



KAROON GAS AUSTRALIA LTD

(ACN 107 001 338)

NOTICE OF ANNUAL GENERAL MEETING

and

EXPLANATORY MEMORANDUM

Date of Meeting: 9 November 2017

Time of Meeting: 10:00 am (Registration opens at 9:00 am)

Place of Meeting: Club Pavilion Level 2, RACV Club, 501 Bourke Street Melbourne,
Victoria, 3000

This Notice of Meeting and Explanatory Memorandum should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

KAROON GAS AUSTRALIA LTD ACN 107 001 338

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that an Annual General Meeting of Shareholders of Karoon Gas Australia Ltd ACN 107 001 338 (**Company**) will be held at on 9 November 2017 at 10am at Club Pavilion Level 2, RACV Club, 501 Bourke Street Melbourne, Victoria 3000.

The Explanatory Memorandum that accompanies and forms part of this Notice of Annual General Meeting describes the various matters to be considered at the Annual General Meeting. Shareholders should read the Explanatory Memorandum accompanying this Notice of Meeting before deciding how to vote.

AGENDA

1. FINANCIAL REPORTS

To receive and consider the Financial Report of the Company for the year ended 30 June 2017, together with the Directors' Report and the Auditor's Report in accordance with the Corporations Act.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report for the year ended 30 June 2017, as contained within the Directors' Report, be adopted."

This resolution is subject to voting exclusions as set out at section 4 of the Explanatory Memorandum to this Notice of Meeting.

Note: This resolution shall be determined as if it were an ordinary (majority) resolution, but under section 250R(3) of the Corporations Act, the vote is advisory only and does not bind the Directors or the Company. The Directors will consider the outcome of the vote and comments made by Shareholders on the Remuneration Report at the meeting when reviewing the Company's remuneration policies.

3. RESOLUTION 2 – RE-ELECTION OF MR DAVID KLINGNER AS A DIRECTOR

Please note that Mr David Klingner has served the Company as Non-Executive Director since 19 December 2014 and is the Chairman of the Company. The Board unanimously supports the re-election of Mr David Klingner as a Director.

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That Mr David Klingner, who retires by rotation in accordance with Listing Rule 14.4 and paragraph 11.3 of the Constitution of the Company, and who, being eligible, offers himself for re-election, be re-elected as a Director of the Company with immediate effect."

4. RESOLUTION 3 – RE-ELECTION OF MR GEOFF ATKINS AS A DIRECTOR

Please note that Mr Geoff Atkins has served the Company as Non-Executive Director since 22 February 2005. The Board unanimously supports the re-election of Mr Geoff Atkins as a Director.

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That Mr Geoff Atkins, who retires by rotation in accordance with Listing Rule 14.4 and paragraph 11.3 of the Constitution of the Company, and who, being eligible, offers himself for re-election, be re-elected as a Director of the Company with immediate effect.”

5. RESOLUTION 4 – RE-ELECTION OF MR CLARK DAVEY AS A DIRECTOR

Please note that Mr Clark Davey has served the Company as a Non-Executive Director since 1 October 2010. The Board unanimously supports the re-election of Mr Clark Davey as a Director.

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That Mr Clark Davey, who retires by rotation in accordance with Listing Rule 14.4 and paragraph 11.3 of the Constitution of the Company, and being eligible, offers himself for re-election, be re-elected as a Director of the Company with immediate effect.”

6. RESOLUTION 5 – APPROVAL TO ISSUE ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR ROBERT HOSKING

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That the Company approve for all purposes, including Listing Rule 10.14, the issue to Mr Robert Hosking or his nominee of:

- a) 574,172 Long Term Incentive (LTI) ESOP Options at an exercise price of \$1.77 and 202,903 LTI Performance Rights, which options and performance rights are at risk remuneration, a relevant proportion of which will vest on satisfaction of the LTI performance hurdles over the three-year performance period from 1 July 2017; and*
- b) 128,505 Performance Rights, to be granted as a result of the satisfaction of 40% of short term incentive (STI) performance hurdles over the 2017 financial year.*

under and in accordance with the Employee Share Option Plan 2016 and Performance Rights Plan 2016 and otherwise on the terms and conditions set out in the Explanatory Memorandum.”

This resolution is subject to voting exclusions as set out at section 6 of the Explanatory Memorandum to this Notice of Meeting.

7. RESOLUTION 6 – APPROVAL TO ISSUE ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR MARK SMITH

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That the Company approve for all purposes, including Listing Rule 10.14 , the issue to Mr Mark Smith or his nominee of:

- a) 574,172 LTI ESOP Options at an exercise price of \$1.77 and 202,903 LTI Performance Rights, which options and performance rights are at risk remuneration, a relevant proportion of which will vest on satisfaction of the LTI performance hurdles over the three-year performance period from 1 July 2017; and*
- b) 128,505 Performance Rights, to be granted as a result of the satisfaction of 40% of STI performance hurdles over the 2017 financial year.*

under and in accordance with the Employee Share Option Plan 2016 rules and Performance Rights Plan 2016 rules and otherwise on the terms and conditions set out in the Explanatory Memorandum.”

This resolution is subject to voting exclusions as set out at section 6 of the Explanatory Memorandum to this Notice of Meeting.

OTHER BUSINESS

To transact any other business which may be properly brought before the meeting in accordance with the Company's Constitution and the Corporations Act.

REQUIRED MAJORITIES AND IMPORTANT NOTICES

Resolutions 1 to 6 are ordinary resolutions and will be passed only if supported by a majority of the votes cast by Shareholders entitled to vote on the resolutions.

Further information is set out in the Explanatory Memorandum accompanying this Notice of Meeting.

DATED: 9 October 2017

BY ORDER OF THE BOARDA handwritten signature in black ink, appearing to read 'S Hosking', written in a cursive style.

Scott Hosking

Company Secretary

Voting Information

Voting entitlements

In accordance with regulation 7.11.38 of the Corporations Regulations, the Company determines that fully paid ordinary shares held as at 7.00pm (EDT) on 7 November 2017 will be taken, for the purposes of the Annual General Meeting, to be held by the persons who held them at that time.

Accordingly, transactions registered after that time will be disregarded in determining a Shareholder's entitlement to attend and vote at the meeting.

Appointing a proxy

In accordance with section 249L(1)(d) of the Corporations Act, Shareholders are advised that:

- Each Shareholder who is entitled to attend and vote at the Annual General Meeting has a right to appoint a proxy;
- The proxy need not be a Shareholder of the Company;
- A body corporate appointed as a Shareholder's proxy may appoint an individual as its representative to exercise any of the powers that the body corporate may exercise as the Shareholder's proxy; and
- A Shareholder who is entitled to cast two or more votes at the Annual General Meeting may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one half of the votes.

Enclosed with this Explanatory Memorandum is a proxy form for use by Shareholders (**Proxy Form**). A Shareholder who appoints a proxy may specify the way in which the proxy is to vote on each resolution or may allow the proxy to vote at their discretion.

In accordance with section 250BA of the Corporations Act, the Company specifies the following information for the purpose of receipt of proxy appointments:

Share Registrar:	Computershare Investor Services Pty Limited
Physical Address:	Yarra Falls, 452 Johnston Street, Abbotsford, Vic 3067, Australia
Postal Address:	GPO Box 242, Melbourne, Vic 3001, Australia
Facsimile Number:	1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)

For Intermediary Online subscribers only (custodians): www.intermediaryonline.com.

Shareholders may also register the appointment of proxies online at www.investorvote.com.au by using the secure online access information set out in the Proxy Form.

The completed Proxy Form must be received by the Company at the address specified above, or your proxy must be lodged online, at least 48 hours before the time notified for the Annual General Meeting.

Notes:

1. If a Proxy Form is signed or authenticated by an appointer's attorney, the power of attorney or a certified copy thereof (if any) under which it is signed must accompany the Proxy Form and be received by the Share Registrar – Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, Vic 3067, not later than 48 hours before the appointed time of the Annual General Meeting.
2. Proxy Forms executed by a corporation must be in accordance with the requirements of the Corporations Act or under the hand of its attorney. In the case of a sole Director/secretary company, please indicate "sole Director" in the space provided.

3. Should you desire to direct your proxy on how to vote, place a cross in the appropriate box for each item, otherwise your proxy may vote as your proxy thinks fit or abstain from voting.
4. If two or more proxies are appointed, you may delete "all" and insert the relevant number or proportion of shares in respect of which each such appointment is made. A separate Proxy Form must be completed for each proxy.
5. If attending the Annual General Meeting, please bring the Proxy Form to assist registration. If a representative of a corporate security holder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, Downloadable Forms.
6. If you need any further information about this form or attendance at the Annual General Meeting, please contact the Share Registrar - Computershare Investors Services Pty Limited on (within Australia) 1300 850 505 (outside Australia) +61 3 9415 4000.

Voting restrictions that may affect your proxy

Due to the voting exclusions that apply to certain items of business, the Key Management Personnel (**KMP**) of the Company and their Closely Related Parties will not be able to vote your proxy on the following resolutions unless you have directed them how to vote or, in the case of the Chairman, if you expressly authorise him to vote:

- Resolution 1 (Adoption of Remuneration Report);
- Resolution 5 (Approval to issue ESOP Options and Performance Rights to Mr Robert Hosking); and
- Resolution 6 (Approval to issue ESOP Options and Performance Rights to Mr Mark Smith).

How the Chairman of the meeting will vote proxies

If the Chairman is appointed as proxy for any Shareholder, the Chairman will vote the proxy in the manner specified by the Shareholder in that proxy. If the Shareholder does not specify how the Chairman is to vote on any Resolution, the Chairman as proxy will vote **in favour** of Resolutions 1 to 6. By appointing the Chairman as proxy, you authorise him to vote any undirected proxy votes on resolutions 1, 5 and 6 even though they are connected to remuneration of the KMP.

KAROON GAS AUSTRALIA LTD

ACN 107 001 338

EXPLANATORY MEMORANDUM TO SHAREHOLDERS

1. INTRODUCTION

This Explanatory Memorandum has been prepared for the information of Shareholders (**Shareholders**) of Karoon Gas Australia Ltd (**Company**) in connection with the business to be transacted at the Annual General Meeting of the Company to be held at Club Pavillion Level 2, RACV Club 501 Bourke Street Melbourne, Victoria, 3000 on 9 November 2017 at 10:00am AEDT (registration from 9:00am AEDT) (**Annual General Meeting**).

At the Annual General Meeting, Shareholders will be asked to consider resolutions to:

1. adopt the Remuneration Report;
2. re-elect Mr David Klingner as a Director of the Company;
3. re-elect Mr Geoff Atkins as a Director of the Company;
4. re-elect Mr Clark Davey as a Director of the Company;
5. approve the issue of options under the Employee Share Option Plan and performance rights under the Performance Rights Plan to Mr Robert Hosking or his nominee; and
6. approve the issue of options under the Employee Share Option Plan and performance rights under the Performance Rights Plan to Mr Mark Smith or his nominee.

The purpose of this Explanatory Memorandum is to provide information that the Board believes to be material to Shareholders in deciding whether or not to pass these resolutions. It explains the resolutions and identifies the Board's reasons for putting them to the Shareholders. This Explanatory Memorandum should be read in conjunction with the accompanying Notice of Meeting.

This Explanatory Memorandum, Notice of Meeting and all attachments are important documents and should be read carefully and in their entirety. If you have any questions regarding the matters set out in this Explanatory Memorandum or the Notice of Meeting, please contact your accountant, solicitor or other professional advisor.

2. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders should read this Explanatory Memorandum carefully before deciding how to vote on the resolutions set out in the Notice of Meeting.

Enclosed with this Explanatory Memorandum is a Proxy Form for use by Shareholders. All Shareholders are invited and encouraged to attend the Annual General Meeting or, if they are unable to attend in person, to complete, sign and return the Proxy Form to the Company, or appoint a proxy online, in accordance with the instructions contained in the Proxy Form and the Notice of Meeting. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Annual General Meeting in person.

3. FINANCIAL REPORTS

Section 317 of the Corporations Act requires the Company's Financial Reports, Director's Report and Auditor's Report for the year ended 30 June 2017 to be laid before the Annual General Meeting. The Financial Report, the Directors' Report and the Auditor's Report are contained in the Company's 2017 Annual Report, a copy of which has been made available to Shareholders with this Explanatory Memorandum and the accompanying Notice of Meeting, and is also available on request to the Company.

While no resolution is required in relation to this item, Shareholders should consider the documents and raise any matters of interest with the Directors of the Company when this item is being considered. In accordance with the Corporations Act, Shareholders will be given an opportunity to ask questions about and make comments on the management of the Company. The Company's external auditor will also be present at the meeting and Shareholders will have an opportunity to ask the external auditor questions in relation to the conduct of the audit, the Auditor's Report and the independence of the auditor. Shareholders may submit a written question to the auditor if the question is relevant to the content of the Auditor's Report or the audit of the annual Financial Reports. If you wish to do so you must submit any such written question by 2 November 2017.

4. **RESOLUTION 1 - ADOPTION OF REMUNERATION REPORT**

Section 250R(2) of the Corporations Act requires the Company to propose a resolution that the Remuneration Report be adopted. The Remuneration Report may be found within the Directors' Report on pages 24 to 60 in the Company's 2017 Annual Report.

A vote on this resolution is advisory only and does not bind the Directors or the Company. However, the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company in the future

Karoon's guiding principles and framework for remuneration strategy continues to ensure that the focus is maintained on the following:

- **Safety, culture and ethics** – ensuring that clear vesting gateways exist for safety outcomes and the ethical management of the business.
- **Shareholder value is paramount:**
 - remuneration outcomes (particularly incentive based outcomes) are designed to take account of share price movements across the reporting period and therefore the value delivered to shareholders;
 - a close alignment is created between operational performance, reward and sustained growth in shareholder value – this is done through achieving robust company building milestones year on year (via the Short-term Incentive ('STI') Plan) and through outperforming a select group of 19 industry peer companies in the longer term (via the Long-term Incentive ('LTI') Plan).
- **People:**
 - ability to attract, motivate and retain the very best people whilst remunerating them reasonably and competitively;
 - encouraging its people to hold equity in the company which builds a culture of viewing management decisions as an owner thereby helping to further align executives and shareholder's interests.
- **Transparency** – remuneration measures, outcomes and reporting are as simple and transparent as possible for shareholders and other stakeholders.
- **Longer term focus** – key decision making is longer term in its focus.

We recognise that the role of the STI and LTI plans is not to reward employees for "business as usual" outcomes but rather out-performance by achieving key company building goals. Our STIs are specifically designed to "stretch" business as usual outcomes, for example, by being specifically and heavily oriented to achieving significant value creation goals including bringing our own discoveries in Brazil into production and acquiring production assets from third parties in the fastest possible timeframe, the success of which will be measured by a corresponding uplift in shareholder value through sustained share price appreciation.

No significant changes are proposed in relation to our overall remuneration framework for the 2017/2018 year ahead.

Remuneration Framework and Links to Strategy

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

Key links between the remuneration framework, Karoon's strategy and shareholder value are demonstrated as follows:

- the STI framework is based on a set of ambitious Company building goals on a rolling short term basis;
- the LTI targets are based on a relative total shareholder return (TSR) measure – meaning, our team needs to outperform an industry peer group of companies in terms of share price performance for any performance incentive to vest;
- rewards for long-term value creation and executive retention by applying a one-year deferral of STI vesting after performance conditions are achieved and measuring LTI outcomes over a three-year testing period;
- having a clear gateway for safety outcomes before any STI awards can be made and a clawback (negative discretion) provision in relation to bribery and/or corruption issues;
- LTI awards will be delivered as a mix of performance rights and share options, to be tested using the usual relative TSR performance condition, rather than in cash assisting with capital preservation;
- exercising appropriate restraint in relation to salary levels and only vesting of incentives after having regard to market conditions and where considered appropriate, exercising negative discretion to reduce respective incentive awards.

Outcomes and decisions for the period are:

- STI - 40% of the available STI pool will be awarded for the 2016/2017 year based on the achievement of a proportion of the 2016/2017 goals. A 10% negative discretion was applied this year to take an actual 50% outcome to 40% given market conditions. The STI is now subject to a one-year retention period before vesting;
- LTI – 80% of the LTI hurdle was achieved for the 2016/2017 year based on independent confirmation by Egan & Associates of Karoon's relative total shareholder return ('TSR') compared to its industry peer group of Australian and offshore companies, however, in the circumstances, negative discretion was applied to reduce the award to a 0 % outcome given that the absolute return, like all but one of our industry peers, was negative;
- Executive salaries - there will be no increase to key management personnel ('KMP') salaries for the 2017/2018 year. Cash remuneration for KMP's has remained fixed and is below many of its peers, meaning that the importance of, and reliance on STI and LTI outcomes is heightened;
- Board fees - there will be no increase in the base Board fee paid to Non-Executive Directors for the 2017/2018 year (which has remained unchanged since 2013).

In summary, over the last year we have made very good operational progress with our development campaign in Brazil and are well positioned for the 2017/2018 year but recognise that challenging conditions continue in our sector.

Our corporate strategy and all remuneration related targets are designed and managed to improve shareholder value into the future. In these circumstances, the Board and Remuneration Committee have exercised considerable restraint by directing that there be no changes to salaries and base Director fees for the 2017/2018 year ahead, reducing the 2016/2017 STI outcome through negative discretion and applying full negative discretion to the LTI outcome.

Key management personnel (including all Directors) and their closely related parties are prohibited from voting on the advisory resolution under section 250R of the Corporations Act.

In accordance with the Corporations Act, Shareholders will be given an opportunity to ask questions and make comments on the Remuneration Report.

Board recommendation: Noting that each Director has a personal interest in their own remuneration from the Company (as described in the Remuneration Report), the Board unanimously recommends that Shareholders vote in favour of the adoption of the Remuneration Report.

Voting exclusion statement with regards to resolution 1

In respect of resolution 1, the Company will disregard any votes cast on the resolution:

- by or on behalf of a member of the KMP whose remuneration is disclosed in the remuneration report and any closely related parties of those persons; or
- as a proxy by a member of the KMP or a KMP's closely related party.

However, the Company need not disregard any vote by any such person excluded from voting on resolution 1 if:

- it is cast by any of them as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by any of them who is chairing the Annual General Meeting as proxy for a person who is entitled to vote, in accordance with an express authorisation on the proxy form.

5. RE-ELECTION OF EXISTING DIRECTORS

The Board unanimously supports the re-election of the retiring Directors the subject of resolutions 2, 3 and 4.

These Directors have significant and invaluable experience as detailed further below and the Board considers that, if re-elected, they will continue to provide a significant contribution to the Board of the Company.

In accordance with paragraph 11.3 of the Constitution of the Company, at the Annual General Meeting in every year, one-third of the Directors for the time being, and any other Director not in such one-third who has held office for three years or more (except the Managing Director), must retire from office. Pursuant to paragraph 11.4 of the Constitution of the Company, a retiring Director is eligible for re-election.

5.1 RESOLUTION 2 - APPROVAL OF RE-ELECTION OF MR DAVID KLINGNER AS A DIRECTOR

Resolution 2 seeks Shareholder approval for the Company to re-elect Mr David Klingner as a Director of the Company.

David has over a decade of Australian and international boardroom experience and has worked in the natural resources industry for 50 years. David spent his career working for Rio Tinto and its affiliated companies, holding many senior executive positions including Head of Exploration, Group Executive Coal and Gold, Managing Director Kaltim Prima Coal. David's various other commercial and technical roles included Group Geologist Petroleum Exploration. Since 2004, David has been an active company chairman and corporate director.

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

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

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

Member of the Remuneration Committee, Risk and Governance Committee.

Board recommendation: The Board unanimously supports the re-election of Mr Klingner.

5.2 RESOLUTION 3 – APPROVAL OF RE-ELECTION OF MR GEOFF ATKINS AS A DIRECTOR

Resolution 3 seeks Shareholder approval for the Company to re-elect Mr Geoff Atkins as a Director of the Company.

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

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

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

Board recommendation: The Board unanimously supports the re-election of Mr Atkins.

5.3 RESOLUTION 4 – APPROVAL OF RE-ELECTION OF MR CLARK DAVEY AS A DIRECTOR

Resolution 4 seeks Shareholder approval for the Company to re-elect Mr Clark Davey as a Director of the Company.

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

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

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

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

Board recommendation: The Board unanimously supports the re-election of Mr Davey.

6. RESOLUTIONS 5 AND 6 – APPROVAL TO ISSUE LTI ESOP OPTIONS AND LTI PERFORMANCE RIGHTS AND STI PERFORMANCE RIGHTS TO MR ROBERT HOSKING AND MR MARK SMITH

Resolutions 5 and 6 seek Shareholder approval for the Company to grant to each of Mr Robert Hosking or his nominee and to Mr Mark Smith or his nominee:

- a) *574,172 Long Term Incentive (LTI) ESOP Options at an exercise price of \$1.77 and 202,903 LTI Performance Rights, which Options and Performance Rights are at risk remuneration, a relevant proportion of which will vest on satisfaction of the LTI performance hurdles over the three-year performance period from 1 July 2017; and*
- b) *128,505 Performance Rights, to be granted as a result of the satisfaction of 40% of short term incentive (STI) performance hurdles over the 2017 financial year,*

pursuant to the ESOP and PRP.

Why is Shareholder approval being sought?

ASX Listing Rule 10.14 requires Shareholder approval in order for a Director to be issued equity securities in the Company under an employee incentive scheme. Mr Hosking and Mr Smith are Executive Directors of the Company.

Accordingly, Shareholders are asked to approve the grant of Options and Performance Rights to Mr Hosking and to Mr Smith, on the terms and conditions set out below.

Rationale for the granting of Long Term Incentive Options and Performance Rights

As set out in more detail in the 2017 Remuneration Report, the Company uses a Long Term Incentive plan to align the interests of its Executive Directors with Shareholders' interests. The vesting of the LTI Options and LTI Performance Rights that will be granted, if resolutions 5 and 6 are approved, is linked to the performance of the Company, as described below.

The LTI ESOP Options and LTI Performance Rights will only vest if Company-wide performance measures are achieved over the three year period commencing on 1 July 2017. Specifically, vesting will be subject to the Company's relative Total Shareholder Return (TSR) performance exceeding the Relative TSR of the following bespoke group of companies:

Table 1

Australian market peers	Global market peers
AWE Limited	Cairn Energy PLC
Beach Energy Limited	Cobalt International Energy Inc
Buru Energy Limited	Gran Tierra Energy Inc
Carnarvon Petroleum Limited	GeoPark Limited
FAR Limited	Kosmos' Energy Limited
Horizon Oil Limited	Ophir Energy plc
New Zealand Oil and Gas Ltd	QGEPC Participacoes SA
Oil Search Limited	Tullow Oil plc
Santos Limited	
Senex Energy Limited	
Woodside Petroleum Limited	

This group has been carefully selected by the Remuneration Committee to include those companies which have similar business models, geological footprints and operations to the Company, as well as companies that Shareholders may consider when looking to invest in a similar type of company.

Vesting of the LTI Options and LTI Performance Rights will occur in accordance with the following schedule:

Table 2

Relative TSR performance against the selected peer group	Proportion of Target LTI to Vest
Less than 50 th percentile	0%
At 50 th percentile	50%
Between 50 th and 75 th percentile	50% plus 2% for each additional percentile ranking above 50 th percentile
At or above 75 th percentile	100%
At 100 th percentile	120% (Maximum number issued under this resolution)

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

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

The terms of the LTI Options and LTI Performance Rights to be issued to Mr Hosking and Mr Smith are summarised in Annexure A and Annexure B to this Explanatory Memorandum.

The number of LTI Options and LTI Performance Rights to be issued to Mr Hosking and Mr Smith is considered reasonable by the Board of Directors in regards to their respective responsibilities and their respective achievements to date. The Board considers it appropriate that performance measures relate to the overall market performance of the Company in terms of its Relative TSR performance against the select group of local and global exploration and production companies, which may be of investment interest.

The target remuneration packages for each of Mr Hosking and Mr Smith, as Executive Directors, include the following components:

Table 3

Fixed (40%)*	Short Term Incentive (30%)	Long Term Incentive (30%)
\$600,000	\$450,000**	\$450,000**

*excluding superannuation of \$20,049

** remuneration subject to Shareholder approval and satisfaction of short term and long term performance hurdles.

The maximum number of LTI ESOP Options and LTI Performance Rights which may vest has been calculated as 120% of the target LTI remuneration. This allows for the achievement of the outperformance at the 100th percentile based on the Relative TSR award table above. In order to achieve the 120% of target performance hurdle and vesting of the maximum number of LTI options and performance rights, the Company must outperform all peers listed in table 1 on a Relative TSR basis over the performance period.

Further details of the Company's executive remuneration policy can be found in the Remuneration Report section of the Annual Report.

The structure of Mr Hosking's and Mr Smith's remuneration is derived from the same structure as other employees and senior management and is comprised of base salary and a combination of short and long term incentives.

Under the LTI, each of Mr Hosking and Mr Smith receive their LTI in a mix of Options and Performance Rights in accordance with the following table:

Table 4

		LTI Performance Rights	LTI Options
Mr Hosking	% of LTI	50%	50%
	Per security value	\$1.33 per right	\$0.47 per option
	Target Remuneration Amount	\$224,884	\$224,884
	Maximum Number of Securities which could vest (including 120% for outperformance)	202,903	574,172
Mr Smith	% of LTI	50%	50%
	Per security value	\$1.33 per right	\$0.47 per option
	Target Remuneration Amount	\$224,884	\$224,884
	Maximum Number of Securities which could vest (including 120% for outperformance)	202,903	574,172

Calculation of Exercise Price of the LTI Options

The exercise price of the LTI ESOP Options to be granted is calculated by applying a 30% premium to the Volume Weighted Average Price (**VWAP**) of the Company's shares traded on the ASX in the 20 days before and after 1 July 2017, being the beginning of the Relative TSR testing period (**Premium Exercise Price**). The VWAP is \$1.33 and the exercise price of the Options, if approved, will be \$1.77. This methodology ensures that ESOP options have a second hurdle, absolute 30% share price appreciation, before they attain a realisable value.

Calculation of LTI Option Fair Value

The estimated fair value is calculated based on a Black and Scholes option pricing model which takes into account a number of variables to determine fair (as shown in Table 5 and is consistent with the methodology required under the applicable accounting standards.

Based on the Black and Scholes option pricing model each of the ESOP Options, the subject of resolutions 5 and 6, have a value of \$0.47 at the time of preparing this notice, based on the assumptions in the table below:

Table 5

Exercise Price (being the VWAP over the 20 days either side of the beginning of the performance period, being 1 July 2016, (\$1.33) plus a 30% premium)	\$1.77
Value	\$0.47
Time to expiration of Option	4 years
Volatility	52.90%
Risk free interest rate	2.10%
Annualised dividend yield	Nil

Calculation of LTI Performance Right Fair Value

The Fair Value of Performance Rights is equivalent to the VWAP of the Company's shares traded on the ASX in the 20 days before and after 1 July 2017, being \$1.33. 1 July 2017 is the first day of the testing period for the Relative TSR test period.

Grant and Vesting of STI Performance Rights

STI Performance Rights proposed for approval under resolution 5 and 6 are the result of the satisfaction of 40% of performance hurdles set at the beginning of the 2017 financial year. Performance Rights that will be granted if resolutions 5 and 6 are approved will be subject to a retention period and become exercisable from 1 July 2018.

In respect of the 2017 financial year, the target STI component of remuneration for Mr Hosking and Mr Smith was \$449,769 each.

The maximum Performance Rights available was calculated by dividing that amount by the Fair Value of the Rights at issue, being \$1.40.

As a result, a maximum of 321,263 Performance Rights (for each of Mr Hosking and Mr Smith) were at risk in respect of the 2017 financial year.

The following schedule of performance conditions outlines the performance hurdles and their achievement for assessing the number of Performance Rights to be granted.

Table 6

Criteria	Hurdle	Award Percentage 'At Risk'	Short-term Incentive Outcomes
Safety	TTIR of < 2 required for any award to proceed.	Gateway	TRIR 0.00
Operational	Progression of key appraisal, field pre-development and operational targets.	40%	Echidna light oil discovery development concept approved and progressed to FEED phase. 40%
Financial	Completion of key South American farm-outs (Brazil and Peru).	25%	No South American farm-out completed. 0%
New asset acquisition	Completion of a value-accretive asset acquisition as judged by resulting Karoon share price performance. (Remuneration Committee/Board of Directors' discretion to re-allocate 'At Risk' percentages if the timing or size of an acquisition requires 'Operational' hurdles to be varied, so as to achieve the best value for shareholders)	25%	Recent transaction success was hampered by local issues in Brazil and resulting share price experience, while positive in the initial instance, was not sustained. 0%
Cost control and capital preservation	Actual costs are below Karoon Group budget targets for the financial year ended 30 June 2017.	10%	0% due to the exercise of discretion.
Anti-bribery and corruption	Negative discretion will be applied based on management's implementation and enforcement of the Anti-bribery and Corruption Policy.	Clawback	No 'clawback'.

As outlined above, a total of 40% of the available STI opportunity, 128,505 Performance Rights (being 40% of 321,263) are now proposed to be issued to each of Mr Hosking and Mr Smith, based on the actual outcomes against the performance targets as assessed by the Remuneration Committee.

Linking STI outcomes to operational performance develops an essential alignment between the Company's year-to-year inherent value growth through identification, evaluation and drilling of exploration and evaluation targets and the reward provided to those who establish that value. The Remuneration Committee annually reviews and recommends operational performance metrics that, taking into account safety and Anti-Bribery and Corruption compliance, demonstrate a clear pathway toward value creation, either through commercially attractive acquisitions, commercial arrangements to monetise assets or movement closer to development for previous discoveries.

In setting objectives for the performance period, the Remuneration Committee assesses the operational goals for the performance period and upcoming key value drivers within the Company's operations, allowing for transparent measurement of performance against these objectives.

The Remuneration Committee recognises the risks associated with offshore drilling and considers safety paramount to its operations. Safety will continue to be used as a gateway for vesting conditions. The Performance Rights will have a retention period ending 12 months from the grant date before they become exercisable and convertible into fully paid ordinary shares. The Performance Rights will expire after a further 12 months if not exercised before.

The terms of the Performance Rights are set out in the PRP and are summarised in Annexure "B" to this Explanatory Memorandum.

Other details

The relevant number of ESOP Options and Performance Rights will be granted to Mr Hosking or his nominee and Mr Smith or his nominee following the AGM and in any case within 12 months of the AGM.

Over the 12 months prior to 7 September 2017, the lowest recorded price of Shares in SEATS trading on ASX was \$1.12 on the 16 August 2017 and the highest was \$2.63 on 16 November 2016.

The Directors of the Company that participate in the Plan or any other employee incentive scheme of the Company are Mr Hosking and Mr Smith.

Mr Hosking's interest in Shares

Since the date of the last AGM, Mr Hosking was granted 423,378 Options under the ESOP and 298,472 Performance rights under the PRP. There was no amount payable for the grant of the ESOP options or PRP performance rights. The options and rights were approved by shareholders at the 2016 AGM.

As at the date of this Notice of Meeting, Mr Hosking had an interest in 11,877,649 Shares, 914,285 Options and 367,702 Performance Rights. That represents 5.36% of the total Shares in the Company. If Shareholders approve resolution 5, and all ESOP Options and Performance Rights are granted as contemplated by this Notice of Meeting, Mr Hosking will have the following interest in Shares, Options and Performance Rights:

Shares	Options	Performance Rights
11,877,649	1,488,457	699,107

If all of the Options and Performance Rights previously granted to Mr Hosking were exercised and Options and the Performance Rights proposed to be granted under resolution 5 vest and are paid in Shares, Mr Hosking would acquire an additional 2,187,564 Shares. If these were newly issued Shares, Mr Hosking would have an interest in 5.73% of the total issued Shares in the Company.

Mr Smith's interest in Shares

Since the date of the last AGM, Mr Smith was granted 423,378 Options under the ESOP and 298,472 Performance rights under the PRP. There was no amount payable for the grant of the ESOP options or PRP performance rights. The options and rights were approved by shareholders at the 2016 AGM.

As at the date of this Notice of Meeting, Mr Smith had an interest in 2,870,938 Shares, 914,285 Options and 261,988 Performance Rights. That represents 1.65% of the total Shares in the Company. If Shareholders approve resolution 6, and all ESOP options and PRP performance rights are granted as contemplated by this Notice of Meeting, Mr Smith will have the following interest in Shares, Options and Performance Rights:

Shares	Options	Performance Rights
2,892,037	1,488,457	593,393

If all of the Options and Performance Rights previously granted to Mr Smith were exercised and Options and the Performance Rights proposed to be granted under resolution 6 vest and are paid in Shares, Mr Smith would acquire an additional 2,081,850 Shares. If these were newly issued Shares, Mr Smith would have an interest in 2.02% of the total issued Shares in the Company.

Additional information regarding resolutions 5 and 6

All Directors are Eligible Employees for the purposes of the ESOP and PRP and therefore are eligible to participate in the plans. However, the Board has determined that no offers will be made to any Non-Executive Directors.

Voting exclusion statement with regards to resolutions 5 and 6

In respect of resolutions 5 and 6, the Company will disregard any votes cast on the resolution:

- by or on behalf of any Director; or
- as a proxy by any Director.

However, the Company need not disregard any vote by any such person excluded from voting on resolutions 5 or 6 if:

- it is cast by any of them as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by any of them who is chairing the Annual General Meeting as proxy for a person who is entitled to vote, in accordance with an express authorisation on the proxy form.

Board recommendation

The Directors of the Company make no recommendation in relation to resolutions 5 and 6 on the basis that the Directors are Eligible Employees for the purposes of the ESOP and PRP and consequently the resolutions relate to Directors' remuneration.

7. GLOSSARY

The following terms and abbreviations used in this Explanatory Memorandum have the following meaning:

Annual General Meeting:	Is defined in section 1 of this Explanatory Memorandum.
ASX:	ASX Limited (ACN 008 624 691).
Board:	The Board of Directors of the Company.
Closely Related Party:	Includes a KMP's spouse, dependant and certain other close family members, as well as any companies controlled by the KMP.
Company:	Karoon Gas Australia Ltd (ACN 107 001 338).
Corporations Act:	Corporations Act 2001 (Cth).
Corporations Regulations:	Corporations Regulations 2001 (Cth).
EDT:	Eastern Daylight Time, being the time in Melbourne, Victoria.
ESOP or Employee Share Option Plan	The Employee Share Option Plan 2016, a copy of which is available on Karoon's website and is accessible via the following link: www.karoongas.com.au/governance .
ESOP Options:	Options issued under the ESOP.
Listing Rules:	The Official Listing Rules of the ASX, as amended from time to time.
LTI:	Long Term Incentive.
Key Management Personnel or KMP:	Those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.
Notice of Meeting:	The notice convening the Annual General Meeting which accompanies this Explanatory Memorandum.
Options:	Options to acquire shares in the Company.
Performance Rights:	Rights issued under the Performance Rights Plan 2016.
Performance Rights Plan or PRP	The Performance Rights Plan 2016, a copy of which is available on Karoon's website and is accessible via the following link: www.karoongas.com.au/governance .
Remuneration Committee:	The Remuneration Committee of the Company.
Remuneration Report:	The Remuneration Report for the year ended 30 June 2017 as contained within the Directors' report and forming part of the 2017 Annual Report.
Shareholders:	Holders of Shares.
Shares:	Fully paid ordinary shares in the capital of the Company.
STI:	Short Term Incentive.
Total Shareholder Return or TSR:	A measure of the entire return a Shareholder would obtain from holding an entity's securities over a period, taking into account factors such as changes in the market value of the securities and dividends paid over the period.
VWAP:	Volume weighted average price.

ANNEXURE "A"

THE ESOP OPTIONS PROPOSED TO BE GRANTED UNDER RESOLUTIONS 5 AND 6

Subject to satisfaction of the Company wide performance conditions, each ESOP Option entitles the holder to acquire one fully paid ordinary share (**Share**) in the Company.

1. There is no amount payable for the grant of the ESOP Options.
2. Each ESOP Option is a right to acquire one Share in the Company, subject to the achievement of the performance measures set out above and valid exercise of the Options and payment of the exercise price.
3. Options do not carry any dividend or voting rights.
4. Options are non-transferable, except in limited circumstances or with the consent of the Board.
5. Vesting of the ESOP Options is subject to the satisfaction of Key Performance Indicators over a period from 1 July 2017 to 30 June 2020.
6. The ESOP options cannot be exercised until 1 July 2020 (**Exercise Date**) except in the circumstances set out in paragraph 8 below.
7. The ESOP Options will lapse at 5.00pm (Melbourne Time) 12 months from the relevant Exercise Date (**Expiry Date**). Any ESOP Options which have not been exercised on or before 5.00pm (Melbourne Time) on the Expiry Date lapse automatically.
8. In the event of a takeover of the Company or a change of control, the Board may accelerate the vesting of the Options according to pro rata achievement of the performance conditions.
9. ESOP Options may only be exercised by notice in writing (**Exercise Notice**) delivered to the registered office of the Company. The Exercise Notice must specify the number of options being exercised and must be accompanied by:
 - (a) the Exercise Price for the number of ESOP Options specified in the Exercise Notice; and
 - (b) the certificate for those Options or ESOP Options, for cancellation by the Company.
10. The Exercise Notice only becomes effective when the Company has received cleared funds for the full amount of the Exercise Price.
11. On receipt of the Exercise Notice, the Board must:
 - (a) allot and issue or transfer the number of Shares specified in the Exercise Notice to the ESOP Option holder;
 - (b) cancel the certificate for the ESOP Options being exercised;
 - (c) if applicable, issue a new certificate for any remaining ESOP Options covered by the certificate accompanying the Exercise Notice; and
 - (d) apply for Official Quotation by the ASX of all Shares issued in accordance with the Exercise Notice.
12. There are no participating rights or entitlements inherent in the ESOP Options and holders will not be entitled to participate in new issues of capital offered to the Company's Shareholders during the currency of the ESOP Options. However, the Company will send a notice to each holder of the ESOP Options in accordance with the Listing Rules before the record date of any new issues of capital offered to the Company's Shareholders.

13. If from time to time on or prior to the Expiry Date the Company makes an issue of Shares to the Shareholders by way of capitalisation of profits or reserves (a **Bonus Issue**), then upon exercise of ESOP Options an Option holder will be entitled to have issued to him/her (in addition to the Shares which would otherwise be issued to him/her under that Bonus Issue) bonus shares (**Bonus Shares**) if on the record date for the bonus issue the Option holder has been registered as the holder of the number of Shares of which he/she would have been registered as holder if, immediately prior to that date, he/she had duly exercised his/her ESOP Options and the Shares the subject of such exercise had been duly allotted and issued or transferred to him/her. The Bonus Shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the Bonus Issue and upon issue will rank pari passu in all respects with the other Shares allotted under the Bonus Issue.
14. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of an Option holder will be changed to the extent necessary to comply with the applicable Listing Rules in force at the time of the reorganisation.

ANNEXURE "B"

THE PERFORMANCE RIGHTS PROPOSED TO BE GRANTED UNDER RESOLUTIONS 5 AND 6

1. Each Performance Right entitles the holder to subscribe for and be allotted one fully paid ordinary share (**Share**) in the Company.
2. There is no amount payable for the grant of the Performance Rights
3. The Performance Rights cannot be exercised until 1 July 2018 (**Exercise Date**) except in the circumstances set out in paragraph 7 below.
4. There is no exercise price to be paid on exercise of the Performance Rights.
5. The Performance Rights will lapse at 5.00pm (Melbourne Time) 12 months from the relevant Exercise Date (**Expiry Date**). Any Performance Rights which have not been exercised on or before 5.00pm (Melbourne Time) on the Expiry Date lapse automatically.
6. The Performance Rights are transferable after the Exercise Date although no application will be made to the ASX for Official Quotation of the Performance Rights.
7. In the event of a takeover of the Company or a change of control, the Board may accelerate the vesting of the Performance Rights.
8. Performance Rights may only be exercised by notice in writing (**Exercise Notice**) delivered to the registered office of the Company. The Exercise Notice must specify the number of Performance Rights being exercised and must be accompanied by the certificate for those Performance Rights, for cancellation by the Company.
9. If from time to time on or prior to the Expiry Date the Company makes an issue of Shares to the Shareholders by way of capitalisation of profits or reserves (a **Bonus Issue**), then upon exercise of Performance Rights a Rights holder will be entitled to have issued to him/her (in addition to the Shares which would otherwise be issued to him/her under that bonus issue) bonus shares (**Bonus Shares**) if on the record date for the Bonus Issue the Rights holder has been registered as the holder of the number of Shares of which he/she would have been registered as holder if, immediately prior to that date, he/she had duly exercised his/her Performance Rights and the Shares the subject of such exercise had been duly allotted and issued to him/her. The Bonus Shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the Bonus Issue and upon issue will rank pari passu in all respects with the other Shares allotted under the Bonus Issue.
10. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of a Rights holder will be changed to the extent necessary to comply with the applicable Listing Rules in force at the time of the reorganisation.
11. The grant of Performance Rights is subject to Company-wide operational objectives, as reviewed annually by the Remuneration Committee and is followed by a retention period of one year prior to vesting.