



KAROON GAS AUSTRALIA LTD

(ACN 107 001 338)

NOTICE OF ANNUAL GENERAL MEETING

and

EXPLANATORY MEMORANDUM

Date of Meeting: 31 October 2013

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

Place of Meeting: River Room 1 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 31 October 2013 at River Room 1 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

1. FINANCIAL REPORTS

To receive and consider the financial report of the Company for the year ended 30 June 2013, together with the directors' report and the auditor's report in accordance with the Corporations Act.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

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

"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report for the year ended 30 June 2013, as contained within the directors' report, be adopted."

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.

3. RESOLUTION 2 – RE-ELECTION OF CLARK DAVEY AS A DIRECTOR

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

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

4. RESOLUTION 3 – RE-ELECTION OF 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 who, being eligible, offers himself for re-election, be re-elected as a Director of the Company with immediate effect."

5. RESOLUTION 4 – RATIFICATION OF THE ISSUE OF INSTITUTIONAL PLACEMENT SHARES

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

*"That the Company ratify for all purposes, including Listing Rule 7.4, the issue of 29,700,000 fully paid ordinary Shares at an issue price of \$5.10 per Share, issued by way of a placement to institutional investors (**Institutional Placement**), on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting."*

6. RESOLUTION 5 – APPROVAL TO ISSUE ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR SCOTT 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 10.11 and Chapter 2E of the Corporations Act, the issue to Mr Scott Hosking or his nominee of:

- a) 91,112 ESOP Options at an exercise price of \$6.74 each; and*
- b) 40,279 Performance Rights,*

under and in accordance with the Employee Share Option Plan 2012 and the Performance Rights Plan 2012 respectively and otherwise on the terms and conditions set out in the Explanatory Memorandum."

It is intended that vesting of each of the ESOP Options and the Performance Rights is subject to the achievement by the Company of the relative Total Shareholder Return targets and company wide operational objectives, and the achievement by Mr Hosking of personal performance targets as set out in the Explanatory Memorandum.

7. RESOLUTION 6 – APPROVAL TO ISSUE ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR TIM 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 10.11 and Chapter 2E of the Corporations Act the issue to Mr Tim Hosking or his nominee of:

- a) 59,009 ESOP Options at an exercise price of \$6.74 each; and*
- b) 26,087 Performance Rights,*

under and in accordance with the Employee Share Option Plan 2012 and the Performance Rights Plan 2012 respectively and otherwise on the terms and conditions set out in the Explanatory Memorandum."

It is intended that vesting of each of the ESOP Options and the Performance Rights is subject to the achievement by the Company of the relative Total Shareholder Return targets and company-wide operational objectives, and the achievement by Mr Hosking of personal performance targets as set out in the explanatory memorandum.

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

Resolutions 1, 2, 3, 4, 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.

DATED: 20 September 2013

BY ORDER OF THE BOARD



Scott Hosking

Company Secretary

How to Vote

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 29 October 2013 will be taken, for the purposes of the Annual General Meeting, to be held by the persons who held them at that time.

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; 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.

A proxy form has been enclosed 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.

The instrument appointing the proxy must be received by the Company at the address specified above at least 48 hours before the time notified for the Annual General Meeting (Proxy Forms can be lodged by facsimile).

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 5 (Approval to issue ESOP Options and Performance Rights to Mr Scott Hosking);
- Resolution 6 (Approval to issue ESOP Options and Performance Rights to Mr Tim Hosking).

Due to the voting exclusion that applies to the following item of business, participants in the Institutional Placement will also not be able to vote your proxy on the following resolution unless you have directed them how to vote:

- Resolution 4 (Ratification of the issue of Institutional Placement Shares).

How the Chairman of the meeting will vote proxies

The Company notes that, 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. The Chairman will vote undirected proxies on, and in favour of, all of the proposed resolutions, except that in respect of resolutions 1, 5, and 6 where the Chairman will only vote undirected proxies on, and in favour of, those resolutions where expressly authorised by the shareholder in accordance with the Proxy Form.

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 River Rooms 1 at Crown Towers, Level 1, 8 Whiteman Street, Southbank, VIC 3006 on 31 October 2013 at 11.00am EDT (registration from 10.00am EDT) (**Annual General Meeting**).

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

1. adopt the Remuneration Report;
2. re-elect Mr Clark Davey as a Director of the Company;
3. re-elect Mr Jose Coutinho Barbosa as a Director of the Company;
4. ratify the issue of Institutional Placement Shares;
5. approve the issue of options under the Employee Share Option Plan 2012 and performance rights under the Performance Rights Plan 2012 to Mr Scott Hosking or his nominee; and
6. approve the issue of options under the Employee Share Option Plan 2012 and performance rights under the Performance Rights Plan 2012 to Mr Tim Hosking or his nominee.

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

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

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.

A proxy form has been enclosed 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 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 2013 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 2013 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 25 October 2013.

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 vote on this resolution is advisory only and does not bind the Directors or the Company.

Section 250V of the Corporations Act states that if the Remuneration Report receives a "no" vote of 25% or more at two consecutive annual general meetings, a resolution must then be put to Shareholders of the Company at the second annual general meeting as to whether another meeting should be held where all directors (other than the managing director) who were in office at the date of approval of the remuneration report must stand for re-election. This means Shareholders will be entitled to vote for a general meeting to re-elect the entire Board if the Remuneration Report receives a significant no vote twice.

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

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

The Remuneration Report may be found within the directors' report in the 2013 Annual Report.

The Board abstains from making a recommendation in relation to this resolution as a recommendation would involve the Directors making a recommendation about each other's remuneration.

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. RESOLUTION 2 - APPROVAL OF RE-ELECTION OF MR CLARK DAVEY AS A DIRECTOR

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

In accordance with Listing Rule 14.4 and 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.

Mr Davey has over 30 years' experience in the Australian natural resources industry as a taxation consultant to oil and gas and mining companies. Mr Davey was a partner at Price Waterhouse and PricewaterhouseCoopers specialising in the natural resources industry. For a number of years he held resource industry leadership roles within both firms. Mr Davey has been a speaker at APPEA and MCA forums on both income tax and PRRT issues.

Mr Davey brings a wealth of taxation advisory knowledge and experience to the Company, including experience with company income tax, petroleum resource rent taxation in Australia and assisting with accounting and capital management. He has assisted many Australian companies with tax management of their joint venture interests and has had considerable experience with M&A transactions. He has also assisted companies expand their resource industry interests internationally and advised in-bound investors entering and doing business in Australia.

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

6. 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.

In accordance with Listing Rule 14.4 and 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.

Jose Coutinho Barbosa graduated with a bachelors degree in Geology from the Ouro Preto School of Mines (State of Minas Gerais, Brazil) in 1964, and with a Master's Degree in Geophysics in 1967. Mr Barbosa joined Petrobras as Geophysicist in 1965, and has held several technical and management positions with Petrobras throughout his 38 year career there. He has acted as President and CEO of Petroleo Brasileiro S.A, as well as been the Managing Director for Exploration and Production of Petrobras, Executive Vice-President and CEO of Petrobras Internacional S.A BRASPETRO, headquartered in Rio de Janeiro and president and CEO of Petrobras America, Inc., BRASPETRO's Subsidiary in Houston, Texas, USA, as from the Company's incorporation.

Mr Barbosa brings knowledge and experience to the Company, including experience with geology and exploration and production and local knowledge of the industry in Brazil and internationally.

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

7. RESOLUTION 4 – RATIFICATION OF THE ISSUE OF INSTITUTIONAL PLACEMENT SHARES

Resolution 4 seeks Shareholder ratification of the allotment and issue of 29,700,000 shares to institutional investors (**Institutional Placement**) at \$5.10 each pursuant to the placement announced to the ASX on 7 August 2013 and completed 14 August 2013, for the purpose of satisfying Listing Rule 7.4.

Under Listing Rule 7.1, the Company can issue up to 15% of equity securities currently on issue, without shareholder approval, provided any issues within the last 12 months, for which shareholder approval was not obtained, were issued under an exemption to Listing Rule 7.1.

Listing Rule 7.4 provides that an issue of shares made by a company without the prior approval of shareholders under Listing Rule 7.1, may be treated as having been made with shareholder approval if:

- at the time the issue took place, it did not breach Listing Rule 7.1; and
- the shareholders of the company, in general meeting, subsequently ratify the issue of the shares.

The issue of Institutional Placement Shares was made in accordance with Listing Rule 7.1, and the Company is now seeking shareholder ratification under Listing Rule 7.4.

If Resolution 4 is approved, the Institutional Placement Shares will not be included as part of the Company's 15% calculation for the purposes of Listing Rule 7.1.

The Board recommends that shareholders vote in favour of the resolution.

The information required to be provided to shareholders to satisfy Listing Rule 7.4 is specified in Listing Rule 7.5. The following information is provided for the purposes of Listing Rule 7.5:

- (a) the number of securities allotted and issued under the Institutional Placement was 29,700,000 Shares.
- (b) the price at which securities were allotted and issued under the Institutional Placement was \$5.10 per Share;
- (c) the Shares are ordinary fully paid shares which rank equally with existing Shares on issue;
- (d) the Shares were issued under an institutional placement to persons nominated by Citigroup and UBS AG, who acted as joint lead managers and underwriters for the placement;
- (e) the funds raised (\$151.47 million before expenses) pursuant to the Institutional Placement will be applied toward strengthening the Company's balance sheet to:
 - (i) provide financial flexibility to achieve the best possible outcome on current farmout negotiations;
 - (ii) support the Company's position for rig contract negotiations and purchase of long lead items necessary for entering into new drilling programs pre-farmout. This allows the Company to progress its drilling planning and commence its drilling programs on schedule; and
 - (iii) facilitate continued drilling activity in the Australian Browse Basin and Brazil Santos Basin, as well as providing support for new proposed drilling in Peru.

Voting exclusion statement with regard to resolution 4

In respect of resolution 4, the Company will disregard any votes cast on the resolution:

- by any person who participated in the Institutional Placement; or
- any of their associates.

However, the Company need not disregard any vote by any such person excluded from voting on resolution 4 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.

8. RESOLUTION 5 - APPROVAL TO ISSUE ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR SCOTT HOSKING

Resolution 5 seeks Shareholder approval for the Company to grant 91,112 ESOP Options and 40,279 Performance Rights to Mr Scott Hosking or his nominee pursuant to the Employee Share Option Plan 2012 (ESOP) and the Performance Rights Plan 2012 rules. The grant of ESOP Options and Performance Rights to Mr Scott Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Scott Hosking is the son of Mr Robert Hosking.

As set out in more detail in the 2013 Annual 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 5 is approved is linked to the performance of the Company as described below. Vesting of the ESOP Options will only occur if Company-wide performance measures are achieved over a three year vesting period. Vesting of the options will be subject to the Company's total shareholder return exceeding the total shareholder return of companies in the S&P ASX 200 Energy Index. Vesting will occur in proportion to the Company's performance measures, as follows:

TSR Rank	Proportion of Unlisted 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 Scott Hosking are set out in the approved Employee Share Option Plan 2012 and Annexure "A" to this Explanatory Memorandum.

Vesting of the Performance Rights that will be granted if this resolution 5 is approved is conditional on the achievement of performance measures, over the relevant one year performance period, and is subject to the employee remaining employed by the Company for a one year retention period following achievement of those performance measures. Vesting will occur if:

- the employee's personal performance as assessed during the annual performance review period is acceptable. The Company conducts annual performance reviews, measured against an individual's job description and role within the Group as assessed by senior management and the Remuneration Committee where appropriate (weighting 50% p.a.); and
- Company-wide operational objectives, as reviewed annually by the Remuneration Committee by reviewing the Company's operational work plans for the upcoming financial year and assessing the relevant individual's involvement are achieved (weighting 50% p.a.).

The terms of the Performance Rights being issued to Mr Scott Hosking are set out in the approved Performance Rights Plan 2012 and Annexure "B" of this Explanatory Memorandum.

Scott Hosking

Mr Scott Hosking is the Company's Chief Financial Officer and Company Secretary. The number of ESOP Options and Performance Rights being issued to Mr Scott Hosking is considered reasonable in regard to his responsibilities and his achievements to date. Mr Hosking has significant involvement in all facets of the business of the Company and therefore it is considered reasonable that he should have the performance measures relate to the overall performance of the Company both operationally and in terms of its TSR performance against its peers in the ASX S&P 200 Energy Index.

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

As part of the annual remuneration review of all employees, the exercise price of the ESOP Options was calculated by determining the VWAP of the Company's shares traded on the ASX in the 90 days prior to 14 July 2013, being the date the exercise price was set. A premium of 30% of that VWAP amount was then added to reach a final exercise price of \$6.74. This exercise price is the same as all other employees who are eligible to receive options as part of the 2013 remuneration review. There is no exercise price applicable to any of the Performance Rights.

Shareholder approval for the grant of these ESOP Options and Performance Rights the subject of resolution is sought for the purposes of:

- Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to "related parties", for example children of directors of a company; and
- Listing Rule 10.11, which requires the grant of securities to a related party of a company to be approved by shareholders.

Part 2E.1 of the Corporations Act prohibits the Company from giving a financial benefit to a related party (such as a director) unless either:

- the giving of the financial benefit falls within one of the nominated exceptions to the relevant provisions of the Corporations Act; or
- shareholder approval is obtained prior to the giving of the financial benefit.

The proposed grant of ESOP Options and Performance Rights to Mr Scott Hosking involves the provision of a financial benefit to a related party of the Company. Even though the proposed grant of ESOP Options and Performance Rights to Mr Scott Hosking is considered reasonable having regard to both the Company's and Mr Scott Hosking's circumstances, and the general remuneration practices of similar companies, for the purposes of corporate governance the Company seeks Shareholders' approval for the grant.

The ESOP Options and Performance Rights are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the ESOP Options or Performance Rights. A total of \$614,095 in gross Share proceeds would be raised if the ESOP Options were exercised in full and satisfied by the issue of new Shares. No proceeds would be raised on any exercise of the Performance Rights.

In accordance with the requirements of Part 2E of the Corporations Act, and in particular sections 219 and 221, the following information is provided to Shareholders to allow them to assess the proposed grant of ESOP Options and Performance Rights:

1. being a son of Mr Robert Hosking, a Director of the Company, Mr Scott Hosking is a related party of the Company to whom a financial benefit would be given by virtue of section 228(3) of the Corporations Act;
2. the nature of the financial benefit to be given is the grant of 91,112 ESOP Options on the terms set out in the approved Employee Share Option Plan 2012 and Annexure "A" to this Explanatory Memorandum and 40,279 Performance Rights on the terms set out in the approved Performance Rights Plan 2012 and Annexure "B" to this Explanatory Memorandum;
3. the Directors of the Company make no recommendation in relation to resolution 5 on the basis that the resolution relates to the remuneration of a related party of a Director;
4. the ESOP Options and Performance Rights will be issued for no consideration. Any funds raised from the exercise of the ESOP Options will be used for the Company's general working capital requirements;
5. the exercise price and exercise date for these ESOP Options are set out in Annexure "A" to this Explanatory Memorandum. The exercise date for the Performance Rights is set out in Annexure "B" to this Explanatory Memorandum;

6. based on a Binomial option pricing model, the Company estimates that each of the ESOP Options the subject of resolution 5, has a value of \$2.29 at 14 July 2013 as detailed in the table below:

This estimate is based on the following assumptions	
Exercise Price	\$6.74
VWAP for the 90 days ending 14 July 2013	\$5.18
Time to expiration of Option	48 months
Volatility	47.10%
Risk free interest rate	3.36%
Annualised dividend yield	Nil
Total value for ESOP Options proposed to be issued	\$208,646

7. based on a Binomial option pricing model, the Company estimates that the total value of all of the ESOP Options proposed to be issued to Mr Scott Hosking to be \$208,646;
8. the Company estimates that each of the Performance Rights the subject of resolution 5, has a value of \$5.18 at 14 July 2013;
9. the Company estimates that the total value of all of the Performance Rights proposed to be issued to Mr Scott Hosking to be \$208,645;
10. over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$3.88 on 18 April 2013 and the highest was \$7.37 on 25 February 2013. At the close of trading on 14 July 2013 the Share price was \$5.40;
11. following the passing of resolution 5, Mr Scott Hosking will hold an interest in 245,659 Shares and 743,153 Options and 62,403 Performance Rights;
12. Mr Scott Hosking receives a current base salary including post-employment benefit entitlements of \$417,775 per annum;
13. the Company has 255,841,581 Shares and 13,026,066 Options on issue. Assuming that each of the resolutions 5 and 6 outlined in the Notice of Meeting are approved and each of Mr Tim Hosking and Mr Scott Hosking exercise all of the ESOP Options and Performance Rights proposed to be granted to him pursuant to these resolutions, Mr Scott Hosking's interest including all the Shares and Options currently held will represent approximately 0.39% of the Company's diluted capital; and
14. neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass resolution 5.

The following information is provided for the purposes of Listing Rule 10.13:

- (a) the name of the person who will be issued ESOP Options and Performance Rights is Mr Scott Hosking or his nominee;
- (b) Mr Scott Hosking or his nominee will be issued 91,112 ESOP Options at an exercise price of \$6.74 each and 40,279 Performance Rights at a nil exercise price;
- (c) the ESOP Options and Performance Rights will be issued within one month of Shareholder approval;
- (d) Mr Scott Hosking is the son of Mr Robert Hosking, a Director of the Company;

- (e) Mr Scott Hosking is entitled to receive securities under the ESOP and Performance Rights Plan 2012 Rules and is a related party of a director;
- (f) the ESOP Options and Performance Rights are being issued for no consideration and therefore no funds will be raised pursuant to the issue of ESOP Options or Performance Rights; and
- (g) the terms of the ESOP Options being issued to Mr Scott Hosking are set out in the approved ESOP and in Annexure "A" to this Explanatory Memorandum and the terms of the Performance Rights being issued to Mr Scott Hosking are set out in the approved Performance Rights Plan and in Annexure "B" to this Explanatory Memorandum.

Voting exclusion statement with regard to resolution 5

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

- by Mr Scott Hosking or an associate of Mr Scott Hosking; 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 5 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.

9. RESOLUTION 6 - APPROVAL TO ISSUE ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR TIM HOSKING

Resolution 6 seeks Shareholder approval for the Company to grant 59,009 ESOP Options and 26,087 Performance Rights to Mr Tim Hosking or his nominee pursuant to the ESOP and the Performance Rights Plan 2012. The grant of ESOP Options and Performance Rights to Mr Tim Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Tim Hosking is the son of Mr Robert Hosking.

As set out in more detail in the 2013 Annual Report, the Company aims to align the interests of its Directors and employees with the shareholder's 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. Vesting of the ESOP Options will only occur if Company-wide performance measures are achieved over a three year vesting period. Vesting of the options will be subject to the Company's total shareholder return exceeding the total shareholder return of companies in the S&P ASX 200 Energy Index. Vesting will occur in proportion to the Company's performance measures, as follows:

TSR Rank	Proportion of Unlisted 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 Tim Hosking are set out in the approved Employee Share Option Plan 2012 and Annexure "A" to this Explanatory Memorandum.

Vesting of the Performance Rights that will be granted if this resolution 6 is approved is conditional on the achievement of performance measures, over the relevant one year performance period, and is subject to the employee remaining employed by the Company for a one year retention period following achievement of those performance measures. Vesting will occur if:

- the employee's personal performance as assessed during the annual performance review period is acceptable. The Company conducts annual performance reviews, measured against an individual's job description and role within the Group as assessed by senior management and the Remuneration Committee where appropriate (weighting 50% p.a.); and
- Company-wide operational objectives, as reviewed annually by the Remuneration Committee by reviewing the Company's operational work plans for the upcoming financial year and assessing the relevant individual's involvement are achieved. (weighting 50% p.a.).

The terms of the Performance Rights being issued to Mr Tim Hosking are set out in the approved Performance Rights Plan 2012 and Annexure "B" to this Explanatory Memorandum.

Tim Hosking

Mr Tim Hosking is the General Manger of Karoon South America. The number of ESOP Options and Performance Rights being issued to Mr Tim Hosking is considered reasonable in regard to his responsibilities and his achievements to date. In the upcoming period Mr Hosking will be an integral part of the both the drilling campaigns in Brazil and Peru, along with the general navigation of the business environment in these countries.

The structure of Mr Tim Hosking's remuneration is derived from the same structure that will be applied to all employees and executives.

As part of the annual remuneration review of all employees, the exercise price of the ESOP Options was calculated by determining the VWAP of the Company's shares traded on the ASX in the 90 days prior to 14 July 2013, being the date the exercise price was set. A premium of 30% of that VWAP amount was then added to reach a final exercise price of \$6.74. This exercise price is the same as all other employees who are eligible to receive options as part of the 2013 remuneration review. There is no exercise price applicable to any of the Performance Rights.

Shareholder approval for the grant of the ESOP Options and Performance Rights the subject of resolution 6 is sought for the purposes of:

- Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to "related parties", for example children of directors of a company; and
- Listing Rule 10.11, which requires the grant of securities to a related party of a company to be approved by shareholders.

Part 2E.1 of the Corporations Act prohibits the Company from giving a financial benefit to a related party (such as a director) unless either:

- the giving of the financial benefit falls within one of the nominated exceptions to the relevant provisions of the Corporations Act; or
- shareholder approval is obtained prior to the giving of the financial benefit.

The proposed grant of ESOP Options and Performance Rights to Mr Tim Hosking involves the provision of a financial benefit to a related party of the Company. Even though the proposed grant of ESOP Options and Performance Rights to Mr Tim Hosking is considered reasonable having regard to both the Company's and Mr Tim Hosking's circumstances, for the purposes of corporate governance the Company seeks Shareholders' approval for the grant.

The ESOP Options and Performance Rights are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the ESOP Options or Performance Rights. A total of \$397,721 in gross Share proceeds would be raised if the ESOP Options were exercised in full and satisfied by the issue of new Shares. No proceeds would be raised on any exercise of the Performance Rights.

In accordance with the requirements of Part 2E of the Corporations Act, and in particular sections 219 and 221, the following information is provided to Shareholders to allow them to assess the proposed grant of ESOP Options and Performance Rights:

1. being a son of Mr Robert Hosking, a Director of the Company, Mr Tim Hosking is a related party of the Company to whom a financial benefit would be given by virtue of section 228(3) of the Corporations Act;
2. the nature of the financial benefit to be given is the grant of 59,009 ESOP Options on the terms set out in the approved Employee Share Option Plan 2012 and Annexure "A" to this Explanatory Memorandum and 26,087 Performance Rights on the terms set out in the approved Performance Rights Plan 2012 and Annexure "B" to this Explanatory Memorandum;
3. the Directors of the Company make no recommendation in relation to resolution 6 on the basis that the resolution relates to the remuneration of a related party of a Director;
4. the ESOP Options and Performance Rights will be issued for no consideration. Any funds raised from the exercise of the ESOP Options will be used for the Company's general working capital requirements;
5. the exercise price and exercise date for the ESOP Options are set out in Annexure "A" to this Explanatory Memorandum. The exercise date for the Performance Rights are set out in Annexure "B" to this Explanatory Memorandum;
6. based on a Binomial option pricing model, the Company estimates that each ESOP Option the subject of resolution 6, has a value of \$2.29 at 14 July 2013 detailed in the table below:

This estimate is based on the following assumptions	
Exercise Price	\$6.74
VWAP for the 90 days ending 1 August 2012	\$5.18
Time to expiration of Option	48 months
Volatility	47.10%
Risk free interest rate	3.36%
Annualised dividend yield	Nil
Total value for ESOP Options proposed to be issued	\$135,131

7. based on a Binomial option pricing model, the Company estimates that the total value of all of the ESOP Options proposed to be issued to Mr Tim Hosking to be \$135,131;
8. based on a Binomial option pricing model, the Company estimates that each of the Performance Rights the subject of resolution 6, has a value of \$5.18 at 14 July 2013;
9. the Company estimates that the total value of all of the Performance Rights proposed to be issued to Mr Tim Hosking to be \$135,131;
10. over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$3.88 on 18 April 2013 and the highest was \$7.37 on 25 February 2013. At the close of trading on 14 July 2013 the Share price was \$5.40;
11. following the passing of resolution 6, Mr Tim Hosking will hold an interest in 220,055 Shares and 609,009 Options and 48,211 Performance Rights;
12. Mr Tim Hosking receives a current base salary including post-employment benefit entitlements of \$465,350 per annum;

13. the Company has 255,841,581 Shares and 13,026,066 Options on issue. Assuming that each of the resolutions 5 and 6 outlined in the Notice of Meeting are approved and each of Mr Scott Hosking and Mr Tim Hosking exercises all of the ESOP Options and Performance Rights proposed to be granted to him pursuant to these resolutions, Mr Tim Hosking's interest including all the Shares and Options currently held will represent approximately 0.33% of the Company's diluted capital; and
14. neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass resolution 6.

The following information is provided for the purposes of Listing Rule 10.13:

- (a) the name of the person who will be issued ESOP Options and Performance Rights is Mr Tim Hosking or his nominee;
- (b) Mr Tim Hosking or his nominee will be issued 59,009 ESOP Options at an exercise price of \$6.74 each and 26,087 Performance Rights at a nil exercise price;
- (c) the ESOP Options and Performance Rights will be issued within one month of Shareholder approval;
- (d) Mr Tim Hosking is the son of Mr Robert Hosking, a Director of the Company;
- (e) Mr Tim Hosking is entitled to receive securities under the ESOP and Performance Rights Plan 2012 rules and is a related parties of a director;
- (f) the ESOP Options and Performance Rights are being issued for no consideration and therefore no funds will be raised pursuant to the issue of ESOP Options or Performance Rights; and
- (g) the terms of the ESOP Options being issued to Mr Tim Hosking are set out in the approved ESOP and Annexure "A" to this Explanatory Memorandum and the terms of the Performance Rights being issued to Mr Tim Hosking are set out in the approved Performance Rights Plan 2012 and Annexure "B" to this Explanatory Memorandum.

Voting exclusion statement with regard to resolution 6

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

- by Mr Tim Hosking or an associate of Mr Tim Hosking; 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 6 if:

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

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.
Karoon Brazil	Karoon Petróleo & Gás S.A.
Key Management Personnel or KMP:	Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
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 2012 as contained within the Directors' report and forming part of the 2012 Annual Report.
Shareholders:	Holders of Shares.
Shares:	Fully paid ordinary shares in the capital of the Company.
Total Shareholder Return:	The achievements of the Company set out in Annexure "A" to this Explanatory Memorandum.

ANNEXURE "A"

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

1. Subject to satisfaction of the Company wide performance conditions in paragraph 14 below, 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 2016 (**Exercise Date**) except in the circumstances set out in paragraph 6 below.
3. The exercise price of each ESOP Option is \$6.74 (**Exercise Price**).
4. 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.
5. The ESOP Options are transferable after the Exercise Date although no application will be made to the ASX for Official Quotation of the ESOP Options.
6. A percentage of the ESOP Options may be exercised or transferred prior to the Exercise Date in the event of a change of control of the Company or a takeover bid for the Company being made pursuant to Chapter 6 of the Corporations Act or where the replacement of the Board is imminent. These ESOP Options may only be exercised or transferred if the Company has given the holder of the ESOP Options notice of the percentage of ESOP Options that have vested, based on the pro-rata achievement of the performance conditions in paragraph 14 below.
7. 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.
8. The Exercise Notice only becomes effective when the Company has received cleared funds for the full amount of the Exercise Price.
9. Within 10 Business Days after the Exercise Notice becomes effective, 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.
10. 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 at least nine business days before the record date of any new issues of capital offered to the Company's Shareholders. This will give optionholders the opportunity to exercise their ESOP Options prior to the date for determining entitlements to participate in any such issue.

11. 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.
12. 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.
13. Generally, as set out in the rules of the approved Employee Share Option Plan 2012.
14. It is intended that vesting of any ESOP Options will be subject to the Company's TSR exceeding the relative TSR of companies in the S&P ASX 200 Energy Index over a three year period. Vesting will occur in proportion to the Company's performance measures as follows:

Total Shareholder Return:

TSR Rank	Proportion of Unlisted 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%

ANNEXURE "B"

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

1. Subject to satisfaction of the Company wide performance condition in paragraph 13 below, each Performance Right entitles the holder to subscribe for and be allotted one fully paid ordinary share (**Share**) in the Company.
2. The Performance Rights cannot be exercised until 1 July 2015 (**Exercise Date**) except in the circumstances set out in paragraph 6 below.
3. There is no exercise price to be paid on exercise of the Performance Rights.
4. 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.
5. The Performance Rights are transferable after the Exercise Date although no application will be made to the ASX for Official Quotation of the Options.
6. A percentage of the Performance Rights may be exercised or transferred prior to the Exercise Date in the event of a change of control of the Company or a takeover bid for the Company being made pursuant to Chapter 6 of the Corporations Act or where the replacement of the Board is imminent. These Performance Rights may only be exercised or transferred if the Company has given the holder of the Performance Rights notice of the percentage of Performance Rights that have vested, based on the pro-rata achievement of the performance conditions in paragraph 13 below.
7. 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.
8. Within 10 Business Days after the Exercise Notice becomes effective, the Board must:
 - (a) allot and issue the number of Shares specified in the Exercise Notice to the Option Holder;
 - (b) cancel the certificate for the Performance Rights being exercised;
 - (c) if applicable, issue a new certificate for any remaining Performance Rights 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 Performance Rights and holders will not be entitled to participate in new issues of capital offered to the Company's Shareholders during the currency of the Performance Rights. However, the Company will send a notice to each holder of Performance Rights at least nine business days before the record date of any new issues of capital offered to the Company's Shareholders. This will give rightsholders the opportunity to exercise their Performance Rights prior to the date for determining entitlements to participate in any such issue.
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 Performance Rights a rightsholder 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 rightsholder 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 Performance Rights and the Shares the subject of such exercise had been duly allotted and issued 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 a rightsholder 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 approved Performance Rights Rules 2012.
13. It is intended that vesting of any Performance Rights will be subject to the following vesting conditions over the relevant one year performance period followed by a retention period of one year:
 - personal performance as assessed during the annual performance review period. The Group conducts annual performance reviews, measured against an individual's job description and role within the Group as assessed by senior management and the Remuneration Committee where appropriate (weighting 50% p.a.); and
 - Company-wide operational objectives, as reviewed annually by the Remuneration Committee by reviewing the Company's operational work plans for the upcoming financial year and assessing the relevant individual's involvement (weighting 50% p.a.).