

24 September 2014

ASX Announcement



Notice of Meeting and Proxy Form

The attached Notice of Meeting contains minor amendments to the document lodged on Tuesday 23 September 2014 including attachment of the proxy form.

For further information please see the Karoon website or contact:

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KAROON GAS AUSTRALIA LTD

(ACN 107 001 338)

NOTICE OF ANNUAL GENERAL MEETING

and

EXPLANATORY MEMORANDUM

Date of Meeting: 27 October 2014

Time of Meeting: 11.00am EDT (Registration opens at 10.00am EDT)

Place of Meeting: Garden Room 2 & 3 at Crown Towers
Level 1, 8 Whiteman Street, Southbank, VIC 3006

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 11.00am EDT on 27 October 2014 at Garden Room 2 & 3 at Crown Towers, Level 1, 8 Whiteman Street, Southbank, VIC 3006.

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

FINANCIAL REPORTS

To receive and consider the financial report of the Company for the year ended 30 June 2014, together with the directors' report and the auditor's report in accordance with the Corporations Act.

1. 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 2014, 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. If 25% or more of votes that are cast on this resolution are voted against the adoption of the Remuneration Report, Shareholders will be asked to consider Resolution 11 (Spill Meeting).

2. RESOLUTION 2 – ELECTION OF MR PETER TURNBULL AS A DIRECTOR (COMPANY NOMINATION)

Please note that, through its Nomination Committee, the Company conducted a comprehensive selection process and appointed Mr Turnbull as an independent Non-Executive Director. The Board unanimously supports the election of Mr Peter Turnbull as a Director.

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

"That Mr Peter Turnbull, who was appointed by the Board as a director of the Company on 6 June 2014 pursuant to paragraph 11.11 of the Constitution (allowing the appointment of Directors on an interim basis until the next annual general meeting) and who retires in accordance with Listing Rule 14.4 and paragraph 11.12 of the Constitution, is eligible for election as a Director of the Company at this AGM and who, being eligible, offers himself for election as a Director of the Company, be elected as a Director of the Company with immediate effect."

3. RESOLUTION 3 – ELECTION OF MR BERNARD WHEELAHAN AS A DIRECTOR (COMPANY NOMINATION)

Please note that, through its Nomination Committee, the Company conducted a comprehensive selection process and appointed Mr Bernard Wheelahan as an independent Non-Executive Director. The Board unanimously supports the election of Mr Bernard Wheelahan as a Director.

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

“That Mr Bernard Wheelahan, who was appointed by the Board as a director of the Company on 24 June 2014 pursuant to paragraph 11.11 of the Constitution (allowing the appointment of Directors on an interim basis until the next annual general meeting) and who retires in accordance with Listing Rule 14.4 and paragraph 11.12 of the Constitution, is eligible for election as a Director of the Company at this AGM and who, being eligible, offers himself for election as a Director of the Company, be elected as a Director of the Company with immediate effect.”

4. RESOLUTION 4 – RE-ELECTION OF MR GEOFF ATKINS AS A DIRECTOR (COMPANY NOMINATION)

Please note that Mr Geoff Atkins has served the Company as independent 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 5 – RE-ELECTION OF MR MARK SMITH AS A DIRECTOR (COMPANY NOMINATION)

Please note that Mr Mark Smith has served the Company as Executive Director since 1 December 2003. The Board unanimously supports the re-election of Mr Mark Smith as a Director.

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

“That Mr Mark Smith, 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 6 - APPROVAL TO ISSUE ESOP OPTIONS 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 and Chapter 2E of the Corporations Act, the issue to Mr Robert Hosking or his nominee of up to a maximum of 424,310 ESOP Options at an exercise price to be determined in accordance with the mechanism described in the Explanatory Memorandum under and in accordance with the Employee Share Option Plan 2012 and otherwise on the terms and conditions set out in the Explanatory Memorandum.”

It is intended that vesting of each of the ESOP Options is subject to the achievement by the Company of the relative Total Shareholder Return targets as set out in the Explanatory Memorandum.

This resolution is subject to voting exclusions as set out at section 7 of the Explanatory Memorandum to this Notice of Meeting.

7. RESOLUTION 7 - APPROVAL TO ISSUE ESOP OPTIONS 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 and Chapter 2E of the Corporations Act, the issue to Mr Mark Smith or his nominee of up to a maximum of 424,310 ESOP Options at an exercise price to be determined in accordance with the mechanism described in the Explanatory Memorandum under and in accordance with the Employee Share Option Plan 2012 and otherwise on the terms and conditions set out in the Explanatory Memorandum."

It is intended that vesting of each of the ESOP Options is subject to the achievement by the Company of the relative Total Shareholder Return targets as set out in the Explanatory Memorandum.

This resolution is subject to voting exclusions as set out at section 8 of the Explanatory Memorandum to this Notice of Meeting.

8. RESOLUTION 8 – ELECTION OF MR COLIN GOODALL (A SHAREHOLDER'S NOMINATION)

*Please note that the following resolution is being put to the meeting at the request of Pegasus CP One Limited, a 0.39% Shareholder of the Company as at 2 September 2014 (the date of the nomination). Pursuant to paragraph 11.11 of the Constitution, the Company may in general meeting elect additional Directors subject to the maximum number (currently 10). The Board unanimously recommends that Shareholders vote **against** this resolution for the reasons given in the Explanatory Memorandum.*

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

"That Mr Colin Goodall, who was nominated by Pegasus CP One Limited as a candidate for election as a Director of the Company on 2 September 2014, be elected as a Director of the Company with effect from the end of the meeting."

9. RESOLUTION 9 – ELECTION OF MS GLENDA MCLOUGHLIN (A SHAREHOLDER'S NOMINATION)

*Please note that the following resolution is being put to the meeting at the request of Pegasus CP One Limited, a 0.39% Shareholder of the Company as at 2 September 2014 (the date of the nomination). Pursuant to paragraph 11.11 of the Constitution, the Company may in general meeting elect additional Directors subject to the maximum number (currently 10). The Board unanimously recommends that Shareholders vote **against** this resolution for the reasons given in the Explanatory Memorandum.*

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

"That Ms Glenda McLoughlin, who was nominated by Pegasus CP One Limited as a candidate for election as a Director of the Company on 2 September 2014, be elected as a Director of the Company with effect from the end of the meeting."

10. RESOLUTION 10 – ELECTION OF DR DAVID BAMFORD (A SHAREHOLDER'S NOMINATION)

*Please note that the following resolution is being put to the meeting at the request of Pegasus CP One Limited, a 0.39% Shareholder of the Company as at 2 September 2014 (the date of the nomination). Pursuant to paragraph 11.11 of the Constitution, the Company may in general meeting elect additional Directors subject to the maximum number (currently 10). The Board unanimously recommends that Shareholders vote **against** this resolution for the reasons given in the Explanatory Memorandum.*

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

"That Dr David Bamford, who was nominated by Pegasus CP One Limited as a candidate for election as a Director of the Company on 2 September 2014, be elected as a Director of the Company with effect from the end of the meeting."

11. RESOLUTION 11 – SPILL RESOLUTION (CONTINGENT ITEM)

Please note that the following resolution is a contingent item, and will only be put to the meeting if at least 25% of the votes cast on Resolution 1 (Adoption of Remuneration Report) are against the adoption of the Remuneration Report for the year ended 30 June 2014.

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

"That, subject to and conditional on at least 25% of the votes cast on Resolution 1 (Adoption of Remuneration Report) in this Notice of Meeting being against the adoption of the Remuneration Report, as required by section 250V(1) of the Corporations Act 2001 (Cth):

- (a) an extraordinary general meeting of the Company (Spill Meeting) be held within 90 days after the passing of this resolution;*
- (b) all of the Directors of the Company in office at the time when the resolution to make the Directors' Report for the financial year ended 30 June 2014 was passed, other than the Executive Chairman, and who remain in office at the time of the Spill Meeting, cease to hold office immediately before the end of the Spill Meeting; and*
- (c) resolutions to appoint persons to offices that will be vacated immediately before the end of the Spill Meeting be put to the vote at the Spill Meeting."*

This resolution is subject to voting exclusions as set out at section 9 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, 2, 3, 4, 5, 6, 7, 8, 9 and 10 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.

Resolution 11 is a contingent ordinary resolution and will only be put to Shareholders if at least 25% of the votes cast on Resolution 1 are against the adoption of the Remuneration Report for the year ended 30 June 2014. Resolution 11 will be passed only if it is supported by a majority of the votes cast by Shareholders entitled to vote on the resolution.

Notice regarding Resolutions 1 and 11

Shareholders should consider carefully how they wish to vote on resolutions 1 and 11 as they may wish to vote differently on each resolution. It is open to Shareholders to vote as they wish, however, the following guidance is offered.

- If you wish to vote **in favour** of resolution 1 (Adoption of Remuneration Report), then you may wish to vote **against** resolution 11 (Spill Resolution), assuming you do not want a Spill Meeting to proceed if you are satisfied with the Remuneration Report. However, it is open to Shareholders to vote in favour of resolution 11 even if they vote in favour of resolution 1.
- If you wish to vote **against** resolution 1 (Adoption of Remuneration Report), then you may wish to vote either **in favour** of or **against** Resolution 11 (Spill Resolution), depending on whether or not you wish a Spill Meeting to be held.

If after reading the Explanatory Memorandum, you are in any doubt as to how you wish to vote, or the effect of your vote for or against Resolutions 1 or 11, please seek advice from your accountant, solicitor or other professional adviser before voting.

Director recommendations on Resolutions 1 and 11

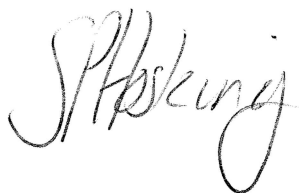
Your Directors recommend that you vote:

- **In favour** of resolution 1 (Adoption of Remuneration Report); and
- **Against** resolution 11 (Spill Resolution).

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

DATED: 25 September 2014

BY ORDER OF THE BOARD

A 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 25 October 2014 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 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 6 (Approval to issue ESOP Options to Mr Robert Hosking);
- Resolution 7 (Approval to issue ESOP Options to Mr Mark Smith);
- Resolution 11 (Spill Resolution – contingent item),

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 7; and
- **against** Resolutions 8 to 11.

By appointing the Chairman as proxy, you authorise him to vote any undirected proxy votes on resolutions 1, 6, 7 and 11 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 Garden Room 2 & 3 at Crown Towers, Level 1, 8 Whiteman Street, Southbank, VIC 3006 on 27 October 2014 at 11.00am EDT (registration from 10.00am EDT) (**Annual General Meeting**).

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

1. adopt the Remuneration Report;
2. elect Mr Peter Turnbull as a Director of the Company;
3. elect Mr Bernard Wheelahan as a Director of the Company;
4. re-elect Mr Geoff Atkins as a Director of the Company;
5. re-elect Mr Mark Smith as a Director of the Company;
6. approve the issue of options under the Employee Share Option Plan 2012 to Mr Robert Hosking or his nominee;
7. approve the issue of options under the Employee Share Option Plan 2012 to Mr Mark Smith or his nominee;
8. elect Mr Colin Goodall (nominated by 0.39% Shareholder Pegasus CP One Limited) as a Director of the Company;
9. elect Ms Glenda McLoughlin (nominated by 0.39% Shareholder Pegasus CP One Limited) as a Director of the Company;
10. elect Dr David Bamford (nominated by 0.39% Shareholder Pegasus CP One Limited) as a Director of the Company; and
11. if at least 25% of the votes cast on Resolution 1 (Adoption of Remuneration Report) are against the adoption of the Remuneration Report for the year ended 30 June 2014, approve the calling of a Spill Meeting.

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.

Information in Annexure B in respect of the nominees for election as director made by Pegasus CP One Limited (Resolutions 8 -10) is provided by or on behalf of those nominees and has been accepted and re-produced by the Company in good faith. The Company does not take any responsibility for the accuracy or otherwise of that information and any opinions expressed in that information are those of the provider of that information.

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. ANNUAL FINANCIAL REPORTS

Section 317 of the Corporations Act requires the Company's financial report, director's report and auditor's report for the year ended 30 June 2014 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 2014 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 report. If you wish to do so you must submit any such written question by 20 October 2014.

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 in the 2014 Annual Report. The 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.

This year, the focus of the Remuneration Committee has continued to be in ensuring that our Executive and Non-Executive Director remuneration arrangements actively contribute towards the achievement of our business strategy and provide a transparent link between remuneration and company performance, with the aim of ultimately establishing short and long term value for shareholders. During the 2014 financial year, we have also carefully balanced the need to attract, retain and reward our executives, with maintaining the cash balance required for operational activities. Share-based grants have therefore again been used for both our short and long-term incentive plans.

Under the 2014 short-term incentive award, performance was measured against the financial and operational performance of the Company and personal performance based on the individual's performance review outcome. In recognition of the Company's performance over the financial year, executives were eligible to receive the personal performance component of the award, in addition to 16.67% of the award being granted based on financial and operational objectives as outlined in the remuneration report. Actual outcomes are reflective of each individual's achievement against this measure for the financial year ended 30 June 2014.

For Executive Directors, 25% or 150,000 options were vested under the third tranche of the Bonus Options plan, due to attainment of the Safety component of the award. However, the Executive Directors both considered it appropriate to forfeit these vested options. The remainder of the Board was supportive of this decision.

During previous financial years, the grant of performance rights under the short term incentive plan has occurred at the start of the performance period. The Remuneration Committee has now shifted the grant date to the end of the performance period, in order to simplify the STI process and alleviate issues around granting (subject to vesting) performance rights subject to performance conditions not yet met, which can result in the cancellation of unvested performance rights. At the completion of the performance period, achievement against the relevant conditions will be determined and the appropriate number of performance rights granted. Vesting of these performance rights will occur at the completion of a one-year retention period, from the date of grant.

If at least 25% of votes are cast against the adoption of the Remuneration Report at two consecutive annual general meetings, a resolution must then be put to Shareholders of the Company at the second annual general meeting to determine whether an extraordinary general meeting should be held at which all directors (other than the managing director) must stand for re-election.

At last year's Annual General Meeting, more than 25% of the votes cast on the resolution to adopt the Remuneration Report were against the adoption of the Company's 2013 Remuneration Report and the Company received a "first strike". If 25% or more of the votes that are cast on Resolution 1 are cast against the adoption of the 2014 Remuneration Report, the Company will receive a "second strike" and Shareholders will be asked to consider a resolution that such an extraordinary general meeting be held (see Resolution 11).

The Board recognises that Shareholders voted against the Remuneration Report at the previous Annual General Meeting. At that meeting, concerns were raised by Shareholders around the discretion applied by the remuneration committee to vest Executive Director options which did not strictly meet the performance conditions, along with disclosure of our variable remuneration framework and outcomes. To ensure a better understanding of shareholder concerns, so that they could be appropriately addressed, we engaged with various shareholders and proxy advisor groups during the 2014 financial year.

Following the expiry of the Executive Directors' historical remuneration arrangements, the Executive Directors' remuneration arrangements were brought in line with the other executives. Executive Directors now receive annual reviews of Fixed Remuneration, Short Term incentives and Long Term Incentives.

We have also made a concerted effort in the 2014 Remuneration Report to better explain the rationale behind our remuneration arrangements and provide clear and transparent disclosures of the Company's remuneration outcomes for 2014 and performance measures set in place for new short term and long term incentive programs.

Finally, following an internal review and based on discussions with shareholders, we have made several changes to the remuneration arrangements for our executives and Executive Directors for the financial year ending 30 June 2015. As described in the Remuneration Report, these include changes to the short and long-term incentive plan performance measures to better align executive reward with Company performance.

As part of this engagement process, the Board has undergone a re-structure, with one Non-Executive Director retiring and two Independent Non-Executive Directors being appointed. The role of Executive Chairman is currently under review with the current Executive Chairman to assume the role of Managing Director and a new Independent Non-Executive Chairperson to be appointed. The Company has appointed Heidrich & Struggles to assist with the search and selection process.

The Board believes that the Company's remuneration policy and practices, as described in the 2014 Remuneration Report are sound, reasonable and appropriate.

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 regard 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 RECENT COMPANY APPOINTED DIRECTORS

The Board unanimously supports the election of both of the recently appointed Directors the subject of Resolutions 2 and 3.

The Company, through its Nomination Committee conducted a comprehensive search and selection process for two new independent Non-Executive Directors. As a result of that process, in June 2014, Mr Peter Turnbull and Mr Bernard Wheelahan were selected and appointed as Directors and Mr Stephen Power resigned as Director.

The Board considers that the recent significant reconstitution of the Board in June 2014 has provided the Company with a Board having an optimal mix of skills and experience to meet the needs of the Company at this time. The Board considers that the changes made in 2014 are consistent with corporate governance best practice, including:

- the appointment of the two new independent non-executive directors resulting in a majority independent Board;
- the creation of a new Risk and Governance Committee; and
- the setting of a timeline for the separation of the Executive Chairman role to appoint a new independent Non-Executive Chairperson.

5.1 RESOLUTION 2 – ELECTION OF MR PETER TURNBULL

Resolution 2 seeks Shareholder approval for the Company to elect Mr Peter Turnbull as a Director of the Company.

In accordance with Listing Rule 14.4 and paragraphs 11.11 and 11.12 of the Constitution of the Company, the Company may appoint a Director who holds office until the next annual general meeting of the Company and is then eligible for re-election.

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

In addition to significant energy and resources and senior executive experience, Peter has extensive experience in designing, implementing and managing corporate governance frameworks, including risk management regimes. He is an Executive Committee member of several global organisations which promote good governance.

Peter was instrumental in the creation of, and is currently Chairman of, the Risk and Governance Committee, and is currently a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr Turnbull has provided the following statement for Shareholders:

I am very pleased to have joined the Board of Karoon Gas Australia, through a casual vacancy, in early June 2014. I very much look forward to using my broad energy, mining and infrastructure experience together with my legal and governance skills to assist Karoon to achieve its development and growth goals in the period ahead, subject, of course, to shareholders agreeing to my re-election at the upcoming AGM.

I have a simple view that a proper and disciplined focus on strategic planning and execution, safety, risk management, corporate governance, capital management, innovation and looking ahead to identify and analyse new business opportunities will create the best possible and most predictable returns for shareholders.

Karoon has now monetised the majority of its Browse Basin acreage and this provides the platform to move as quickly as possible to the appraisal and, where possible, development of Karoon's core assets in Brazil, Peru and the Carnarvon Basin in Australia. I believe that shareholder value will be maximised in the short to medium term by a firm focus on developing current assets to production as soon as possible thereby securing sustainable longer term revenue streams whilst also continuing to be creative and innovative particularly in relation to identifying and analysing new projects and corporate opportunities. These appraisal and development activities need to be undertaken within the confines of a fit for purpose business, corporate governance and risk management framework. I believe that my skills and experience, in particular energy and governance experience, can contribute to positive outcomes working collaboratively with the Board and management.

I hope to be part of Karoon's future because I believe that future is an exciting one in which there are a number of very significant core value creating opportunities to be achieved for shareholders in the foreseeable future.

Board recommendation: The Board unanimously supports the election of Mr Turnbull.

5.2 RESOLUTION 3 – ELECTION OF MR BERNARD WHEELAHAN

Resolution 3 seeks Shareholder approval for the Company to elect Mr Bernard Wheelahan as a Director of the Company.

In accordance with Listing Rule 14.4 and paragraphs 11.11 and 11.12 of the Constitution of the Company, the Company may appoint a Director who holds office until the next annual general meeting of the Company and is then eligible for re-election.

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

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

Mr Wheelahan is a member of the Nomination Committee, Risk and Governance Committee.

Mr Wheelahan has provided the following statement for Shareholders:

I welcome being considered by shareholders as an Independent Director of Karoon Gas Australia Ltd.

The Company is active in areas with which I am very familiar, FUNCTIONALLY in oil and gas exploration, GEOGRAPHICALLY in offshore Australia and in Latin America and CORPORATELY in good governance. I have served on a large number of listed and unlisted Boards and joint venture committees which have focused closely on each of these areas.

The outlook for Karoon is very exciting; it has an excellent track record in successful exploration, and in the effective management of safety and sustainability. Its recent sale of the Browse Basin assets puts it in a strong financial position to continue with both short term appraisal and further exploration. To this end, Karoon holds title to high potential properties in good addresses which will continue to deliver exciting results for shareholders for the foreseeable future.

I look forward to sharing in that experience and also to continuing my long professional association with Australia's north-west shelf, and with Latin America.

Board recommendation: The Board unanimously supports the election of Mr Wheelahan.

6. RE-ELECTION OF EXISTING DIRECTORS (COMPANY NOMINATIONS)

The Board unanimously supports the re-election of both of the retiring Directors the subject of Resolutions 4 and 5.

Those 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.

As noted above, the Board considers that the recent reconstitution of the Board in June 2014 has provided the Company with a Board having an optimal mix of skills and experience to meet the needs of the Company at this time. The Board considers that the changes made in 2014 are consistent with corporate governance best practice.

6.1 RESOLUTION 4 - APPROVAL OF RE-ELECTION OF MR GEOFF ATKINS AS A DIRECTOR

Resolution 4 seeks Shareholder approval for the Company to re-elect Mr Geoff Atkins as a Director 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.

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

Mr Atkins is currently Chairman of the Nomination and Remuneration Committees, and a member of the Audit and Risk and Governance Committees.

Mr Atkins has provided the following statement for Shareholders:

In 2005 I became a Non-Executive Director of Karoon, filling the position of the single Non-Executive Director, at that time Karoon had a staff of three. My professional experience includes over 40 years' in the planning and design of oil and gas marine terminals and other large port and harbour projects. I am a Chartered Professional Engineer and Fellow of the Institute of Engineers Australia, and previously managed the company wide marine engineering team of a global engineering consultancy.

My previous experience has been useful for Karoon, in developing oversight procedures for management reporting on cash and project forecasting, provision of industry insights and providing guidance and assistance with forward planning. Over the past nine years I believe I have contributed to the Board an engineer's logic, and the analysis of alternatives and potential risks associated with the exploration of oil and gas and navigating road to development of resources.

Since those early days we have seen Karoon's spectacular performance with a drilling success rate which is comparable to the top companies in world. This success is due to the excellent team of highly experienced professionals that has grown over the years to include operations, geophysical, geological, engineering and country specific commercial teams. The local operating offices of Karoon are now staffed with highly focused and locally respected teams.

I currently serve on the Audit, Remuneration and Nomination Committees and have joined the newly formed Risk and Governance Committee. I have also been involved in the recent restructuring of the Board including the appointment of the two new Independent Directors, Mr Bernard Wheelahan and Mr Peter Turnbull, both with exceptional experience who have already provided valuable contributions to the Board of Directors.

I therefore also encourage you to vote for all incumbent Directors as I believe the current Board has the necessary expertise to lead the Company through the upcoming drilling programs and on into production over the coming years.

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

6.2 RESOLUTION 5 – APPROVAL OF RE-ELECTION OF MR MARK SMITH AS A DIRECTOR

Resolution 5 seeks Shareholder approval for the Company to re-elect Mr Mark Smith as a Director 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.

Mark has more than 30 years' experience as a geologist and exploration manager in petroleum exploration and development in Australia, South East Asia and North America. The bulk of this experience was gained while working with BHP Petroleum. Mark has been directly involved with 14 economic oil and gas discoveries.

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

Mr Smith has provided the following statement for Shareholders:

I am very pleased to have had a long association with Karoon as a director and exploration manager. Together with the team, we have had exceptional success with drilling in Australia and Brazil with a success rate over 70% in the 10 years the company has been in existence.

I have been part of Karoon since its inception and hope to be part of Karoon's future and believe that there are bright and exciting times ahead in all aspects of the company's activities from exploration through to development and production.

Karoon now has an exciting list of exploration led growth opportunities which I am proud to have been a part of acquiring. These opportunities are now beginning to provide opportunities to move the company to development. Karoon will be drawing on its business model to manage equity, complete appraisal and bring production on stream in Brazil while providing exploration led growth to create more development opportunities in the future.

I am looking forward to a continuing a directorship role going forward, subject of course to shareholders agreeing to my re-election at the upcoming AGM.

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

7. RESOLUTIONS 6 AND 7 - APPROVAL TO ISSUE 2012 ESOP OPTIONS TO MR ROBERT HOSKING AND MR MARK SMITH

Resolutions 6 and 7 seek Shareholder approval for the Company to grant up to a maximum of 424,310 ESOP Options to Mr Robert Hosking or his nominee and up to a maximum of 424,310 ESOP Options to Mr Mark Smith or his nominee pursuant to the Employee Share Option Plan (**ESOP**).

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.

The grant of Options to Mr Hosking and Mr Smith constitutes the giving of a financial benefit to a related party of the Company. For the sake of completeness, the Board has decided to seek the approval of Shareholders in general meeting under Chapter 2E of the Corporations Act 2001 (Cth).

Accordingly, shareholders are asked to approve the grant of Options to Mr Hosking and to Mr Smith under the FY2015 grant, on the terms and conditions set out in the Explanatory Memorandum.

Rationale for the grant of Options

As set out in more detail in the 2014 Remuneration Report, the Company aims to align the interests of its Directors and employees with Shareholders' interests. The vesting of the ESOP Options that will be granted, if this resolution 6 is approved, is linked to the performance of the Company, as described below.

The ESOP Options will only vest if Company-wide performance measures are achieved over the three year vesting period. Specifically, vesting will be subject to the Company's total shareholder return performance exceeding the total shareholder return of the following bespoke group of companies:

Australian market peers	Global market peers
AWE Limited	Tullow Oil plc
Beach Energy Limited	Ophir Energy plc
Buru Energy Limited	Gran Tierra Energy Inc
Drillsearch Energy Limited	QGE Participacoes SA
Horizon Oil Limited	GeoPark Limited
Origin Energy Limited	Cobalt International Energy Inc
Oil Search Limited	Kosmos' Energy Limited
Santos Limited	
Senex Energy Limited	
Sundance Energy Australia	
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. While the Australian market peers include the majority of constituents of the S&P/ASX 200 Energy index, the group excludes Caltex Australia Limited, Paladin Energy Limited, Whitehaven Coal and WorleyParsons, as the Board does not consider these to be appropriate comparators with respect to the above criteria.

Vesting of the ESOP Options will occur in accordance with the following schedule:

Relative TSR performance against the selected peer group	Proportion of ESOP Options 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%

The terms of the ESOP Options being issued to Mr Hosking and Mr Smith are summarised in Annexure A to this Explanatory Memorandum.

The number of ESOP Options being issued to Mr Hosking and Mr Smith as part of their long-term incentive arrangements is considered reasonable in regard 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 interest to the energy investor.

The remuneration packages for each of Mr Hosking and Mr Smith, as executive directors, include the following components:

- fixed remuneration, comprising cash salary, superannuation and salary sacrifice items or non-monetary benefits;
- short term incentive award based on Company-Wide Operational Objective measures under the 2012 Performance Rights Plan (subject to any necessary shareholder approval which will be sought after completion of the performance period ending 30 June 2015); and
- long term incentive award based on pre-determined performance conditions under the 2012 ESOP (subject to any necessary shareholder approval).

The maximum remuneration mix for each of Mr Hosking and Mr Smith for the financial year ending 30 June 2015 will be as follows:

Fixed (40%)*	Short Term Incentive (30%)	Long Term Incentive (30%)
\$599,692	Maximum value: \$449,769	Maximum value: \$449,769

*excluding superannuation of \$18,783.

Further details of the Company's executive remuneration policy can be found in the Remuneration Report section of the Annual Report on pages 30 to 52 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 of base salary and a combination of short and long term incentives.

Calculation of Exercise Price

The exercise price of the ESOP Options to be granted will be calculated by determining the Volume Weighted Average Price (**VWAP**) of the Company's shares traded on the ASX in the 90 days prior to 30 June 2014 plus an additional premium of 30% to that VWAP (**Premium Exercise Price**). This methodology used to calculate the Premium Exercise Price for ESOP Options is consistent with the Company's approach used in prior ESOP grants for other participants in the plan (and is also consistent with the exercise price determined for ESOP Options to be awarded to other participants in the FY2015 grant, other than the directors whose approval is being sought at this AGM).

However, due to the upward trend in the Company's share price between 30 June 2014 and the time of preparing this Notice, the Board has determined to apply a higher exercise price for the grant of Options where the Premium Exercise Price calculated above is lower than the market value of the Company's shares at the date of grant (**Market Exercise Price**). For this purpose, the exercise price at the date of grant will be the VWAP of the Company's shares traded on the ASX in the 5 trading days following the date of the AGM.

The mechanism proposed above will ensure that the exercise price of the ESOP Options is the higher of the Premium Exercise Price and the Market Exercise Price, ensuring that the ESOP Options are not granted with an exercise price below the Company's share price at the time of grant. However, it should be noted that the Options cannot be exercised unless they vest on satisfaction of the performance measures over the three year vesting period.

Key Option terms

There is no amount payable for the grant of the ESOP Options.

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.

Options do not carry any dividend or voting rights. Options are non-transferable, except in limited circumstances or with the consent of the Board.

Number of Options - Mr Hosking

Mr Hosking, or his nominee, will be issued up to a maximum of 424,310 ESOP Options.

The maximum number of ESOP Options has been calculated on the target ESOP Option value of \$449,769 (being 30% of Mr Hosking's total remuneration) divided by the estimated fair value of an ESOP Option calculated at the time of preparing this notice (being \$1.06 as calculated below).

The estimated fair value is calculated based on a Binomial option pricing model which takes into account a number of variables to determine fair value (including the exercise price, current and expected volatility of the underlying shares, likelihood of meeting the performance conditions, dividends expected to be paid in relation to the shares and the life of the option) and is consistent with the methodology required under the applicable accounting standards. The actual number of Options to be granted will be based on the fair value of an Option at the time of grant (which will be determined at that time) and will not exceed the maximum number approved under this resolution.

Based on the Binomial option pricing model described above, the Company estimates that each of the ESOP Options the subject of resolutions 6 and 7, has a value of \$1.06 at the time of preparing this notice, based on the assumptions in the table below:

Exercise Price (being the VWAP over the 90 days to 30 June 2014 of \$3.1265 plus 30% premium)	\$4.06
Time to expiration of Option	4 years
Volatility	52.20%
Risk free interest rate	3.01%
Annualised dividend yield	Nil

Number of Options - Mr Smith

Mr Smith, or his nominee, will be issued up to a maximum of 424,310 ESOP Options.

The maximum number of ESOP Options has been calculated on the target ESOP Option value of \$449,769 (being 30% of Mr Smith's total remuneration) divided by the estimated fair value of an ESOP Option calculated at the time of preparing this notice (being \$1.06 as calculated in the section above).

The actual number of Options to be granted will be based on the fair value of an Option at the time of grant (which will be determined at that time) and will not exceed the maximum number approved under this resolution.

Other details

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

Over the 12 months prior to 13 September 2014, the lowest recorded price of Shares in SEATS trading on ASX was \$2.36 on 26 March 2014 and the highest was \$5.49 on 17 September 2013.

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.

Since the date of the last approval of the Employee Share Option Plan 2012, those directors received no options under that scheme.

Voting exclusion statement with regard to resolutions 6 and 7

In respect of resolutions 6 and 7, the Company will disregard any votes cast on the resolutions:

- by Mr Robert Hosking or an associate of Mr Robert Hosking;
- by Mr Mark Smith or an associate of Mr Mark Smith; 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 resolutions 6 or 7 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 (Resolution 6): The Board (other than Mr Robert Hosking) unanimously recommends that Shareholders vote in favour of the issue of options under the Employee Share Option Plan 2012 to Mr Robert Hosking or his nominee. Mr Robert Hosking makes no recommendation.

Board recommendation (Resolution 7): The Board (other than Mr Mark Smith) unanimously recommends that Shareholders vote in favour of the issue of options under the Employee Share Option Plan 2012 to Mr Mark Smith or his nominee. Mr Mark Smith makes no recommendation.

8. ELECTION OF A SHAREHOLDER'S NOMINATED DIRECTORS - RESOLUTIONS 8 - 10

Resolutions 8 to 10 have been included in this Notice of Meeting at the request of Pegasus CP One Limited (a company based in the British Virgin Islands), a 0.39% Shareholder of the Company as at 2 September 2014 (the date of the nomination). Pursuant to paragraph 11.11 of the Constitution, the Company may in general meeting elect additional Directors subject to the maximum number (currently 10).

The Board unanimously recommends that Shareholders vote **against** Resolutions 8 to 10 for the reasons below:

- The Board believes that it is not in the best interests of the Company to introduce additional Directors at this time who have not been selected to fill specific roles in the Board structure. The mix of skills and experience of existing Directors has been carefully balanced and additional skills and experience are not required at this time.
- The Board has recently been reconstituted (in June 2014) with the retirement of Mr Stephen Power and the appointment of Mr Peter Turnbull and Mr Bernard Wheelahan. A proper process was conducted at that time to search for and select appropriately qualified candidates from a diverse range of backgrounds. The selection of new Directors was carefully considered by the Nomination Committee to ensure that the Board has an appropriate mix of skills and experience.
- As noted above in section 5, the Board considers that the changes made to the Board in 2014 are consistent with corporate governance best practice, including:
 - the appointment of the two new independent non-executive directors resulting in a majority independent Board;
 - the creation of a new Risk and Governance Committee; and
 - the setting of a timeline for the separation of the Executive Chairman role to appoint a new independent Non-Executive Chairperson.
- The selection process and associations of the shareholder nominated directors is not known. The nominated directors were not part of Karoon's selection process. The Nomination Committee has not had the proper time to consider the appropriateness of the skills and experience of the shareholder nominated directors and has not had time to conduct the necessary background checks.
- The proper operation of the Board and, as a result, the Company, may be unduly disrupted by the appointment of the shareholder nominated directors in a context where those directors views on the future direction of the company are unknown. The Company is presently in an important period of growth. The Company has a strong balance sheet, no debt and solid prospects for the near future.
- At the date the nominations were made (2 September 2014), the nominating shareholder had holdings of 1,000,000 shares. The nominating shareholder first became a shareholder on 29 August 2014. Appointing 3 Directors is disproportionate to the size of the nominating shareholder's interest in the Company.
- The nominating shareholder has claimed that the nominees will be independent non-executive directors. The Nomination Committee has not had the proper time to gather relevant information and make its own assessment of their independence. Shareholders will need to consider that each has been nominated by a single 0.39% shareholder.
- No information has been received from the nominating shareholder as to why the nominees were nominated. No information on the nominating shareholder was offered at the time the nominations were made or since then, as at date of this Notice of Meeting. As a result, the Company does not know the objectives or intentions of the nominating shareholder or the nominees should they be elected.

Information about the nominee's experience and background has been provided to the Company by or on behalf of the nominees. That information is set out, as provided, in Annexure B. The Company has not been able to verify that information but has accepted and re-produced it in good faith. The Company does not take any responsibility for the accuracy or otherwise of that information and any opinions expressed in that information are those of the provider of that information.

Board recommendation: The Board unanimously recommends that Shareholders vote **against** the election of each of Mr Goodall, Ms McLoughlin and Dr Bamford (Resolutions 8, 9 and 10).

9. **RESOLUTION 11 – SPILL RESOLUTION (CONTINGENT ITEM)**

The Corporations Act now includes a "two strikes" rule in relation to Remuneration Reports. The two strikes rule provides that, if at least 25% of the votes cast on the resolution to adopt the Remuneration Report at two consecutive Annual General Meetings are against adopting the Remuneration Report, shareholders will have the opportunity to vote on a Spill Resolution (described below) at the second Annual General Meeting.

At last year's Annual General Meeting, 49.3% of the votes cast on the resolution to adopt the Remuneration Report were against adopting the report ("first strike").

This Resolution will be put to the meeting if at least 25% of the votes cast on Resolution 1 are against adopting the Remuneration Report and the Company receives a "second strike" as explained in section 4 above.

If less than 25% of the votes cast on Resolution 1 are against adopting the Remuneration Report, then there will be no second strike and accordingly the Spill Resolution will not be put to the meeting.

If the Spill Resolution is put to the meeting, it will be considered as an ordinary resolution, which means that, to be passed, the resolution requires the approval of a simple majority of the votes cast by or on behalf of the Shareholders entitled to vote on the matter.

If the Spill Resolution is passed, a further general meeting (**Spill Meeting**) must be held within 90 days after the Annual General Meeting. Immediately before the end of the Spill Meeting, each of the Directors who were in office when the Board approved the last Directors' Report, other than the Managing Director, (the Relevant Directors) will automatically cease to hold office, but may stand for re-election at the Spill Meeting (and subject to the Company maintaining the minimum number of Directors required by the Corporations Act). The Relevant Directors are:

- Mr Mark Smith
- Mr Geoff Atkins
- Mr Clark Davey
- Mr Jose Coutinho Barbosa
- Mr Bernard Wheelahan
- Mr Peter Turnbull

Each of the Relevant Directors would be eligible to seek re-election at the Spill Meeting, however, there is no assurance that any of them would do so.

The Board believes that the current Board has made significant progress in resolving the issues which Shareholders had raised in respect of the Company's remuneration policies and structures. Some of these matters are discussed in Item 2 above.

The Board considers that convening a Spill Meeting would be extremely disruptive to the Company and that it would be inappropriate to remove all of the Relevant Directors in the circumstances. However, the Board recognises that shareholders can remove a Director by a majority Shareholder vote at any general meeting and for any reason.

Shareholders should note that there are no voting exclusions applicable to resolutions appointing Directors at any subsequent meeting of Shareholders. This would mean there is no barrier to any of the KMP who are Shareholders of the Company exercising their voting rights on resolutions at the Spill Meeting.

Board recommendation: Noting that each Relevant Director would have a personal interest in any such resolution, the Board unanimously recommends that Shareholders vote against Resolution 11, if it is put to the meeting.

Voting exclusion statement with regard to resolution 11

In respect of resolution 11, 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 11 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.

10. 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:	Employee Share Option Plan 2012.
ESOP Options:	Options issued under the ESOP.
Eligible Employees:	A full-time or part-time employee or director of the Company or any of its subsidiaries.
Listing Rules:	The Official Listing Rules of the ASX, as amended from time to time.
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 2012.
Remuneration Committee:	The remuneration committee of the Company.
Remuneration Report:	The Remuneration Report for the year ended 30 June 2014 as contained within the Directors' report and forming part of the 2014 Annual Report.
Shareholders:	Holders of Shares.
Shares:	Fully paid ordinary shares in the capital of the Company.
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 6 AND 7

1. 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.
2. The ESOP Options cannot be exercised until 1 July 2017 (**Exercise Date**) except in the circumstances set out in paragraph 5 below.
3. 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.
4. Options are non-transferable, except in limited circumstances or with the consent of the Board.
5. 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.
6. 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 Options or ESOP Options specified in the Exercise Notice; and
 - (b) the certificate for those Options or ESOP Options, for cancellation by the Company.
7. The Exercise Notice only becomes effective when the Company has received cleared funds for the full amount of the Exercise Price.
8. 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.
9. 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.
10. 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 optionholder will be entitled to have issued to him (in addition to the Shares which would otherwise be issued to him under that bonus issue (**bonus shares**) if on the record date for the bonus issue the optionholder has been registered as the holder of the number of Shares of which he would have been registered as holder if, immediately prior to that date, he had duly exercised his ESOP Options and the Shares the subject of such exercise had been duly allotted and issued or transferred to him. 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.
11. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of an optionholder will be changed to the extent necessary to comply with the applicable Listing Rules in force at the time of the reorganisation.
12. Generally, as set out in the rules of the approved Employee Share Option Plan 2012.

ANNEXURE "B"

INFORMATION ON SHAREHOLDER NOMINATED DIRECTORS - RESOLUTIONS 8 - 10

Colin Goodall (FCA, CTA)

Mr Goodall had a 24 year career with the British Petroleum Group (BP) (upstream oil) in Management and Finance. While at BP, he served as the Chief Financial Officer of BP Europe and as Senior Representative in Russia. Mr Goodall's Board experience includes:

- Previous Chairman of Dana Petroleum Plc up to its US\$4B buy out by Korean National Oil Co (KNOC) in 2010
- Previous Senior Independent Non-Executive Director of LSE listed Lamprell plc
- Previous Chairman of AIM listed The Parkmead Group plc
- Previous Chairman of ASX listed AO Energy Limited
- Current Chairman of a number of private energy companies and other organisations including Sindicatum Sustainable Resources Group, Golden Horde Ltd, Osmoflo Holdings Pty. Ltd, charitable organisation Common Ground and the Committee for Adelaide.

Colin is also a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Chartered Institute of Taxation.

Ms Glenda McLoughlin

Glenda McLoughlin has over 30 years international commercial experience as an investment banker, senior finance executive and company director working in Australia and internationally. She has held senior executive roles at leading international financial institutions Morgan Stanley, Credit Suisse and Barclay Capital where she was the Director in charge of the Energy and Infrastructure group in Australia. She has extensive experience in providing strategic commercial advice to major corporations and Governments having advised on over \$8 billion of debt and equity financings, restructurings and mergers and acquisitions.

Ms McLoughlin has focused on growing businesses across a range of sectors including energy, infrastructure, telecommunications, information technology, media, transport and financial services and has broad international experience having worked in Singapore, Malaysia, Thailand, Indonesia, Hong Kong, the Philippines, New Zealand, the UK and Australia. Since leaving investment banking she has been a founding director of two ASX listed energy companies. She has a strong interest in education and the arts and is currently a Director of the National Art School in Sydney where she chairs the Finance and Audit Committee.

Ms McLoughlin's Board experience includes:

- Non-Executive Director of National Art School including Chair of the Finance & Audit Committee
- Executive Director of Metgasco Limited (ASX:MEL) from 2002 to 2012
- Former Non-Executive Director of Elk Petroleum Limited (ASX:MEL).

Ms McLoughlin is a Fellow of the Australian Institute of Company Directors and has an MBA (University of NSW – AGSM & University of Chicago-GSB).

Dr David Bamford

David Bamford is well known around the oil & gas industry both as an explorer and a geophysicist. He holds a Physics degree from the University of Bristol and a Ph.D in Geological Sciences from the University of Birmingham.

From 2004 until his retirement from the Board at the end of April 2014, David was a non-executive director at Tullow Oil plc, being recruited to this position especially for his exploration knowledge. He served on the Nominations and Remuneration Committees, and was chairman of the latter, and was the Senior Independent Director, for the 3 years prior to his retirement.

David joined the board of Premier Oil plc in May 2014.

David retired from BP plc in 2003, his last four positions being Chief Geophysicist (1990-1995), Business Unit Leader (General Manager) for first West Africa and then Norway (1995-1999), and finally Head of Exploration until 2003.

David has served on the boards of Paras Ltd, a small exploration and IS/IT consulting company in which he held 22% equity, until its sale to RPS Energy in 2008 and Welltec a/s, a Danish well engineering company, as the nominee of the private equity investor Riverside.

From 2012 to 2013 he served on the board of ASX listed AO Energy Limited as a non-executive director.

David was a founder of Richmond Energy partners, a small oil & gas research house, and several media companies that focus on the oil & gas sector, and has served as an advisor to Alliance Bernstein, Opus Executive, the Parkmead Group plc and Kimmeridge Energy LLP. Since retiring from BP, he has undertaken asset and company valuation projects for investment banks, hedge funds and small oil companies.

Lodge your vote:



Online:

www.investorvote.com.au



By Mail:

Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
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(within Australia) 1300 850 505
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Proxy Form



Vote and view the annual report online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

 **For your vote to be effective it must be received by 11:00am (AEDT) Saturday, 25 October 2014**

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder 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 help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form →**



☐

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

I/We being a member/s of Karoon Gas Australia Limited hereby appoint

☐

the Chairman
of the Meeting

OR



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Karoon Gas Australia Limited to be held at Garden Room 2 & 3 at the Crown Towers, Level 1, 8 Whiteman Street, Southbank Victoria on Monday, 27 October 2014 at 11:00am (AEDT) and at any adjournment or postponement of that Meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Resolutions 1, 6, 7 and 11 (except where I/we have indicated a different voting intention below) even though Resolutions 1, 6, 7 and 11 are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolutions 1 to 7 and against Resolutions 8 to 11. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on any of the Resolutions by marking the appropriate box in step 2 below.

STEP 2 Items of Business



PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS

		For	Against	Abstain
Resolution 1	Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Election of Mr Peter Turnbull as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Election of Mr Bernard Wheelahan as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Re-election of Mr Geoff Atkins as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Re-election of Mr Mark Smith as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Approval to issue ESOP Options to Mr Robert Hosking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Approval to issue ESOP Options to Mr Mark Smith	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote all available undirected proxies AGAINST Resolutions 8, 9, 10 and 11.

		For	Against	Abstain
Resolution 8	Election of Mr Colin Goodall as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Election of Ms Glenda McLoughlin as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10	Election of Mr David Bamford as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 11	Spill Resolution (Contingent item)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SIGN

Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact
Name

Contact
Daytime
Telephone

Date / /