held constant. The sensitivity analysis is based on the balance of floating interest bearing amounts, such as cash at banks and security deposits, held at the end of the financial year.

The sensitivity analysis is not fully representative of the inherent interest rate risk, as the year end exposure does not necessarily reflect the exposure during the course of a financial year. These sensitivities should not be used to forecast the future effect of movements in interest rates on future cash flows.

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Change in profit (loss)				
- Increase of interest rate by 1.0% p.a.	381,207	104,733	381,207	104,733
- Decrease of interest rate by 1.0% p.a.	(108,531)	(104,733)	(108,531)	(104,733)
Change in financial assets				
- Increase of interest rate by 1.0% p.a.	381,207	104,733	381,207	104,733
- Decrease of interest rate by 1.0% p.a.	(108,531)	(104,733)	(108,531)	(104,733)

(b) Credit risk

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

Credit risk is managed on a Group basis at the corporate level. Management monitors credit risk on an ongoing basis within the Group.

To minimise credit risk, the Group has adopted a policy of only dealing with recognised and creditworthy third parties. The Group does not have any material credit risk exposure to any single debtor or group of debtors entered into by the Group. Receivable balances are monitored on an ongoing basis with the result being the Group's exposure to bad debts is minimised. The Group does not hold collateral, nor does it securitise its trade and other receivables.

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

Cash and cash equivalents and security deposit counterparties are limited to high credit quality banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'AA-' are accepted. Where commercially practical, the Group seeks to limit the amount of credit exposure to any one financial institution. Cash and cash equivalents and security deposits are spread amongst a number of AA and AAA rated financial institutions to minimise the risk of default of counterparties.

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

As at 30 June 2009, there were $Nil (30 June 2008: $Nil) financial assets past due.

(c) Liquidity risk

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

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

The following mechanisms are also utilised:

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

Note 3 FINANCIAL RISK MANAGEMENT (continued)

An analysis of the Group's and Company's financial liability maturities and realisation profile of relevant financial assets for the financial year is set out below:

Consolidated 2009	Less than 6 months $	6-12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total $
Financial assets, cash flows realisable						
Trade and other receivables (current)	913,587	871,679	-	-	-	1,785,266
Security deposits	-	3,207,427	-	10,296,638	-	13,504,065
	913,587	4,079,106	-	10,296,638	-	15,289,331
Financial liabilities, due for payment						
Trade and other payables	7,023,179	-	-	-	-	7,023,179
Funds held in escrow	4,512,228	-	-	-	-	4,512,228
	11,535,407	-	-	-	-	11,535,407
Company 2009						
Financial assets, cash flows realisable						
Trade and other receivables (current)	718,334	-	-	-	-	718,334
Security deposits	-	3,173,412	-	13,022	-	3,186,434
	718,334	3,173,412	-	13,022	-	3,904,768
Financial liabilities, due for payment						
Trade and other payables	1,187,441	-	-	-	-	1,187,441
Funds held in escrow	4,512,228	-	-	-	-	4,512,228
	5,699,669	-	-	-	-	5,699,669

Consolidated 2008	Less than 6 months $	6-12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total $
Financial assets, cash flows realisable						
Trade and other receivables (current)	25,436	-	-	-	-	25,436
Security deposits	-	-	72,386	9,525,998	-	9,598,384
	25,436	-	72,386	9,525,998	-	9,623,820
Financial liabilities, due for payment						
Trade and other payables	5,942,007	-	-	-	-	5,942,007
Funds held in escrow	2,625,000	-	-	-	-	2,625,000
	8,567,007	-	-	-	-	8,567,007
Company 2008						
Financial assets, cash flows realisable						
Trade and other receivables (current)	17,663	-	-	-	-	17,663
Security deposits	-	-	39,945	13,022	-	52,967
	17,663	-	39,945	13,022	-	70,630
Financial liabilities, due for payment						
Trade and other payables	265,905	-	-	-	-	265,905
Funds held in escrow	2,625,000	-	-	-	-	2,625,000
	2,890,905	-	-	-	-	2,890,905

Notes to the Financial Statements
Financial Year Ended 30 June 2009

(d) Fair value estimation

For disclosure purposes only, the fair values of financial assets and financial liabilities as at 30 June 2009 are presented in the tables under Note 3(a)(ii) and can be compared to their carrying values as presented in the balance sheets. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values estimated for disclosure purposes are based on information that is subject to judgement, where changes in assumptions may have a material impact on the amounts estimated.

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

Cash and cash equivalents

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

Trade and other receivables (current)

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

Trade and other receivables (non-current)

The Directors have determined that the fair values of carrying amount of receivables from subsidiaries cannot be reliably measured. Consequently, such assets are recognised at cost and their fair value has been stated at cost (less provision for impairment) for disclosure purposes.

Security deposits

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

Trade and other payables/ Funds held in escrow

Due to the short-term nature of these financial liabilities, their carrying amounts are assumed to represent their fair values.

Note 4 REVENUE

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Interest income from unrelated entities	4,868,541	5,320,930	3,748,793	4,976,510
Total revenue	4,868,541	5,320,930	3,748,793	4,976,510
Net foreign currency gains	9,770,509	-	11,558,829	-
Sundry income	17,130	10,397	3,399	10,397
Gain on disposal of plant and equipment	-	11,818	-	11,818
Total other income	9,787,639	22,215	11,562,228	22,215

Note 5 EXPENSES

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Profit (loss) before income tax includes the following specific expenses:					
Depreciation and amortisation expense:					
- depreciation of plant and equipment	15	277,317	273,020	262,303	264,990
- amortisation of computer software	16	119,171	72,132	119,171	72,132
Total depreciation and amortisation expense		396,488	345,152	381,474	337,122
Exploration and evaluation expenditure expensed or written off:					
- exploration and evaluation expenditure expensed		1,049,943	1,175,837	-	-
- exploration and evaluation expenditure written off	17	25,700	-	-	-
Total exploration and evaluation expenditure expensed or written off		1,075,643	1,175,837	-	-
Finance costs:					
- bank charges		218,173	131,191	67,427	5,172
Total finance costs		218,173	131,191	67,427	5,172
Impairment losses:					
- non-current receivables from subsidiaries	11	-	-	19,555,612	-
- intangible asset (goodwill)	16	-	149,295	-	149,295
Total impairment losses		-	149,295	19,555,612	149,295
Net foreign currency losses		-	4,456,827	-	4,058,676
Rental expense on operating leases – minimum lease payments		158,723	157,443	123,648	125,943
Share-based payments expense	29(d)	4,313,989	1,014,300	4,313,989	1,014,300

Notes to the Financial Statements
Financial Year Ended 30 June 2009

Note 6 INCOME TAX

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
(a) Income tax recognised in income statements				
Tax expense (income) comprises:				
Current income tax	-	-	-	-
Deferred income tax	-	-	-	-
Total tax expense (income)	-	-	-	-
The prima facie tax on profit (loss) before income tax is reconciled to income tax as follows:				
Prima facie tax payable on the profit (loss) before income tax calculated at the Australian tax rate of 30% (2008: 30%)	1,335,830	(1,816,602)	(3,834,499)	(952,957)
Add (subtract) tax effect of:				
Share-based payments expense	1,294,197	304,290	1,294,197	304,290
Impairment losses (non-current receivables from subsidiaries)	-	-	5,866,684	-
Other non-deductible items	592,827	5,776,537	11,679	149,336
Tax losses and temporary differences not recognised	(2,042,078)	(3,849,374)	(2,418,613)	914,182
Other items	(1,180,776)	(414,851)	(919,448)	(414,851)
Total tax expense (income)	-	-	-	-
(b) Unrecognised deferred tax assets				
A deferred tax asset has not been recognised in balance sheets as the benefits of which will only be realised if the conditions for deductibility set out in Note 1(d) occur:				
- Unrecognised temporary differences relating to deferred tax assets	114,836	1,385,077	105,956	1,263,682
- Tax losses:				
- operating losses	4,227,861	4,999,695	22,250,884	12,712,473
Potential tax benefit at Australian tax rate of 30%	4,342,697	6,384,772	22,356,840	13,976,155
(c) Deferred tax liabilities				
Temporary differences relating to deferred tax liabilities	(21,563,114)	(7,712,778)	(3,540,088)	-
Offset by deferred tax assets relating to operating losses	21,563,114	7,712,778	3,540,088	-
	-	-	-	-

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Note 7 REMUNERATION OF EXTERNAL AUDITORS				
Remuneration received or due and receivable by the external auditor of Karoon Gas Australia Ltd for:				
Audit and review of financial reports	100,909	14,600	71,309	9,600
Non-audit services (review of accounting policy and procedure manual)	900	-	900	-
Total remuneration of external auditors	101,809	14,600	72,209	9,600
Note 8 DIVIDENDS				
There were no ordinary dividends declared or paid during the financial year by the Company (2008: $Nil).				
Dividend franking account				
Balance of franking account at end of financial year	-	-	-	-

	Consolidated	
	2009 $	2008 $
Note 9 EARNINGS PER SHARE		
Profit (loss) used to calculate basic and dilutive loss per ordinary share	4,452,766	(6,055,339)
(a) Basic profit (loss) per ordinary share	0.0302	(0.0485)
(b) Diluted profit (loss) per ordinary share	0.0300	(0.0485)
(i) Diluted loss per ordinary share in the previous financial year equates to basic loss per ordinary share because a loss per share is not considered dilutive for the purposes of calculating earnings per share pursuant to AASB 133 'Earnings per Share'.		
Weighted average number of ordinary shares on issue during the financial year used in calculating basic profit (loss) per ordinary share:	147,643,691	124,914,931
Weighted average number of dilutive options:	679,956	4,470,000
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted profit per ordinary share (excluding anti-dilutive options outstanding):	148,323,647	129,384,931
Weighted average number of anti-dilutive options:	424,417	-

Potential ordinary shares

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

Notes to the Financial Statements
Financial Year Ended 30 June 2009

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Note 10 CASH AND CASH EQUIVALENTS				
Cash at banks and on hand	45,156,356	15,820,053	42,678,560	10,532,504
Short term bank deposits	183,081,924	61,603,201	177,022,399	61,603,201
Total cash and cash equivalents	228,238,280	77,423,254	219,700,959	72,135,705

(a) Cash at banks and on hand

Cash at banks included funds held in escrow of $4,512,228 (30 June 2008: $2,625,000). Refer to Note 20 for further details.

(b) Short term bank deposits

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

(c) Financial risk management

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

	Note	Consolidated		Company	
		2009 $	2008 $	2009 $	2008 $
Note 11 TRADE AND OTHER RECEIVABLES					
Current					
Trade receivables		-	60	-	60
Other receivables		1,785,266	25,376	718,334	17,603
Total current trade and other receivables		1,785,266	25,436	718,334	17,663
Non-current					
Amounts receivable from subsidiaries	31	-	-	134,273,372	76,140,169
Less: provision for impairment (refer note (a) below)	5	-	-	(19,555,612)	-
Total non-current trade and other receivables		-	-	114,717,760	76,140,169

(a) Impairment loss for non-current receivables

An impairment review was performed, as at 30 June 2009, to compare the net asset position (total assets less total liabilities) of the Company's subsidiaries with the value of the amount of non-current receivables from each subsidiary at that date. Impairment losses were recognised when the net asset position of the subsidiary was less than the carrying amount of the receivable, up to and including the amount of the net asset position. It should be noted that there is no impact on consolidation, as non-current receivables from subsidiaries are eliminated on consolidation and are reflected only in the financial report of the Company.

Impairment losses for non-current receivables from subsidiaries recognised as an expense during the financial year amounted to $19,555,612 (2008: $Nil) for the Company. The expense has been included in impairment losses in the income statement of Karoon Gas Australia Ltd.

(b) Financial risk management

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

Note 12 INVENTORIES

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current				
Casing and other drilling inventory, at cost	1,448,793	-	-	-
Total current inventories	1,448,793	-	-	-

Note 13 SECURITY DEPOSITS

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current				
Karoon Gas Australia Ltd (refer note (a) below)	3,130,591	-	3,130,591	-
Karoon Gas Australia Ltd (refer note (c) below)	42,019	-	42,019	-
Total current security deposits	3,172,610	-	3,172,610	-
Non-current				
Karoon Petroleo & Gas Ltda (refer note (b) below)	10,283,616	9,512,976	-	-
Karoon Gas Australia Ltd (refer note (c) below)	13,824	52,967	13,824	52,967
Karoon Gas Pty Ltd (refer note (d) below)	34,015	32,441	-	-
Total non-current security deposits	10,331,455	9,598,384	13,824	52,967

(a) Performance guarantee

Performance guarantees (via letters of credit) were provided to Peru Petro SA for Block Z-38 and Block 144 by the Company for first year work commitments (refer Note 26). The letters of credit are fully funded by way of payment of a security deposit, which will be released once the commitments are met.

(b) Performance bonds

Karoon Petroleo & Gas Ltda, a subsidiary, had provided Agencia Nacional Do Petroleo a letter of credit (refer Note 26) to carry out minimum work programs in relation to the Group's exploration permits in the Santos Basin, Brazil (Santos Basin Blocks 1037, 1101, 1102, 1165 and 1166). The letter of credit is fully funded by way of payment of a security deposit to Banco BNP Paribas Brasil SA, which will be released once the programs are met.

(c) Bank guarantees

Cash deposits are held as security against bank guarantee facilities for bank guarantees given to lessors for the Group's compliance with its obligations in respect of operating leases for office premises at Melbourne and Mount Martha.

(d) Bonds

Cash was held as security deposit for the EL4537 field operation.

(e) Financial risk management

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

Note 14 OTHER ASSETS

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current					
Prepayments		299,002	218,263	299,002	173,817
Total current other assets		299,002	218,263	299,002	173,817

Note 15 PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Plant and equipment					
At cost		1,359,531	797,511	1,305,148	771,389
Accumulated depreciation		(740,969)	(463,652)	(717,925)	(455,622)
Total property, plant and equipment, at net book value		618,562	333,859	587,223	315,767
Reconciliation					
The reconciliation of the carrying amount for each class of property, plant and equipment is set out below:					
Plant and equipment					
Balance at beginning of financial year		333,859	453,681	315,767	453,681
Additions		562,020	185,508	533,759	159,386
Disposals		-	(32,310)	-	(32,310)
Depreciation expense	5	(277,317)	(273,020)	(262,303)	(264,990)
Net carrying amount at end of financial year		618,562	333,859	587,223	315,767

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $

Note 16 INTANGIBLE ASSETS

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Computer software					
At cost		542,227	346,756	542,227	346,756
Accumulated amortisation		(301,538)	(182,366)	(301,538)	(182,366)
Goodwill on acquisition of Karoon Gas Pty Ltd		-	-	-	-
Total intangibles, at net book value		240,689	164,390	240,689	164,390
Reconciliations					
Reconciliations of the carrying amounts for each class of intangible assets are set out below:					
Computer software					
Balance at beginning of financial year		164,390	129,975	164,390	129,975
Additions		195,470	106,547	195,470	106,547
Amortisation expense	5	(119,171)	(72,132)	(119,171)	(72,132)
Net carrying amount at end of financial year		240,689	164,390	240,689	164,390
Goodwill on acquisition of Karoon Gas Pty Ltd					
Balance at beginning of financial year		-	149,295	-	149,295
Impairment losses	5	-	(149,295)	-	(149,295)
Net carrying amount at end of financial year		-	-	-	-

Note 17 EXPLORATION AND EVALUATION EXPENDITURE CARRIED FORWARD

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Deferred geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs		100,235,662	51,597,114	-	-
Reconciliation					
The reconciliation of exploration and evaluation expenditure carried forward is set out below:					
Balance at beginning of financial year		51,597,114	6,361,370	-	-
Additions		49,785,695	45,235,744		
Net foreign currency difference on translation of financial statements of foreign subsidiaries		(1,121,447)	-	-	-
Exploration and evaluation expenditure written off	5	(25,700)	-	-	-
Total exploration and evaluation expenditure carried forward (refer note (a) below)		100,235,662	51,597,114	-	-
Tangible		-	-	-	-
Intangible		100,235,662	51,597,114	-	-
		100,235,662	51,597,114	-	-

(a) Exploration and evaluation expenditure carried forward relates to areas of interest in the exploration phase for exploration permits WA-314-P, WA-315-P, WA-398-P, Block 1037, Block 1101, Block 1102, Block 1165, Block 1166, Block Z-38, Block 144 and AC/P8 (2008: WA-314-P, WA-315-P, WA-398-P, Block 1037, Block 1101, Block 1102, Block 1165, Block 1166, Block Z-38, Block 144 and AC/P8).

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

Notes to the Financial Statements
Financial Year Ended 30 June 2009

Note 18 OTHER FINANCIAL ASSETS

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Non-current					
Investments in subsidiary companies, at cost	23	-	-	1,005	1,005
Total non-current other financial assets		-	-	1,005	1,005

(a) Financial risk management

Information concerning the Group's and Company's exposures to financial risks on other financial assets is set out in Note 3.

Note 19 TRADE AND OTHER PAYABLES

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current (unsecured)				
Trade payables	1,064,165	185,320	109,544	102,001
Sundry payables and accrued expenditure	6,041,132	5,801,697	1,160,015	208,914
Total current trade and other payables	7,105,297	5,987,017	1,269,559	310,915

(a) Financial risk management

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

Note 20 FUNDS HELD IN ESCROW

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current (unsecured)				
Funds held in escrow	4,512,228	2,625,000	4,512,228	2,625,000
Total current funds held in escrow	4,512,228	2,625,000	4,512,228	2,625,000

(a) Share Purchase Plan

A Share Purchase Plan was offered to eligible Australian and New Zealand shareholders registered as at the close of business on 10 June 2009. This offering, to all eligible shareholders to acquire ordinary shares in the Company at $6.70, closed on 17 July 2009. As at 30 June 2009, $4,512,228 had been paid by shareholders taking up the offer and held in an escrowed bank account pending close of the offer and issue of fully paid ordinary shares (refer Note 10).

Funds held in escrow in the previous financial year represented cash from capital raised via a share placement to sophisticated and professional investors, paid and held in an escrowed bank account as at 30 June 2008, pending shareholder approval on 1 August 2008 and issue of fully paid ordinary shares.

(b) Financial risk management

Information concerning the Group's and Company's exposures to financial risks on funds held in escrow is set out in Note 3.

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $

Note 21 PROVISIONS

Non-current				
Provision for long service leave	93,955	6,627	93,955	6,627
Total long-term provisions	93,955	6,627	93,955	6,627
Reconciliation				
Reconciliation of the movement in the provision is set out below:				
Long service leave				
Balance at beginning of financial year	6,627	1,861	6,627	1,861
Additions	87,328	4,766	87,328	4,766
Balance at end of financial year	93,955	6,627	93,955	6,627

(a) Provision for long service leave

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

	Company		Company	
	2009 Number	2008 Number	2009 $	2008 $

Note 22 ISSUED CAPITAL AND RESERVES WITHIN EQUITY

(a) Share capital

Ordinary shares, fully paid	171,301,831	132,277,897	347,331,271	151,346,874

The Company had authorised share capital amounting to 171,301,831 ordinary shares of no par value.

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

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

Notes to the Financial Statements
Financial Year Ended 30 June 2009

(b) Movement in ordinary shares

Date	Details	Note	Number of ordinary shares	Issue price per ordinary share	$
1 July 2007	Opening balance in previous financial year		114,427,897		96,727,732
22 October 2007	Exercise of other share options	(e)	500,000	$1.65	825,000
9 November 2007	Exercise of other share options	(e)	30,000	$2.03	60,900
26 November 2007	Share placement	(c)	14,800,000	$3.45	51,060,000
26 November 2007	Exercise of other share options	(e)	1,500,000	$1.75	2,625,000
26 November 2007	Exercise of other share options	(e)	750,000	$2.00	1,500,000
9 May 2008	Exercise of ESOP options	(e)	100,000	$2.03	203,000
19 May 2008	Exercise of ESOP options	(e)	50,000	$1.60	80,000
19 May 2008	Exercise of ESOP options	(e)	30,000	$2.03	60,900
23 May 2008	Exercise of ESOP options	(e)	40,000	$2.03	81,200
26 June 2008	Exercise of ESOP options	(e)	50,000	$1.60	80,000
	Less: Transaction costs arising on ordinary share issues during previous financial year				(1,956,858)
30 June 2008	Balance at end of previous financial year		132,277,897		151,346,874
16 July 2008	Exercise of ESOP options	(e)	40,000	$2.03	81,200
21 July 2008	Exercise of ESOP options	(e)	20,000	$2.03	40,600
7 August 2008	Share placement	(c)	14,000,000	$3.50	49,000,000
19 August 2008	Exercise of ESOP options	(e)	30,000	$2.03	60,900
18 September 2008	Exercise of ESOP options	(e)	75,000	$2.03	152,250
19-25 September 2008	Exercise of other share options	(e)	750,000	$2.00	1,500,000
19-25 September 2008	Exercise of other share options	(e)	1,500,000	$2.35	3,525,000
31 October 2008	Exercise of ESOP options	(e)	100,000	$2.03	203,000
1 June 2009	Exercise of ESOP options	(e)	100,000	$2.95	295,000
16 June 2009	Share placement	(c)	22,333,934	$6.70	149,637,358
29 June 2009	Exercise of ESOP options	(e)	75,000	$4.00	300,000
	Less: Transaction costs arising on ordinary shares issued during financial year				(8,810,911)
30 June 2009	Balance at end of financial year		171,301,831		347,331,271

Note 22 ISSUED CAPITAL AND RESERVES WITHIN EQUITY (continued)

(c) Ordinary shares issued

The purpose of the share placement to sophisticated and professional investors during June 2009 was to provide the Company with a strong cash position for its continued exploration and appraisal program in the Browse Basin, along with upcoming exploration programs in Peru and Brazil.

Funds raised by the share placement to sophisticated and professional investors during August 2008 provided the Company with funds for its drilling program in the Browse Basin, along with exploration programs in Peru and Brazil.

Funds raised by the share placement to sophisticated and professional investors during November 2007 provided the Company with the flexibility to continue its exploration program in the Browse Basin.

(d) Capital management

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

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

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

(e) Employee Share Option Plan and other share options

Information relating to the Company's Employee Share Option Plan and other share options, including details of options granted, exercised, forfeited and expired during the financial year and options outstanding at the end of the financial year, is set out in Note 29.

(f) Reserves within equity

(i) Share-based payments reserve

The share-based payment reserve is used to recognise the fair value of share-based payments to Directors, other key management personnel and employees as part of their remuneration, as described in Note 1(n). The Company has elected to retain all amounts originally recognised in the share-based payments reserve, regardless of whether the associated options are exercised or lapse unexercised.

(ii) Foreign currency translation reserve

The foreign currency translation reserve is used to recognise exchange differences arising from the translation of financial statements of foreign subsidiaries, as described in Note 1(c). The relevant amounts included in the foreign currency translation reserve are recognised in the income statement when the investment in foreign subsidiary is disposed.

Note 23 SUBSIDIARIES

Name	Country of incorporation	Business activities carried on in	Percentage of equity and voting interests held		Net book value of investment (all shares issued are ordinary shares)	
			2009 %	2008 %	2009 $	2008 $
Parent Company:						
Karoon Gas Australia Ltd	Australia	Australia				
Investments in subsidiaries						
Unlisted subsidiaries of Karoon Gas Australia Ltd:						
Eastern Pacific Coal Pty Ltd	Australia	Australia	100.0	100.0	100	100
Karoon Energy International Ltd	Australia	Australia	100.0	100.0	100	100
Karoon Gas (Browse Basin) Pty Ltd	Australia	Australia	100.0	100.0	100	100
Karoon Gas Pty Ltd	Australia	Australia	100.0	100.0	705	705
Unlisted subsidiaries of Karoon Energy International Ltd:						
KEI (Brazil Santos) Pty Ltd	Australia	Australia	100.0	100.0		
KEI (Peru 112) Pty Ltd	Australia	Australia	100.0	100.0		
KEI (Peru Z38) Pty Ltd	Australia	Australia	100.0	100.0		
Jointly owned unlisted subsidiary of Karoon Energy International Ltd and KEI (Brazil Santos) Pty Ltd:						
Karoon Petroleo & Gas Ltda	Brazil	Brazil	100.0	100.0		
Branch of KEI (Peru 112) Pty Ltd:						
KEI (Peru 112) Pty Ltd, Surcursal del Peru	Peru	Peru	100.0	100.0		
Branch of KEI (Peru Z38) Pty Ltd:						
KEI (Peru Z38) Pty Ltd, Surcursal del Peru	Peru	Peru	100.0	100.0		
					1,005	1,005

Note 24 SEGMENT REPORTING

(a) 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 revenues do not include interest income or foreign currency gains. Segment expenses do not include finance costs or foreign currency losses. Segment assets include all assets used by a segment and consist principally of cash and cash equivalents, exploration and evaluation expenditure carried forward and security deposits. 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 liabilities consist principally of trade and other payables and funds held in escrow. Segment assets and liabilities do not include deferred income taxes.

(b) Geographic segment

The Group's risks and returns are affected predominately by differences in the geographical areas in which it operates. Therefore, geographical segments are considered its primary reporting format.

The Group's segments consist of three geographic locations. The first being Australian based assets, the second being Brazilian based assets and the third being Peruvian based assets. The Australian based assets are held by subsidiaries within Australia. Each South American asset has its own subsidiary in which it is held.

				2009
	Australia $	Brazil $	Peru $	Consolidated $
Revenue				
Segment revenue	-	-	-	-
Intersegment elimination				-
Interest income				4,868,541
Total revenue				4,868,541
Result				
Segment result	(9,018,045)	(164,565)	(423,809)	(9,606,419)
Unallocated expenses				(361,692)
Intersegment elimination				-
Profit (loss) before tax, interest income, net foreign currency and finance costs				(9,968,111)
Interest income				4,868,541
Net foreign currency gains				9,770,509
Finance costs				(218,173)
Income tax				-
Profit (loss) after income tax				4,452,766
Segment assets				
Segment assets	344,891,206	42,772,517	7,578,973	395,242,696
Unallocated assets				-
Intersegment elimination				(48,872,378)
Total assets				346,370,318
Segment liabilities				
Segment liabilities	9,889,222	42,281,452	8,413,184	60,583,858
Unallocated liabilities				-
Intersegment elimination				(48,872,378)
Total liabilities				11,711,480
Other segment information				
Exploration and evaluation expenditure carried forward	61,865,072	31,728,583	6,642,007	100,235,662
Security deposits	89,858	10,283,616	3,130,591	13,504,065
Depreciation and amortisation expense	396,488	-	-	396,488
Exploration and evaluation expenditure expensed or written off	640,488	64,990	370,165	1,075,643
Share-based payments expense	4,313,989	-	-	4,313,989

				2008
	Australia $	Brazil $	Peru $	Consolidated $
Revenue				
Segment revenue	-	-	-	-
Intersegment elimination				-
Interest income				5,320,930
Total revenue				5,320,930
Result				
Segment result	(5,117,338)	(406,228)	(396,979)	(5,920,545)
Unallocated expenses				(867,706)
Intersegment elimination				-
Profit (loss) before tax, interest income, net foreign currency and finance costs				(6,788,251)
Interest income				5,320,930
Net foreign currency losses				(4,456,827)
Finance costs				(131,191)
Profit (loss) before income tax				(6,055,339)
Income tax				-
Profit (loss) after income tax				(6,055,339)
Segment assets				
Segment assets	132,726,131	35,317,266	118,577	168,161,974
Unallocated assets				-
Intersegment elimination				(28,801,274)
Total assets				139,360,700
Segment liabilities				
Segment liabilities	8,618,644	28,788,188	13,086	37,419,918
Unallocated liabilities				-
Intersegment elimination				(28,801,274)
Total liabilities				8,618,644
Other segment information				
Exploration and evaluation expenditure carried forward	25,709,259	25,780,059	107,796	51,597,114
Security deposits	85,408	9,512,976	-	9,598,384
Depreciation and amortisation expense	345,152	-	-	345,152
Exploration and evaluation expenditure expensed or written off	397,178	383,300	395,359	1,175,837
Impairment losses	149,295	-	-	149,295
Share-based payments expense	1,014,300	-	-	1,014,300

(c) Business segment

The Group operates exclusively in one segment, namely hydrocarbon exploration and evaluation.

(d) Intersegment transfers

Segment revenues, expenses and results include transfers between segments. These transfers are eliminated on consolidation.

Note 25 JOINT VENTURE OPERATIONS

The Group had an interest in the following joint venture operations as at 30 June 2009 as follows:

Exploration permit	Unincorporated interest 2009 %	Unincorporated interest 2008 %	Principal activities	Operator of joint venture operation
WA-314-P	49.00	49.00	Exploration and evaluation	ConocoPhillips
WA-315-P	49.00	49.00	Exploration and evaluation	ConocoPhillips
WA-398-P	40.00	40.00	Exploration and evaluation	ConocoPhillips
AC/P8	66.67	66.67	Exploration and evaluation	Karoon Energy International Ltd
Block Z-38	20.00	-	Exploration and evaluation	VAMEX *

* Subsequent to 30 June 2009, KEI (Peru Z38) Pty Ltd, Surcursal del Peru became operator of Block Z-38 and increased its unincorporated interest to 60%.

The following amounts represented the Group's share of assets and liabilities employed in joint venture operations. The amounts are included in balance sheets, in accordance with the accounting policy described in Note 1(q), under the following classifications:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Cash and cash equivalents	1,655,114	5,171,955	-	-
Other receivables	143,234	-	-	-
Inventories	1,488,793	-	-	-
Total current assets	3,287,141	5,171,955	-	-
Exploration and evaluation expenditure carried forward	68,421,167	17,992,081	-	-
Total non-current assets	68,421,167	17,992,081	-	-
Trade payables	31,890	-	-	-
Sundry payables and accrued expenditure	3,799,504	5,470,874	-	-
Total current liabilities	3,831,394	5,470,874	-	-
Share of net assets employed in joint venture operations	67,876,914	17,693,162	-	-

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

Contingent liabilities in respect of joint venture operations are set out in Note 26. Exploration expenditure commitments and capital commitments in respect of joint venture operations are set out in Note 27.

Parent Company guarantees have been provided to ConocoPhillips guaranteeing Karoon Gas (Browse Basin) Pty Ltd's performance under the joint operating agreement covering the three Browse Basin permits. In addition, a deed of cross charge has been entered into with ConocoPhillips by Karoon Gas (Browse Basin) Pty Ltd covering its three Browse Basin permit interests.

Note 26 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
The Group and Company had contingent liabilities as at 30 June 2009 that may become payable in respect of:				
(i) The Group has provided Agencia Nacional do Petroleo a letter of credit to carry out minimum work programs in relation to the Group's exploration permits in the Santos Basin, Brazil. The Directors are of the opinion that the work commitments will be satisfied. The letter of credit is fully funded by way of payment of a security deposit (refer Note 13) to Banco BNP Paribas Brasil SA, which will be released once the programs are met.	10,283,616	9,512,976	-	-
(ii) Performance guarantees (via letters of credit) were provided to Peru Petro SA for Block Z-38 and Block 144 by the Company for first year work commitments. The Directors are of the opinion that the work commitments will be satisfied under both Blocks. The letters of credit are fully funded by way of payment of security deposits (refer Note 13), which will be released once the commitments are met.	3,130,591	-	-	-
(iii) Bank guarantees were provided in respect of operating lease agreements for the Company and a subsidiary. These guarantees may give rise to liabilities in the Group and Company if obligations are not met under these guarantees. The bank guarantees given to lessors are fully funded by way of payment of security deposits (refer Note 13).	55,843	52,967	55,843	52,967

(iv) Joint venture arrangements

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

(v) The Company's present intention is to provide the necessary financial support for all Australian incorporated subsidiaries, whilst they remain subsidiaries, as is necessary for each company to pay all debts as and when they become due.

No material losses are anticipated in respect of any of the above contingent liabilities.

(b) Contingent assets

The Group and Company had no contingent assets as at 30 June 2009 (30 June 2008: $Nil).

Note 27 COMMITMENTS

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
(a) Capital expenditure commitments				
Contracts for capital expenditure in relation to assets not provided for in the financial statements and payable:				
(i) Drilling operations (joint venture operations)				
Not later than 1 year	19,837,934	31,232,667	-	-
	19,837,934	31,232,667	-	-
(ii) Seismic (non-joint venture operations)				
Not later than 1 year	926,978	-	-	-
	926,978	-	-	-
Total capital expenditure commitments	20,764,912	31,232,667	-	-
(b) Operating lease rental commitments				
Non-cancellable operating lease rentals not provided for in the financial statements and payable:				
Not later than 1 year	147,046	166,540	112,976	132,025
Later than 1 year but not later than 5 years	69,213	225,815	-	116,999
Total operating lease rental commitments	216,259	392,355	112,976	249,024

The Company has an office lease for Office 7A, 34-38 Lochiel Avenue, Mount Martha with a primary three year term that expires on 31 January 2010. Rent is payable monthly in advance. Annually from the commencement date, the rent is adjusted by reference to the consumer price index. There is an option to extend for two further terms of three years each. Subsequent to 30 June 2009, the lease was renewed.

The Company has an office lease for Level 9, 406 Collins Street, Melbourne with a four year term that expires 18 June 2010 and a 4% p.a. rental increase. Rent is payable monthly in advance. There is an option for a four year extension.

The Group also has an office lease at Level 10, 406 Collins Street, Melbourne with a five year term that expires 31 May 2012 and a 4% p.a. rental increase. Rent is payable monthly in advance. There is an option for a five year extension.

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
(c) Exploration expenditure commitments				
Some subsidiaries within the Group have commitments for exploration expenditure arising from obligations to government, to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration permits WA-314-P, WA-315-P, WA-398-P, Block 1037, Block 1101, Block 1102, Block 1165, Block 1166, Block Z-38, Block 144 and AC/P8 (30 June 2008: WA-314-P, WA-315-P, WA-398-P, Block 1037, Block 1101, Block 1102, Block 1165, Block 1166, Block Z-38, Block 144, EL4537 and AC/P8) not provided for in the financial statements and payable. Included in exploration expenditure commitments are $190,678,235 (2008: $52,835,556) of commitments that relate to the non-guaranteed work commitments:				
Not later than 1 year	84,419,775	57,782,284	-	-
Later than 1 year but not later than 5 years	234,928,576	165,968,889	-	-
Later than 5 years	-	2,866,667	-	-
Total exploration expenditure commitments	319,348,351	226,617,840	-	-
The above commitments include exploration expenditure commitments relating to joint venture operations:				
Not later than 1 year	84,173,287	47,755,556	-	-
Later than 1 year but not later than 5 years	174,187,866	165,328,889	-	-
Later than 5 years	-	2,866,667	-	-
Total joint venture operation exploration expenditure commitments	258,361,153	215,951,112	-	-

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

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

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $

Note 28 NOTES TO THE CASH FLOW STATEMENTS

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
(a) Reconciliation of profit (loss) after income tax to cash flows from operating activities				
Profit (loss) after income tax	4,452,766	(6,055,339)	(12,781,663)	(3,176,524)
Add (Subtract)				
Non-cash items included in operating profit (loss):				
Depreciation of plant and equipment and amortisation of computer software	396,488	345,152	381,474	337,122
Impairment losses	-	149,295	19,555,612	149,295
Net unrealised foreign currency losses (gains)	(9,770,509)	4,456,827	(11,558,829)	4,058,676
Share-based payments expense	4,313,989	1,014,300	4,313,989	1,014,300
Items classified as investing/ financing activities:				
Exploration and evaluation expenditure expensed or written off	1,075,643	1,175,837	-	-
Gain on disposal of plant and equipment	-	(11,818)	-	(11,818)
Change in operating assets and liabilities				
(Increase) decrease in assets:				
Trade and other receivables – current	(1,623,510)	59,292	(700,671)	28,896
Other assets – current	(80,740)	(207,347)	(125,186)	(162,900)
Increase (decrease) in liabilities:				
Trade and other payables – current	558,296	(1,126,772)	446,142	(1,308,946)
Long-term provisions	87,328	4,766	87,328	4,766
Net cash flows (used in) provided by operating activities	(590,249)	(195,807)	(381,804)	932,867

(b) Non-cash investing activities during the previous financial year

During the previous financial year, disposed plant and equipment was used as a trade-in on the purchase of plant and equipment of $44,128. This was not reflected in the cash flow statements.

Notes to the Financial Statements
Financial Year Ended 30 June 2009

Note 29 SHARE-BASED PAYMENTS

The share-based payments plan is described below. There has been no cancellation or modification to the plan during the financial year.

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

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

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

	Consolidated and Company 2009		Consolidated and Company 2008	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of financial year	1,220,000	$2.95	675,000	$1.97
Granted during financial year	2,440,000	$4.72	845,000	$2.84
Exercised during financial year	(440,000)	$2.57	(300,000)	$1.86
Forfeited during financial year	-	-	-	-
Expired during financial year	(210,000)	$2.03	-	-
Balance at end financial year	3,010,000	$4.36	1,220,000	$2.95
Exercisable at end of financial year:	1,475,000	$3.54	475,000	$2.03

The weighted average fair value of ESOP options granted during the financial year was $1.00 (2008: $0.52).

The weighted average share price when the ESOP options were exercised during the financial year was $4.98 (2008: $3.66).

ESOP options outstanding as at 30 June 2009 had a range of exercise prices from $2.95 to $6.85 (30 June 2008: $2.03 to $2.95) with a weighted average remaining contractual life of 519 days (30 June 2008: 471 days).

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

Grant date	Expiry date	Exercise price	Number
27 November 2007	31 October 2010	$2.95	645,000
20 August 2008	30 April 2010	$4.00	100,000
3 November 2008	30 April 2010	$4.00	730,000
3 November 2008	30 April 2011	$5.00	905,000
28 November 2008	30 April 2010	$4.00	200,000
28 November 2008	30 April 2011	$5.00	200,000
29 June 2009	30 October 2011	$6.85	230,000
		Total	3,010,000

Note 29 SHARE-BASED PAYMENTS (continued)

(b) Other share options

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

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

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

	Consolidated and Company 2009		Consolidated and Company 2008	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of financial year	3,250,000	$2.45	5,000,000	$2.00
Granted during financial year	4,500,000	$4.50	1,000,000	$2.95
Exercised during financial year	(2,250,000)	$2.23	(2,750,000)	$1.80
Forfeited during financial year	-	-	-	-
Expired during financial year	-	-	-	-
Balance at end of financial year	5,500,000	$4.22	3,250,000	$2.45
Exercisable at end of financial year:	4,000,000	$3.93	3,250,000	$2.45

The weighted average fair value of other share options granted during the financial year was $0.84 (2008: $0.52).

The weighted average share price when other share options were exercised during the financial year was $4.08 (2008: $3.48).

Other share options outstanding as at 30 June 2009 had a range of exercise prices from $2.95 to $5.00 (30 June 2008: $2.00 to $2.95) with a weighted average remaining contractual life of 636 days (30 June 2008: 471 days).

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

Grant date	Expiry date	Exercise price	Number
27 November 2007	31 October 2010	$2.95	500,000
22 January 2008	31 October 2010	$2.95	500,000
1 August 2008	30 April 2011	$4.00	750,000
1 August 2008	30 April 2011	$4.50	750,000
1 August 2008	30 April 2011	$5.00	750,000
27 November 2008	30 April 2011	$4.00	750,000
27 November 2008	30 April 2011	$4.50	750,000
27 November 2008	30 April 2011	$5.00	750,000
		Total	5,500,000

(c) Fair value of options

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

	2009	2008
Weighted average exercise price	$4.58	$2.90
Weighted average life of options	595 days	1,025 days
Weighted average share price	$2.95	$3.31
Expected share price volatility	64%	42%
Risk free interest rate	6.09%	6.58%
Weighted average option value	$0.90	$0.52

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

(d) Share-based payments expense

Total expenses arising from share-based payment transactions recognised during the financial year, included as part of employee benefits expense in income statements, was $4,313,989 (2008: $1,014,300) for both the Group and Company.

Note 30 REMUNERATION OF KEY MANAGEMENT PERSONNEL

Directors and other key management personnel of Karoon Gas Australia Ltd at any time during the financial year were as follows:

Name	Position
Directors	
Mr Robert Hosking	Executive Chairman
Mr Mark Smith	Executive Director and Exploration Manager
Mr Stephen Power	Non-Executive Director
Mr Geoff Atkins	Independent Non-Executive Director
Other key management personnel	
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

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

(a) Directors and other key management personnel remuneration

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Short-term employee benefits	1,810,705	1,427,653	1,810,705	1,427,653
Post-employment benefits	123,400	105,472	123,400	105,472
Long-term employee benefits (non-cash)	69,531	-	69,531	-
Share-based payments expense (non-cash)	3,707,955	774,000	3,707,955	774,000
Total Key Management Personnel remuneration	5,711,591	2,307,125	5,711,591	2,307,125

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and transferred the individual and detailed remuneration disclosures to the Directors' Report. This information can be found in Sections A-D of the Remuneration Report on pages 25 to 30.

(b) Employee Share Option Plan and other share options

Information relating to the Company's Employee Share Option Plan and other share options, including details of options granted, exercised, forfeited and expired during the financial year and options over unissued ordinary shares in the Company outstanding at the end of the financial year to Directors, other key management personnel and others, is set out in Note 29.

(c) Options over unissued ordinary shares of the Company

During the financial year 5,500,000 options over unissued ordinary shares of the Company (2008: 1,500,000) were issued to Directors and other key management personnel.

Notes to the Financial Statements
Financial Year Ended 30 June 2009

Note 30 REMUNERATION OF KEY MANAGEMENT PERSONNEL (continued)

The movement of options over unissued ordinary shares in the Company held by Directors and other key management personnel during the financial year was as follows:

	Balance as at 1 July 2008	Granted as remuneration	Options exercised	Net change other	Balance as at 30 June 2009	Total vested as at 30 June 2009	Total exercisable as at 30 June 2009	Total unexercisable as at 30 June 2009
Executive Directors								
Mr Robert Hosking	1,125,000	2,250,000	(1,125,000)	-	2,250,000	1,500,000	1,500,000	750,000
Mr Mark Smith	1,125,000	2,250,000	(1,125,000)	-	2,250,000	1,500,000	1,500,000	750,000
Non-Executive Directors								
Mr Stephen Power	500,000	-	-	-	500,000	500,000	500,000	-
Mr Geoff Atkins	500,000	-	-	-	500,000	500,000	500,000	-
Other key management personnel								
Mr Scott Hosking	200,000	200,000	(100,000)	-	300,000	300,000	300,000	-
Mr Lino Barro	200,000	200,000	-	(100,000)	300,000	200,000	200,000	100,000
Mr David Ormerod	200,000	400,000	(200,000)	(50,000)	350,000	150,000	150,000	200,000
Mr Jorg Bein	100,000	200,000	-	-	300,000	200,000	200,000	100,000
	3,950,000	5,500,000	(2,550,000)	(150,000)	6,750,000	4,850,000	4,850,000	1,900,000

The movement of options over unissued ordinary shares in the Company held by Directors and other key management personnel during the previous financial year was as follows:

	Balance as at 1 July 2007	Granted as remuneration	Options exercised	Net change other	Balance as at 30 June 2008	Total vested as at 30 June 2008	Total exercisable as at 30 June 2008	Total unexercisable as at 30 June 2008
Executive Directors								
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	-
Non-Executive Directors								
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	-
Other key management personnel								
Mr Scott Hosking	-	200,000	-	-	200,000	200,000	100,000	-
Mr Lino Barro	200,000	100,000	(100,000)	-	200,000	200,000	100,000	-
Mr David Ormerod	100,000	100,000	-	-	200,000	200,000	100,000	-
Mr Jorg Bein	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	-

(d) Shareholdings

The number of ordinary shares held by Directors and other key management personnel as at 30 June 2009 was as follows:

	Balance as at 1 July 2008	Received as remuneration	Options exercised	Ordinary shares purchased	Ordinary shares sold	Other	Balance as at 30 June 2009
Executive Directors							
Mr Robert Hosking	12,251,820	-	1,125,000	12,000	(1,000,000)	-	12,388,820
Mr Mark Smith	2,280,000	-	1,125,000	-	(1,000,000)	-	2,405,000
Non-Executive Directors							
Mr Stephen Power	300,000	-	-	-	-	-	300,000
Mr Geoff Atkins	427,500	-	-	-		-	427,500
Other key management personnel							
Mr Scott Hosking	146,676	-	100,000	140,935	(226,632)	-	160,979
Mr Lino Barro	-	-	-	-	-	-	-
Mr David Ormerod	-	-	200,000	-	(175,000)	-	25,000
Mr Jorg Bein	42,000	-	-		(30,000)	-	12,000
	15,447,996	-	2,550,000	152,935	(2,431,632)	-	15,719,299

The number of ordinary shares held by Directors and other key management personnel as at 30 June 2008 was as follows:

	Balance as at 1 July 2007	Received as remuneration	Options exercised	Ordinary shares purchased	Ordinary shares sold	Other	Balance as at 30 June 2008
Executive Directors							
Mr Robert Hosking	12,126,820	-	1,125,000	-	(1,000,000)	-	12,251,820
Mr Mark Smith	1,515,000	-	1,125,000	-	(360,000)	-	2,280,000
Non-Executive Directors							
Mr Stephen Power	15,000	-	500,000	-	(215,000)	-	300,000
Mr Geoff Atkins	427,500	-	-	-	-	-	427,500
Other key management personnel							
Mr Scott Hosking	170,405	-	-	44,754	(68,483)	-	146,676
Mr Lino Barro	-	-	100,000	-	(100,000)	-	-
Mr David Ormerod	-	-	-	-	-	-	-
Mr Jorg Bein	2,000	-	100,000	-	(60,000)	-	42,000
	14,256,725	-	2,950,000	44,754	(1,803,483)	-	15,447,996

(e) Loans to Directors and other key management personnel

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

(f) Other transactions with Directors and other key management personnel

Refer to Note 31 for other transactions with Directors and other key management personnel during the financial year.

Note 31 RELATED PARTY TRANSACTIONS

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

(a) Parent Company

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

(b) Subsidiaries

Interests in subsidiaries are set out in Note 23.

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

Other transactions that occurred were advancement of intercompany loans at Nil% interest rate (2008: Nil%) and no fixed term for repayment as it was used for funding the intercompany operations and therefore will not be repaid within twelve months. Loans are unsecured and are repayable in cash. The amounts receivable (including provisions for impairments raised) from subsidiaries as at 30 June 2009 are set out in Note 11.

These transactions are eliminated on consolidation.

The movement in amounts receivable from subsidiaries (before provision for impairment) during the financial year was as follows:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Amounts receivable from subsidiaries				
Balance at beginning of financial year	-	-	76,140,169	18,055,266
Loans advanced	-	-	58,133,203	58,084,903
Loan repayments received	-	-	-	-
Interest charged	-	-	-	-
Interest received	-	-	-	-
Balance at end of financial year	-	-	134,273,372	76,140,169

A provision for impairment has been raised in relation to the amounts receivable from subsidiaries of $19,555,612 (2008: $Nil), and an impairment loss of $19,555,612 (2008: $Nil) recognised as an expense in the income statement of the Company. Both the provision and the expense are eliminated on consolidation.

Parent Company guarantees provided to third parties guaranteeing a subsidiary's performance under joint operating agreements are set out in Note 25.

A bank guarantee provided by the Parent Company to a third party, guaranteeing a subsidiary's performance under an operating lease agreement, is set out in Note 26.

(c) Directors and other key management personnel

Disclosures relating to Directors and other key management personnel are set out in the Directors' Report and Note 30.

Apart from the details disclosed in this note, no Director or other key management personnel had 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 other key management personnel interests subsisting as at 30 June 2009 other than as stated in the Directors' Report (Remuneration Report, Section C).

(d) Superannuation contributions

During the financial year, the Company contributed to accumulation type benefit funds administered by external fund managers. The funds cover all Australian domiciled employees and Directors of the Company. The current contribution is 9% p.a. (2008: 9% p.a.) of employee cash remuneration. Contributions to superannuation funds, on behalf of Directors and employees, during the financial year by the Group and Company amounted to $205,815 (2008: $138,416).

(e) Other related party transactions with the Company and within the Group

During the financial year, Mr Stephen Power, a Director, had an interest in Napier Legal Pty Ltd and previously Salter Power Pty Ltd, which both provided legal services to the Group and Company. The value of transactions during the financial year in the Group was $181,386 (2008: $357,983) and in the Company was $51,469 (2008: $83,913).

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

Note 32 SUBSEQUENT EVENTS

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

(a) Share Purchase Plan

A Share Purchase Plan ("SPP") had been offered to eligible Australian and New Zealand shareholders registered as at the close of business on 10 June 2009 to acquire ordinary shares in the Company for $6.70 each. As at 30 June 2009, $4,512,228 had been paid by shareholders taking up the offer and held in an escrowed bank account pending close of the offer and the issue of fully paid ordinary shares in the Company (refer Note 20). This offering closed on 17 July 2009 with gross proceeds raised of $23,546,258 from the issue of 3,514,367 fully paid ordinary shares in the Company. The allotment and issue of fully paid ordinary shares under the terms and conditions of the SPP were made on 24 July 2009.

(b) Kontiki-1 exploration well

As at 16 September 2009, Kontiki-1 was drilling ahead at 4,169 mRT and a 7 inch intermediate liner was being run. The Transocean Legend semi-submersible rig is drilling the exploration well, which is operated by ConocoPhillips. Kontiki-1 is the second well in a multi- well drilling program in the Browse Basin permits WA-314-P, WA-315-P and WA-398-P. The Kontiki-1 well is located in WA-314-P, approximately 490 km north of Broome, Western Australia. Kontiki-1, with a planned total depth of 4610 mRT, is targeting potential hydrocarbons in the middle and upper Jurassic sandstones. As with the recent gas discovery Poseidon-1 exploration well, even if successful, Kontiki-1 is planned to be plugged and abandoned following final well evaluation and production testing, if applicable.

(c) Ordinary shares issued

2,200,000 fully paid ordinary shares have been issued since 30 June 2009 as a result of the exercise of ESOP options and other share options since that date raised gross proceeds of $8,522,000.

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

This financial report was authorised for issue by the Board of Directors on 16 September 2009.

The Directors of the Company declare that:

1. The financial statements and notes, set out on pages 38 to 87, are in accordance with the Corporations Act 2001 and:
   a. Comply with relevant Australian Accounting Standards and the Corporations Regulations 2001; and
   b. Give a true and fair view of the Company's and Group's financial position as at 30 June 2009 and of their performance for the financial year ended on that date;
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. The Directors have been given the declarations by the Executive Chairman and Chief Financial Officer required by Section 295A of the Corporations Act 2001.

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

On behalf of the Directors:

Mr Robert Hosking

Executive Chairman

Dated at Melbourne, 16 September 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website: www.pwc.com.au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Independent auditor's report to the members of Karoon Gas Australia Ltd

Report on the financial report

We have audited the accompanying financial statements of Karoon Gas Australia Ltd (the "Company"), which comprise the balance sheets as at 30 June 2009, and the income statements, the statements of changes in equity and cash flow statements for the financial year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration for both Karoon Gas Australia Ltd and the Karoon Gas Australia Group (the "Group"). The Group comprises the Company and the subsidiaries it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation 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 establishing and maintaining internal controls 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. In Note 1 the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial report and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management.

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

Independent Auditor's Report
Financial Year Ended 30 June 2009

Continued

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Karoon Gas Australia Ltd (continued)

Independence

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the Company's and consolidated Group's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 31 of the Directors' Report for the financial year ended 30 June 2009. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Karoon Gas Australia Ltd for the financial year ended 30 June 2009 complies with Section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
16 September 2009

Statement of Corporate Governance

The revised ASX Corporate Governance Council Principles and Recommendations published during August 2007 (revised Corporate Governance Council Principles) established the framework for how the Board of Directors 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, senior management and employees are committed to achieving this objective.

This statement summarises the Company's main corporate governance principles and practices.

Role of the Board of Directors

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

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

The Company's Board Charter can be found on the Company's web site at www.karoongas.com.au.

Composition of the Board of Directors

The Board of Directors 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 Directors' 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 Napier Legal Pty Ltd, a law firm in which Mr Power has an interest, providing legal services to the Company. These services are provided by Napier Legal 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 of Directors should be independent directors. The Company does not currently comply with this Recommendation. The Board of Directors 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 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; or
- 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 Chairman should be an independent director. Also, Recommendation 2.3 of the revised Corporate Governance Council Principles provides that the roles of the Chairman and the Chief Executive Officer should not be exercised by the same individual. The Chairman is an executive of the Company, its founding director, one of the Company's largest shareholders and had previously exhibited transparency in relation to Board of Directors and management decisions. In these circumstances, the Board of Directors considers that it is acceptable at this stage of the Company's evolution for the Chairman to be an Executive Director and not independent. The position will, however, be monitored by the Audit Committee.

Meeting schedule

The Board of Directors 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 of Directors, an individual Director may engage an independent professional adviser at the expense of the Company in appropriate circumstances.

Board committees

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

The Board of Directors had established an Audit Committee.

The Board of Directors had established a Remuneration Committee.

The Board of Directors has not established a nomination committee; the Board of Directors 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 Group. The Company had formally adopted the Audit Committee Charter. A copy of the Audit Committee Charter can be found on the Company's website at www.karoongas.com.au.

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

The Audit Committee currently consists of:

Mr Geoff Atkins (Chairman)

Mr Robert Hosking

Mr Stephen Power

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 chairman, who is not chairman of the Board of Directors; 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 will appoint another non-executive Director to the Audit Committee.

The responsibilities of the Audit Committee include:

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

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

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 appointed new external auditors, PricewaterhouseCoopers, during the 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. The Selection and Appointment of External Auditor Policy is available on the Company's web site at www.karoongas.com.au.

Nomination Committee

Recommendation 2.4 of the revised Corporate Governance Council Principles provides that a Board of Directors should establish a nomination committee. Given the size of the Board of Directors, the Board of Directors 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 of Directors had 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 the 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 during the financial year. The Board of Directors proposes adopting a Selection and Appointment of Directors Policy. Once adopted, the Selection and Appointment of Directors Policy will be made available on the Company's web site at www.karoongas.com.au.

Remuneration Committee

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

- the Company's 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; and
- a performance evaluation process is created to monitor the Board of Directors and senior executives.

The Remuneration Committee currently consists of:

Mr Geoff Atkins (Chairman)

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, however, the composition of the Remuneration Committee is currently being reviewed with a view to gaining compliance with Recommendation 8.1.

A copy of the Remuneration Committee Charter can be found on the Company's web site 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 executive remuneration and making recommendations to the Board of Directors.

Executive remuneration is set by the Board of Directors 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.

The Company is currently preparing a policy on restricting the hedging of options or unvested entitlements under the Company's Employee Share Option Plan, and will make this available on the Company's website once adopted.

The Company has not established any schemes for retirement benefits, other than superannuation, for non-executive Directors.

Further information on the remuneration of the Directors and other key management personnel can be found in the Remuneration Report section of the Directors' Report.

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 of Directors, its committees and individual Directors.

During the financial year, performance evaluation of the Executive Directors was undertaken and submitted to the Remuneration Committee. Non-Executive Directors did not receive a formal evaluation. Due to the nature and stage of the Company's operations and its evolution, the Board of Directors was of the view that a formal performance review was not necessary.

The policy Board of Directors and Senior Executives Evaluation, is available on the Company's web site 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 during the financial year.

Role of the Company Secretary

All Directors have access to the Company Secretary and the appointment and removal of the Company Secretary is a matter for decision by the Board of Directors as a whole.

The Company Secretary is accountable to the Board of Directors, through the Chairman, on all corporate governance matters.

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

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 Group. The Company also strives to comply with legal and other obligations to stakeholders.

The Company has developed a Code of Conduct for the Board of Directors, senior management and employees of the Company. The Company's Code of Conduct can be found on the Company's web site 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 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 Chairman, or, if the Director involved is the Chairman, to the Board of Directors.

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

- contracts for the supply of goods and/or services which extend beyond one year, or where the total value of goods and/or services supplied under the contract will, in any one year, exceed $25,000;
- all agreements to lease and/or leases of property; and
- all agreements for 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 themself from the meeting and not participate in any vote to approve such contract.

Policy and procedure for share trading

Directors and officers (including employees and consultants) 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 the 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 Chairman. Embargo periods may typically include the period of two weeks prior to the release of the Company's half-yearly results and final results to ASX.

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

Prior to dealing in securities of the Company, Directors and officers (including employees and consultants) 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 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 on the Company's web site 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 on the Company's web site 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 of Directors 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 any shareholders who request a copy. The Board of Directors ensures that the Annual Report includes relevant information about the operations of the Group during the financial year, changes in the state of affairs of the Group and other disclosures required by the Corporations Act 2001;
- half year financial report, prepared in accordance with the requirements of the Corporations Act 2001, is subject to an auditor's review. The half year financial report is sent to any shareholder who requests a copy;
- proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders; and
- the Company posts all reports, ASX and media releases and copies of significant presentations on the Company's web site at www.karoongas.com.au.

In addition, news announcements and other information are sent by e-mail 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 e-mail, 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, preparation and content of the independent auditor's report.

The Chairman 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, preparation and content of the independent 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 Board has overall responsibility for monitoring compliance and oversight of these policies along with ensuring that they are efficient and effective.

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

- financial controls are set in place by the use of a limit of authority matrix, general purchasing principles and approvals procedures. All expenditure is closely monitored by the Audit Committee on behalf of the Board and reported on a quarterly basis to the Board. Monthly management accounts are prepared for the Board to ensure information congruence between management and the Board.
- the Company offsets the risk of operational failures using appropriate insurance, with covers for third party liability, well control, day to day office and business insurance, operators extra expense.
- the Company protects its employees through the adoption of a Corporate HS&E Policy and travel insurance for periods where employees are out of state or out of country, along with membership to emergency assistance and management for employee overseas.
- operational reporting is submitted to the Board at every Board meeting to ensure decisions are made in an efficient and effective manner. Reports include reviews of current assets, potential acquisitions and general operational issues or opportunities.

Management accountability

In compliance with Recommendation 7.3, the Board of Directors encourages management accountability for the Company's financial reports by requiring the Executive Chairman and Chief Financial Officer to state in writing to the Board of Directors that:

a 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 Australian Accounting Standards; and

b that financial reports 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.

Recommendation 7.2 of the revised Corporate Governance Council Principles provides that the Board of Directors 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. Throughout the financial year Karoon has reviewed and where required improved its risk management and internal compliance and control systems. The Company will continue to review and improve its risk management systems over the coming period.

Additional Securities Exchange Information

Additional information required by ASX listing rules and not disclosed elsewhere in the Annual Report is set out below. The information was applicable for the Company as at 7 September 2009.

Distribution of shareholding

The number of shareholders ranked by size of holding is set out below:

Size of holding		Number of holders	Number of ordinary shares on issue
Less than 1,000		3,535	1,952,486
1,001 to 5,000		3,408	8,678,802
5,001 to 10,000		922	6,574,825
10,001 to 100,000		1,147	29,215,281
More than 100,000		129	130,594,804
	Total	9,141	177,016,198

There were 88 shareholders holding less than a marketable parcel of ordinary shares to the value of $500.

Substantial shareholders

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

	Fully paid ordinary shares	
Shareholder	**Number held**	**% of issued ordinary shares**
Talbot Group Holdings Pty Ltd	26,317,356	14.87
Wellington Management Group, LLP and its related bodies corporate	22,120,497	12.50
Mr Robert Hosking	12,103,820	6.84
Total	60,541,673	34.20

Twenty largest shareholders

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

		Fully paid ordinary shares	
	Shareholder	**Number held**	**% of issued ordinary shares**
1	HSBC Custody Nominees (Australia) Limited	25,375,378	14.34
2	Talbot Group Holdings Pty Ltd <Talbot Equities A/C>	17,165,933	9.70
3	Ropat Nominees Pty Ltd	10,479,380	5.92
4	ANZ Nominees Limited <Cash Income A/C>	10,431,663	5.89
5	Talbot Group Investments Pty Ltd	9,151,423	5.17
6	JP Morgan Nominees Australia Limited	8,658,775	4.89
7	HSBC Custody Nominees (Australia) Limited – A/C 2	4,521,366	2.55
8	National Nominees Limited	4,056,986	2.29
9	Citicorp Nominees Pty Limited	2,962,798	1.67
10	HSBC Custody Nominees (Australia) Limited <3 A/C>	2,837,444	1.60
11	IERS (Australia) Pty Ltd <Smith Family Investment A/C>	1,591,500	0.90
12	UBS Wealth Management Australia Nominees Pty Ltd	1,265,303	0.71
13	Mr Donald James Erskine <Erskine Invest Super A/C>	1,136,178	0.64
14	Mrs Mara Spong	1,125,746	0.64
15	Credit Suisse Securities (Europe) Ltd <Collateral A/C>	1,100,000	0.62
16	HSBC Custody Nominees (Australia) Limited-GSCO ECA	897,237	0.51
17	Rose Burton Pty Ltd	875,746	0.49
18	Penelope Baldick	809,912	0.46
19	Mr Ross Stansfield-Smith <Narong Super Fund A/C>	809,198	0.46
20	Queensland Investment Corporation	803,736	0.45
	Total	106,055,702	59.91

Additional Securities Exchange Information

Unlisted equity securities: Options

The following options were unquoted:

	Number of unlisted options on issue
Options issued pursuant to Company's ESOP	2,060,000
Other share options issued	4,250,000
Total	6,310,000

Voting rights

(a) Ordinary shares, fully paid

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

(b) Unlisted options

No voting rights.

Other information

The Company was incorporated as a public company on 11 November 2003.

The Company was admitted to the ASX official list during June 2004 and quotation of its ordinary shares commenced on 8 June 2004.

The register of securities is held at Computershare Investor Services Limited, Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067 Australia. Investor enquiries can be made via telephone on 1300 850 505 (within Australia).

Schedule of interests

Exploration permit	Basin	% interest held
AC/P8	Bonaparte, Australia	66.67
WA-314-P	Browse, Australia	49.00 [1]
WA-315-P	Browse, Australia	49.00 [1]
WA-398-P	Browse, Australia	40.00
Block 1037	Santos, Brazil	100.00
Block 1101	Santos, Brazil	100.00
Block 1102	Santos, Brazil	100.00
Block 1165	Santos, Brazil	100.00
Block 1166	Santos, Brazil	100.00
Block 144	Maranon, Peru	100.00
Block Z-38	Tumbes, Peru	60.00

[1] 1.5% ORR for first five years, going to 2% thereafter.

Glossary

Term	Definition
2D	Two-dimensional seismic.
3D	Three-dimensional seismic.
$ or cents	Units of Australian currency.
AASB	Australian Accounting Standards Board.
appraisal well	A well drilled to confirm the size or quality of a hydrocarbon discovery.
associated gas	Natural gas found in association with oil, dissolved either in the oil or as a cap of free gas above the oil.
ASX	Australian Securities Exchange or ASX Limited (ABN: 98 008 624 691).
ATO	Australian Taxation Office.
AUD	Australian currency.
barrel or bbl	Barrel of oil, inclusive of condensate. A quantity of 42 United States gallons; equivalent to approximately 159 litres.
basin	An ancient natural depression on the earth's surface in which sediments, eroded from higher surrounding ground levels, accumulated and were preserved.
bcf	Billion cubic feet (1,000,000,000 cubic feet); equivalent to approximately 28.3 million cubic metres.
Block	A licence or concession area. It may be almost any size or shape, although usually part of a grid pattern.
boe	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 standard cubic feet per barrel and not price equivalence at the time.
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 (Browse Basin) Pty Ltd.
contingent resources	Quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not yet currently considered to be commercially recoverable.
CPRS	Carbon Pollution Reduction Scheme.
CSEM	Controlled Source Electro Magnetic (survey).
DHI	Direct Hydrocarbon Indicator.
Director	A Director of Karoon Gas Australia Ltd.
discovery	The first successful well on a new prospective reservoir structure.
economically recoverable reserves	The estimated quantity of hydrocarbons in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions.
ESOP	The Karoon Gas Australia Employee Share Option Plan.
exploration	The process of identifying prospective hydrocarbon regions and structures, mainly by reference to regional and specific geochemical, geological, geophysical surveys and drilling.
farm-in and farm-out	A commercial agreement in which an incoming joint venture participant (the "farmee") earns an interest in an exploration permit by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the permit (the "farmor") pays a reduced contribution. The interest received by a farmee is a farm-in while the interest transferred by the farmor is a farm-out.
FBT	Fringe Benefits Tax in Australia.
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.

Glossary

Term	Definition
financial year	Financial year ended 30 June 2009.
Group	Karoon Gas Australia Ltd and its subsidiaries.
GST	Goods and Services Tax in Australia.
hydrocarbon	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
Karoon, Company or Parent Company	Karoon Gas Australia Ltd.
km	Kilometres.
lead	A potential hydrocarbon target which had been identified but is under evaluation.
LNG	Liquefied natural gas.
LPG	Liquid petroleum gas.
LWD	Logging While Drilling.
m	Metres.
market capitalisation	The product of the Company's share price multiplied by the total number of ordinary shares issued by the 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 and is known as migration.
mm	Million.
mmbbls	Millions of barrels (1,000,000 barrels).
mmbtu	Millions of British thermal units.
mmscf/d	Millions of standard cubic feet per day; equivalent to 28,317 cubic metres per day.
Monte Carlo simulation	Where there is uncertainty in the variables used in the calculation of economically recoverable reserves, the ranges of possible values of each variable can be incorporated in a Monte Carlo simulation calculation to produce a range of probabilistic outcomes that reflect that uncertainty. The "mean" is the expected outcome. The **P10** (probability greater than 10%) is often used as the maximum case, the **P50** (probability of 50%) the mid case and the **P90** (probability greater than 90%) the minimum case.
mRT	Metres rotary table.
NGER Act	National Greenhouse and Energy Reporting Act 2007.
NPV	Net present value.
operator	One joint venture participant which had been appointed to carry out all operations on behalf of all the joint venture participants.
ordinary shares	The ordinary shares in the capital of Karoon Gas Australia Ltd.
ORR	Over-riding royalty.
p.a.	Per annum.
permit	A hydrocarbon tenement, lease, licence, concession or Block.
play	A geological concept which, if proven correct, could result in the discovery of hydrocarbons.
previous financial year	Financial year ended 30 June 2008.
prospect	A geological or geophysical anomaly that had 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.

Glossary
Continued

Term	Definition
prospectivity	Referring to the likelihood of finding commercial hydrocarbons.
prospective resource	The term used to describe undiscovered volumes in an exploration prospect yet to be drilled.
PSDM	Pre Stack Depth Migration.
REAL	Brazilian currency.
recoverable gas	An estimated measure of the total amount of gas which could be brought to surface from a given reservoir, this is usually in the order of 70-80% of the estimated gas-in-place.
reserves	Quantities of economically recoverable hydrocarbons estimated to be present within a trap.
reservoir	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
rig	The 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	Prospect risk or geologic risk is the assessed chance that the drilling of the prospect will be successful in finding significant volumes of hydrocarbons. The risk is calculated by multiplying the chance of success of each of the petroleum system elements involved in the prospect.
seismic survey	A type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near vertical 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.
SSP	Share Purchase Plan.
Talisman	Talisman Oil & Gas (Australia) Pty Limited.
TCF	Trillion cubic feet (1,000,000,000,000 cubic feet).
unrisked	Without risk.
USD	United States dollars.
VAMEX	Vietnam American Exploration Company LLC.

Corporate Directory

Board of Directors
Mr Robert Hosking – Executive Chairman
Mr Mark Smith – Executive Director
Mr Geoff Atkins – Independent Non-Executive Director
Mr Stephen Power – Non-Executive Director

Company Secretary
Mr Scott Hosking

Audit Committee members
Mr Geoff Atkins (Chairman of Committee)
Mr Robert Hosking
Mr Stephen Power

Remuneration Committee members
Mr Geoff Atkins (Chairman of Committee)
Mr Mark Smith
Mr Stephen Power

Registered Office and Head Office
Office 7A, 34 - 38 Lochiel Avenue
Mount Martha VIC 3934
Australia

ACN:	107 001 338
ABN:	53 107 001 338
Telephone:	+61 3 5974 1044
Facsimile:	+61 3 5974 1644
E-mail:	info@karoongas.com.au
Web site:	www.karoongas.com.au

External Auditor
PricewaterhouseCoopers Australia
Freshwater Place
2 Southbank Boulevard
Southbank VIC 3006
Australia

Telephone:	+61 3 8603 1000
Facsimile:	+61 3 8603 1999

Bankers
National Australia Bank Limited
271 Collins Street
Melbourne VIC 3000
Australia

HSBC Bank Australia Limited
Level 12, 140 William Street
Melbourne VIC 3000
Australia

Corporate Directory
Continued

Share Registrar

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia

Telephone:	1300 850 505 (within Australia)
	+61 3 9415 4000
Facsimile:	+61 3 9473 2500
Web site:	www.computershare.com

Securities Exchange Listing

The Company's ordinary shares are listed on ASX.
The home exchange is Melbourne, VIC.
ASX code: **KAR**

Notice of Annual General Meeting

The Annual General Meeting of Karoon Gas Australia Ltd

will be held at:	River Rooms 2 & 3 at the Crown Towers
	Level 1, 8 Whiteman Street
	Southbank VIC 3006
time:	11am (registration from 10am)
date:	Thursday 12 November 2009

Karoon Gas Australia Ltd

Office 7A, 34 - 38 Lochiel Avenue

Mount Martha VIC 3934 Australia

ACN: 107 001 338

ABN: 53 107 001 338

Telephone: +61 3 5974 1044

Facsimile: +61 3 5974 1644

E-mail: info@karoongas.com.au

Web site: www.karoongas.com.au