



**KAROON GAS AUSTRALIA LTD**

**(ACN 107 001 338)**

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**NOTICE OF ANNUAL GENERAL MEETING**

**and**

**EXPLANATORY MEMORANDUM**

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Date of Meeting: 30 November 2018

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

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Notice is given that an Annual General Meeting of Shareholders of Karoon Gas Australia Ltd ACN 107 001 338 (**Company**) will be held on Friday 30 November 2018 at 10am (AEDT) 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, together with the Directors' Report and the Auditor's Report, for the year ended 30 June 2018 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 2018, 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 MS LUCIANA RACHID AS A DIRECTOR

*Please note that, Ms Luciana Rachid has served the Company as Non-Executive Director since 26 August 2016. The Board unanimously supports the re-election of Ms Luciana Rachid as a Director.*

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

*"That Ms Luciana Rachid, 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 herself for re-election, be re-elected as a Director of the Company with immediate effect."*

#### 4. RESOLUTION 3 – RE-ELECTION OF MR JOSE COUTINHO BARBOSA AS A DIRECTOR

*Please note that Mr Jose Coutinho Barbosa has served the Company as a Non-Executive Director since 31 August 2011. The Board unanimously supports the re-election of Mr Jose Coutinho Barbosa as a Director.*

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

*"That Mr Jose Coutinho Barbosa, 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."*

**5. RESOLUTION 4 – CHANGE OF COMPANY NAME TO KAROON ENERGY LTD**

To consider and, if thought fit, to pass the following resolution as a special resolution:

*“That, for the purposes of sections 157 and 136(2) of the Corporations Act and for all other purposes, the name of the Company be changed to Karoon Energy Ltd and all references to the Company’s name within the Constitution be amended to reflect the Company’s new name.”*

**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) 953,572 Long Term Incentive (LTI) ESOP Options at an exercise price of \$1.40 and 249,872 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 2018; and*
- b) 28,170 Performance Rights, to be granted as a result of the satisfaction of 8.33% of short term incentive (STI) performance hurdles over the 2018 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 7 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) 953,572 Long Term Incentive (LTI) ESOP Options at an exercise price of \$1.40 and 249,872 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 2018; and*
- b) 28,170 Performance Rights, to be granted as a result of the satisfaction of 8.33% of STI performance hurdles over the 2018 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 7 of the Explanatory Memorandum to this Notice of Meeting.

8. **RESOLUTION 7 – 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 2018.*

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:*

- 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 2018 was passed, other than the Managing Director, 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 8 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, 5 and 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.

Resolution 4 is a special resolution and will be passed only if supported by at least 75% of the votes cast by Shareholders entitled to vote on the resolution.

Resolution 7 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 2018. Resolution 7 will be passed only if it is supported by a majority of the votes cast by Shareholders entitled to vote on the resolution.

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

DATED: 19 October 2018

**BY ORDER OF THE BOARD**



Scott Hosking  
Company Secretary

## Voting Information

### *Voting entitlements*

The directors of the Company have determined that persons holding fully paid ordinary shares in the Company as at 7.00pm (AEDT) on Wednesday 28 November 2018 will be entitled to attend and vote at the Annual General Meeting.

Accordingly, transactions registered after that time will be disregarded in determining a Shareholder's entitlement to attend and vote at the Annual General 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 (disregarding fractions).

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](http://www.intermediaryonline.com).

Shareholders may also register the appointment of proxies online at [www.investorvote.com.au](http://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](http://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, if you appoint a member of the Key Management Personnel (**KMP**) of the Company (other than the Chairman) or any of their Closely Related Parties as your proxy, they will not be able to vote your proxy on the following resolutions unless you have directed them how to vote:

- Resolution 1 (Adoption of Remuneration Report);
- Resolution 5 (Approval to issue ESOP Options and Performance Rights to Mr Robert Hosking);
- Resolution 6 (Approval to issue ESOP Options and Performance Rights to Mr Mark Smith); and
- Resolution 7 (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 6 and **against** Resolution 7. By appointing the Chairman as proxy, you authorise him to vote any undirected proxy votes on resolutions 1, 5, 6 and 7 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 Friday 30 November 2018 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 Ms Luciana Rachid as a Director of the Company;
3. re-elect Mr Jose Coutinho Barbosa as a Director of the Company;
4. change the name of the Company to Karoon Energy Ltd;
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;
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; and
7. 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 2018, 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, the 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 Report, Director's Report and Auditor's Report for the year ended 30 June 2018 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 2018 Annual Report, a copy of which has been made available to Shareholders with this Explanatory Memorandum and the accompanying Notice of Meeting, and it is also available on request to the Company.

While no resolution is required to be put to Shareholders in relation to this item, Shareholders should consider these 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 preparation and content of the Auditor's Report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the auditor. Shareholders may also submit written questions to the auditor if the question is relevant to the content of the Auditor's Report or the conduct of the audit of the annual Financial Reports. If you wish to do so, you must submit any such written question to the Company by 23 November 2018. The Company to forward all questions to the auditor and the auditor must prepare a list of questions that the auditor considers are relevant to the conduct of the audit and the content of the Auditor's Report. The auditor may omit questions that are the same in substance as other questions or are not received in a timely manner.

### 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 2018 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:**
  - our remuneration structures are designed to attract, motivate and retain the best people whilst remunerating them reasonably and competitively; and
  - we encourage our people to hold equity in the Company which builds a culture of viewing management decisions as an owner thereby helping to further align executive and Shareholder interests;



- **Transparency** – remuneration measures, outcomes and reporting are as simple and transparent as possible for Shareholders and other stakeholders; and
- **Longer term focus** – we aim to ensure that key decision making is always appropriately longer term in its nature and 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 2018/2019 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; and
- 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.

Outcomes and decisions for the period are:

- STI – 8.33% of the 2017/2018 STI allocated to Company-Wide Operational Objectives has been awarded by the Board. For employees who are not Executive Directors, a component of their STI may be payable depending on individual performance
- LTI – No LTI will be awarded for the 2017/2018 year as Karoon did not achieve a satisfactory level of share price performance against its industry peer group over the previous 3 year period;
- Executive salaries - there will be no increase to key management personnel (‘KMP’) salaries for the 2018/2019 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; and
- Board fees - there will be no increase in the base Board fees paid to Non-Executive Directors for the 2018/2019 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 2018/2019 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 2018/2019 year ahead.

### **Spill meeting**

Under the “two strikes rule” in the Corporations Act, if at least 25% of the votes cast on the adoption of the remuneration report at two consecutive annual general meetings are cast against the adoption of the Remuneration Report, a “spill resolution” must be put to Shareholders of the Company at the second annual general meeting.

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 2017 Remuneration Report and the Company received a “first strike”. This is notwithstanding that there had been no material issues raised with the Company prior to the Annual General Meeting and with all independent proxy advisory services recommending a “yes” vote in relation to the 2017 Remuneration Report. Nonetheless, the Board takes seriously and fully accepts the Shareholder vote. The Board also accepts the fundamental need to align internal executive remuneration structures and tangible year-to-year strategic progress with the share price movement over time, so that remuneration outcomes are reflective of the Shareholder experience as investors in the Company.

To ensure a better understanding of Shareholder concerns, the Company engaged with various Shareholders and proxy advisor groups during the 2018 financial year regarding the Company’s remuneration strategy.

If 25% or more of the votes that are cast on Resolution 1 are cast against the adoption of the 2018 Remuneration Report, the Company will receive a “second strike” and will be required to put Resolution 7 to Shareholders at the AGM. Further information about Resolution 7 is set out below. 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**

A vote must not be cast on resolution 1, and the Company will disregard any votes cast on resolution 1, 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.

However, a person described above may cast a vote on resolution 1 as a proxy if:

- it is cast as proxy for a person who is entitled to vote, and the person is appointed as a proxy by writing that specifies the way the proxy is to vote on resolution 1; or
- it is cast by the Chairman of the Annual General Meeting as proxy for a person who is entitled to vote, and the appointment of the Chairman as proxy does not specify the way the proxy is to vote on the resolution, but only if the proxy expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

## **5. RE-ELECTION OF EXISTING DIRECTORS**

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

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 each Annual General Meeting of the Company, 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 MS LUCIANA RACHID AS A DIRECTOR**

Resolution 2 seeks Shareholder approval for the Company to re-elect Ms Luciana Rachid as a Director of the Company.

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

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

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

Luciana has also held positions in the Petrobras commercial team including Executive Manager of Investor Relations, Executive Manager of Financial Planning and Risk Management, General Manager of Corporate Affairs, General Manager of Marketing and Trading, Executive Manager for Logistics and Investments in Natural Gas and Chief Executive Officer Transportadora Brasileira Gasoduto Bolívia Brazil and most recently Chief Executive Officer of Transportadora Associada de Gas SA.

Member of the Nomination Committee and Risk and Governance Committee.

**Board recommendation:** The Board unanimously supports the re-election of Ms Rachid.

### **5.2 RESOLUTION 3 – APPROVAL OF RE-ELECTION OF MR JOSE COUTINHO BARBOSA AS A DIRECTOR**

Resolution 3 seeks Shareholder approval for the Company to re-elect Mr Jose Coutinho Barbosa as a Director of the Company.

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

Earlier in his career, Jose Coutinho was Executive Vice-President and CEO of Petróbras Internacional SA (otherwise known as Braspetro) and was Managing Director for Exploration and Production of Petróbras until his retirement during February 2003. Since then, he has managed his own independent consulting firm, Net Pay Óleo & Gás Consultoria Ltda, headquartered in Rio de Janeiro, Brazil, operating in areas of the petroleum industry. Jose Coutinho brings knowledge and experience to the Company, including experience with geology, exploration and production and local knowledge of the oil and gas industry in Brazil and internationally.

Current and past directorships of other listed companies include Lupatech SA (director from 24 March 2008 to 29 April 2011 and re-appointed 4 May 2012. Resigned 28 March 2014).

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

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

#### **6. RESOLUTION 4 – CHANGE OF COMPANY NAME TO KAROON ENERGY LTD**

Resolution 4 seeks Shareholder approval for the Company to change its name to Karoon Energy Ltd.

The Board considers that the change of name is appropriate to more closely align the nature of Karoon's current assets. With recent discoveries in Brazil and a mix of gas and oil exploration in its portfolio, replacing the name "Gas" with "Energy" better reflects the company's current strategy.

If this special resolution is approved by Shareholders, the proposed name change of the Company will be lodged with the Australian Securities and Investments Commission (ASIC). However, with approval from ASIC, the name change will not become effective until a date to be determined by the Board, being no later than 1 January 2019. This is to ensure that the effective date for the name change coincides with the launch of the group's rebranding initiative, currently expected to be launched in late 2018. The current ASX code will remain "KAR".

The Board recommends that Shareholders vote in favour of this special resolution.

#### **7. 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) *953,572 Long Term Incentive (LTI) ESOP Options at an exercise price of \$1.40 and 249,872 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 2018; and*
- b) *28,170 Performance Rights, to be granted as a result of the satisfaction of 8.33% of short term incentive (STI) performance hurdles over the 2018 financial year,*

on the terms and conditions set out in this Explanatory Memorandum and otherwise 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 (or his nominee) and to Mr Smith (or his nominee), 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 2018 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 2018. 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

<b>Australian Market Peers</b>	<b>Global Peers</b>
Australis Oil and Gas Limited	Cairn Energy plc
Beach Energy Limited	GeoPark Limited
Carnarvon Petroleum Limited	Gran Tierra Energy Inc
FAR Limited	Kosmos Energy Ltd
Horizon Oil Limited	Ophir Energy plc
Oil Search Limited	New Zealand Oil & Gas Ltd
Santos Limited	QGEPC Participacoes SA
Senex Energy Limited	Premier Oil plc
Woodside Petroleum Limited	SOCO International plc
	Tullow Oil plc

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

<b>Relative TSR performance against the selected peer group</b>	<b>Proportion of Target LTI to Vest</b>
Less than 50 <sup>th</sup> percentile	0%
At 50 <sup>th</sup> percentile	50%
Between 50 <sup>th</sup> and 75 <sup>th</sup> percentile	50% plus 2% for each additional percentile ranking above 50 <sup>th</sup> percentile
At or above 75 <sup>th</sup> percentile	100%
At 100 <sup>th</sup> 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 (or his nominee) and Mr Smith (or his nominee) 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 (or his nominee) and Mr Smith (or his nominee) is considered reasonable by the Board of Directors with 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 (or his nominee) and Mr Smith(or his nominee), as Executive Directors, include the following components:

Table 3

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

\*excluding superannuation of \$20,531

\*\*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	\$1.08 per right	\$0.28 per option
	Target Remuneration Amount	\$224,884	\$224,884
	Maximum Number of Securities which could vest (including 120% for outperformance)	<b>249,872</b>	<b>953,573</b>
Mr Smith	% of LTI	50%	50%
	Per security value	\$1.08 per right	\$0.28 per option
	Target Remuneration Amount	\$224,884	\$224,884
	Maximum Number of Securities which could vest (including 120% for outperformance)	<b>249,872</b>	<b>953,573</b>

### **Calculation of Exercise Price of the LTI Options**

The exercise price of the LTI ESOP Options to be granted to Mr Hosking (or his nominee) and Mr Smith (or his nominee) 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 2018, being the beginning of the Relative TSR testing period (**Premium Exercise Price**). The VWAP is \$1.08 and the exercise price of the Options, if approved, will be \$1.40. 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 to be issued to Mr Hosking (or his nominee) and Mr Smith (or his nominee) have a value of \$0.28 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 2018, (\$1.08) plus a 30% premium)	\$1.40
Value	\$0.28
Time to expiration of Option	4 years
Volatility	48.62%
Risk free interest rate	2.08%
Annualised dividend yield	Nil

### **Calculation of LTI Performance Right Fair Value**

The Fair Value of Performance Rights to be issued to Mr Hosking (or his nominee) and Mr Smith (or his nominee) is equivalent to the VWAP of the Company's shares traded on the ASX in the 20 days before and after 1 July 2018, being \$1.08. 1 July 2018 is the first day of the testing period for the Relative TSR test period.

### **Grant and Vesting of STI Performance Rights**

The STI Performance Rights to be granted to Mr Hosking (or his nominee) and Mr Smith (or his nominee) are the result of the satisfaction of 8.33% of performance hurdles set at the beginning of the 2018 financial year. These Performance Rights will be subject to a retention period and become exercisable from 1 July 2019.

In respect of the 2018 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 the beginning of the performance period, being \$1.33.

As a result, a maximum of 338,171 Performance Rights (for each of Mr Hosking and Mr Smith) were at risk in respect of the 2018 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 to Mr Hosking (or his nominee) and Mr Smith (or his nominee).

Table 6

Criteria	Hurdle	Award Percentage 'At Risk'	Short-term Incentive Outcomes
<b>Safety</b>	TRIR of < 2 required for any award to proceed.	Gateway	TRIR 0.00
<b>Acquisition Strategy</b>	To acquire an interest in a production and/or near-term development asset by: completion of legally binding terms for a value-accretive asset acquisition as judged by an increase in the Karoon share price of not less than 20%, sustained for a period of not less than 30 days following the ASX announcement of the transaction; and the asset acquisition should provide accretive (positive) cash flow within a reasonable commercial period after acquisition, to be determined by the Board of Directors at its discretion.	40%	An asset acquisition was not completed during the financial year ended 30 June 2018. 0%
<b>Operational</b>	Brazil (Santos Basin): complete the FEED stage for the Neon (Echidna) light oil discovery in Brazil; or attract a strategic partner who will jointly proceed to FID on the Neon (Echidna) light oil discovery.	25%	As at 30 June 2018, Neon (Echidna) FEED work and a strategic partnership are both incomplete. 0%
<b>Asset Management</b>	Completion of key farm-outs in Australia, Brazil and Peru.	25%	Peru Z-38 – Farm-out to Tullow. 8.33%
<b>Cost Control and Capital Preservation</b>	Reduction of variable administration and operating costs by 20% for the financial year ended 30 June 2018.  (Note: Board of Directors' discretion maybe applied resulting from the achievement of one or more of the above objectives that significantly alter the overall cost profile of the Group.)	10%	Total cost reduction targets were not met due to additional workload associated with new venture activities, which were incomplete at the test date. 0%
<b>Anti-bribery and Corruption</b>	Negative discretion will be applied based on management's implementation and enforcement of the Anti-bribery and Corruption Policy.	Clawback	No incidence of bribery or corruption.

As outlined above, a total of 8.33% of the available STI opportunity, 28,170 Performance Rights 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.

#### ***Current Valuation of STI Performance Rights***

The current estimated fair value of the Performance Rights is calculated based on the prevailing share price at the time of approval of this Notice of Meeting, being \$1.11. The Company estimates that each of the STI Performance Rights to be granted to Mr Hosking (or his nominee) and Mr Smith (or his nominee) have a value of \$1.14 as at 4 September 2018 being the closing share price on that day.

#### ***Other details***

The ESOP Options and Performance Rights the subject of resolutions 5 and 6 will be granted to Mr Hosking or his nominee and Mr Smith or his nominee (as applicable) following the AGM and in any case within 12 months of the AGM.

Over the 12 months prior to 4 September 2018, the lowest recorded price of Shares in SEATS trading on ASX was \$1.02 on the 27 June 2018 and the highest was \$1.48 on 14 November 2017.

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

The Company will not make any loans to the Directors in connection with the performance rights and options which may be granted to Mr Hosking and Mr Smith pursuant to resolutions 5 and 6.

#### ***Mr Hosking's interest in Shares***

Since the date of the last AGM, Mr Hosking was granted 574,172 Options under the ESOP and 331,408 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 2017 AGM.

As at the date of this Notice of Meeting, Mr Hosking had an interest in 11,983,363 Shares, 997,548 Options and 524,166 Performance Rights. That represents 5.50% 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:

<b>Shares</b>	<b>Options</b>	<b>Performance Rights</b>
11,983,363	1,951,121	802,208

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 2,753,329 Shares. If these were newly issued Shares, Mr Hosking would have an interest in 6.61% 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 574,172 Options under the ESOP and 331,408 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 2017 AGM.

As at the date of this Notice of Meeting, Mr Smith had an interest in 2,870,938 Shares, 997,548 Options and 524,166 Performance Rights. That represents 1.78% 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
2,870,938	1,951,121	802,208

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 2,753,329 Shares. If these were newly issued Shares, Mr Smith would have an interest in 2.23% 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**

The following voting exclusions apply to resolutions 5 and 6:

The Company will disregard any votes cast in favour of resolutions 5 and 6 by or on behalf of any Director and any of their Associates. However, the Company need not disregard a vote on resolutions 5 or 6 if it is cast by:

- a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- the Chairman of the Annual General Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, a vote must not be cast on resolutions 5 or 6, and the Company will disregard any votes cast on resolutions 5 and 6, 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. However, any such person may cast a vote on resolutions 5 and 6 as a proxy if:

- it is cast as proxy for a person who is entitled to vote, and the person is appointed as a proxy by writing that specifies the way the proxy is to vote on resolutions 5 or 6; or
- it is cast by the Chairman of the Annual General Meeting as proxy for a person who is entitled to vote, and the appointment of the Chairman as proxy does not specify the way the proxy is to vote on the resolution, but only if the proxy expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

### **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.

## 8. RESOLUTION 7 – SPILL RESOLUTION (CONTINGENT ITEM)

The Corporations Act 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 cast against adopting the Remuneration Report, a “spill resolution” (described below) must be put to Shareholders at the second Annual General Meeting.

At last year's Annual General Meeting, 56.08% of the votes cast on the resolution to adopt the Remuneration Report were FOR adopting the report. This created the “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 at least 25% of the votes cast on Resolution 1 are against adopting the Remuneration Report, then the Company will receive a second strike and accordingly the Spill Resolution will 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 date of the Spill Resolution. 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
- Ms Luciana Rachid
- 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 market performance.

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 and strongly recommends that Shareholders **vote against** Resolution 7, if it is put to the meeting.

## Voting exclusion statement with regard to resolution 7

A vote must not be cast on resolution 7, and 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.

However, a person described above may cast a vote on resolution 7 as a proxy if:

- it is cast as a proxy for a person who is entitled to vote, and the person is appointed as a proxy by writing that specifies the way the proxy is to vote on resolution 7; or
- it is cast by the Chairman of the Annual General Meeting as proxy for a person who is entitled to vote, and the appointment of the Chairman as proxy does not specify the way the proxy is to vote on the resolution, but only if the proxy expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

## 9. GLOSSARY

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

<b>Annual General Meeting:</b>	Is defined in section 1 of this Explanatory Memorandum.
<b>Associate:</b>	Has the meaning given to that term in the Listing Rules.
<b>ASX:</b>	ASX Limited (ACN 008 624 691).
<b>Board:</b>	The Board of Directors of the Company.
<b>Closely Related Party:</b>	Includes a KMP's spouse, dependant and certain other close family members, as well as any companies controlled by the KMP.
<b>Company:</b>	Karoon Gas Australia Ltd (ACN 107 001 338).
<b>Corporations Act:</b>	Corporations Act 2001 (Cth).
<b>Corporations Regulations:</b>	Corporations Regulations 2001 (Cth).
<b>EDT:</b>	Eastern Daylight Time, being the time in Melbourne, Victoria.
<b>ESOP or Employee Share Option Plan</b>	The Employee Share Option Plan 2016, a copy of which is available on Karoon's website and is accessible via the following link: <a href="http://www.karoongas.com.au/governance">www.karoongas.com.au/governance</a> .
<b>ESOP Options:</b>	Options issued under the ESOP.
<b>Listing Rules:</b>	The Official Listing Rules of the ASX, as amended from time to time.
<b>LTI:</b>	Long Term Incentive.
<b>Key Management Personnel or KMP:</b>	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.
<b>Notice of Meeting:</b>	The notice convening the Annual General Meeting which accompanies this Explanatory Memorandum.
<b>Options:</b>	Options to acquire shares in the Company.
<b>Performance Rights:</b>	Rights issued under the Performance Rights Plan 2016.
<b>Performance Rights Plan or PRP</b>	The Performance Rights Plan 2016, a copy of which is available on Karoon's website and is accessible via the following link: <a href="http://www.karoongas.com.au/governance">www.karoongas.com.au/governance</a> .

<b>Remuneration Committee:</b>	The Remuneration Committee of the Company.
<b>Remuneration Report:</b>	The Remuneration Report for the year ended 30 June 2018 as contained within the Directors' report and forming part of the 2018 Annual Report.
<b>Shareholders:</b>	Holders of Shares.
<b>Shares:</b>	Fully paid ordinary shares in the capital of the Company.
<b>STI:</b>	Short Term Incentive.
<b>Total Shareholder Return or TSR:</b>	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.
<b>VWAP:</b>	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 2018 to 30 June 2021.
6. The ESOP options cannot be exercised until 1 July 2021 (**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:
  1. allot and issue or transfer the number of Shares specified in the Exercise Notice to the ESOP Option holder;
  2. cancel the certificate for the ESOP Options being exercised;
  3. if applicable, issue a new certificate for any remaining ESOP Options covered by the certificate accompanying the Exercise Notice; and
  4. 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 2019 (**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.