



KAROON GAS AUSTRALIA LTD
(ACN 107 001 338)

NOTICE OF ANNUAL GENERAL MEETING
and
EXPLANATORY MEMORANDUM

Date of Meeting: 30 November 2016
Time of Meeting: 11:00 am (Registration opens at 10:00 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.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that an Annual General Meeting of Shareholders of Karoon Gas Australia Ltd ACN 107 001 338 (**Company**) will be held at on 30 November 2016 at 11am at Club Pavilion Level 2, RACV Club, 501 Bourke Street Melbourne, Victoria 3000.

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

AGENDA

1. FINANCIAL REPORTS

To receive and consider the Financial Report of the Company for the year ended 30 June 2016, 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 2016, 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 – ELECTION OF MS LUCIANA RACHID AS A DIRECTOR

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

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

“That Ms Luciana Rachid, who was appointed by the Board as a Director of the Company on 26 August 2016 pursuant to paragraph 11.11 of the Constitution (allowing the appointment of Directors on an interim basis until the next Annual General Meeting) and who retires in accordance with Listing Rule 14.4 and paragraph 11.12 of the Constitution, is eligible for election as a Director of the Company at this AGM and who, being eligible, offers herself for election as a Director of the Company, be elected as a Director of the Company with immediate effect.”

4. RESOLUTION 3 – RE-ELECTION OF MR MARK SMITH AS A DIRECTOR

Please note that Mr Mark Smith has served the Company as Executive Director since 20 November 2003. The Board unanimously supports the re-election of Mr Mark Smith as a Director.

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

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

5. RESOLUTION 4 – RE-ELECTION OF MR PETER TURNBULL AS A DIRECTOR

Please note that Mr Peter Turnbull has served the Company as a Non-Executive Director since 6 June 2014. The Board unanimously supports the re-election of Mr Peter Turnbull as a Director.

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

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

6. RESOLUTION 5 – EMPLOYEE SHARE OPTION PLAN (‘ESOP’)

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 7.2 Exception 9, the Employee Share Option Plan 2016 as described in the Explanatory Memorandum accompanying this Notice of Meeting and the issue of securities under the Employee Share Option Plan 2016.”

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 – PERFORMANCE RIGHTS PLAN (“PRP”)

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 7.2 Exception 9, the Performance Rights Plan 2016 as described in the Explanatory Memorandum accompanying this Notice of Meeting and the issue of securities under the Performance Rights Plan 2016.”

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

8. RESOLUTION 7 – 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) 423,376 Long Term Incentive (LTI) ESOP Options at an exercise price of \$1.82 and 192,758 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 2016; and*
- b) 105,714 Performance Rights, to be granted as a result of the satisfaction of 55% of short term incentive (STI) performance hurdles over the 2016 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 9 of the Explanatory Memorandum to this Notice of Meeting.

9. RESOLUTION 8 – 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) 423,376 LTI ESOP Options at an exercise price of \$1.82 and 192,758 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 2016; and*
- b) 105,714 Performance Rights, to be granted as a result of the satisfaction of 55 % of STI performance hurdles over the 2016 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 9 of the Explanatory Memorandum to this Notice of Meeting.

OTHER BUSINESS

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

REQUIRED MAJORITIES AND IMPORTANT NOTICES

Resolutions 1 to 8 are ordinary resolutions and will be passed only if supported by a majority of the votes cast by Shareholders entitled to vote on the resolutions.

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

DATED: 21st October 2016

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'S Hosking', written in a cursive style.

Scott Hosking

Company Secretary

VOTING 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 28 November 2016 will be taken, for the purposes of the Annual General Meeting, to be held by the persons who held them at that time.

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

APPOINTING A PROXY

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

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

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

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

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

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

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

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

Notes:

1. If a Proxy Form is signed or authenticated by an appointer's attorney, the power of attorney or a certified copy thereof (if any) under which it is signed must accompany the Proxy Form and be received by the Share Registrar – Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, Vic 3067, not later than 48 hours before the appointed time of the Annual General Meeting.
2. Proxy Forms executed by a corporation must be in accordance with the requirements of the Corporations Act or under the hand of its attorney. In the case of a sole Director/secretary company, please indicate "sole Director" in the space provided.
3. Should you desire to direct your proxy on how to vote, place a cross in the appropriate box for each item, otherwise your proxy may vote as your proxy thinks fit or abstain from voting.
4. If two or more proxies are appointed, you may delete "all" and insert the relevant number or proportion of shares in respect of which each such appointment is made. A separate Proxy Form must be completed for each proxy.

5. If attending the Annual General Meeting, please bring the Proxy Form to assist registration. If a representative of a corporate security holder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, Downloadable Forms.
6. If you need any further information about this form or attendance at the Annual General Meeting, please contact the Share Registrar - Computershare Investors Services Pty Limited on (within Australia) 1300 850 505 (outside Australia) +61 3 9415 4000.

VOTING RESTRICTIONS THAT MAY AFFECT YOUR PROXY

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

- Resolution 1 (Adoption of Remuneration Report);
- Resolution 5 (Employee Share Option Plan 2016);
- Resolution 6 (Performance Rights Plan 2016);
- Resolution 7 (Approval to issue ESOP Options and Performance Rights to Mr Robert Hosking); and
- Resolution 8 (Approval to issue ESOP Options and Performance Rights to Mr Mark Smith).

HOW THE CHAIRMAN OF THE MEETING WILL VOTE PROXIES

If the Chairman is appointed as proxy for any Shareholder, the Chairman will vote the proxy in the manner specified by the Shareholder in that proxy. If the Shareholder does not specify how the Chairman is to vote on any Resolution, the Chairman as proxy will vote **in favour** of Resolutions 1 to 8. By appointing the Chairman as proxy, you authorise him to vote any undirected proxy votes on resolutions 1, 5, 6, 7 and 8 even though they are connected to remuneration of the KMP.

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 30 November 2016 at 11:00am AEDT (registration from 10:00am AEDT) (**Annual General Meeting**).

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

1. adopt the Remuneration Report;
2. elect Ms Luciana Rachid as a Director of the Company;
3. re-elect Mr Mark Smith as a Director of the Company;
4. re-elect Mr Peter Turnbull as a Director of the Company;
5. approve the Employee Share Option Plan 2016 and the issue of securities pursuant to the Employee Share Option Plan 2016;
6. approve the Performance Rights Plan 2016 and the issue of securities pursuant to the Performance Rights Plan 2016;
7. approve the issue of options under the Employee Share Option Plan 2016 and performance rights under the Performance Rights Plan 2016 to Mr Robert Hosking or his nominee; and
8. approve the issue of options under the Employee Share Option Plan 2016 and performance rights under the Performance Rights Plan 2016 to Mr Mark Smith or his nominee.

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

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

2. ACTION TO BE TAKEN BY SHAREHOLDERS

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

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

3. FINANCIAL REPORTS

Section 317 of the Corporations Act requires the Company's Financial Reports, Director's Report and Auditor's Report for the year ended 30 June 2016 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 2016 Annual Report, a copy of which has been made available to Shareholders with this Explanatory Memorandum and the accompanying Notice of Meeting, and is also available on request to the Company.

While no resolution is required in relation to this item, Shareholders should consider the documents and raise any matters of interest with the Directors of the Company when this item is being considered. In accordance with the Corporations Act, Shareholders will be given an opportunity to ask questions about and make comments on the management of the Company. The Company's external auditor will also be present at the meeting and Shareholders will have an opportunity to ask the external auditor questions in relation to the conduct of the audit, the Auditor's Report and the independence of the auditor. Shareholders may submit a written question to the auditor if the question is relevant to the content of the Auditor's Report or the audit of the annual Financial Reports. If you wish to do so you must submit any such written question by 23 November 2016.

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 27 to 59 in the Company's 2016 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

The executive remuneration arrangements for the financial year ended 30 June 2016 were structured to be directly aligned with the business outcomes including achieving engineering, geological and geophysical milestones as well as creating value accretive opportunities, which add clear value to Karoon's suite of assets. In particular, the decision to use performance tested share-based grants for its incentive plans reflects the Board of Directors' belief that this best aligns executive and Shareholder interests in the short and long-term, while allowing the Company to retain its cash for operational activities.

Broadly, the objectives of the Company's executive remuneration framework are to ensure:

- remuneration is reasonable and competitive in order to attract, retain and motivate talented and high calibre executives capable of managing the Company's diverse international operations;
- remuneration is set at a level acceptable to Shareholders, has regard to Company performance and rewards individual capability and experience;
- remuneration structures create sufficient alignment between performance, reward and sustained growth in Shareholder value through operational progression and success while creating an increase in value relative to industry peer group companies over the long-term;
- remuneration outcomes provide recognition of contribution to overall long-term growth in the value of the Company's asset portfolio and are transparent to both participants and Shareholders;
- the remuneration framework assists in facilitating prudent capital management through the use of share-based remuneration; and
- remuneration incentivises the best possible health and safety outcomes, along with best practice in combatting bribery or corruption.

Over the last financial year, the Board has focussed on improving the alignment of employee incentive based outcomes with Shareholder value through further refinement of performance measures, industry peer group comparators and disclosure of remuneration practices. The Board continues to make changes to improve the transparency of, and data associated with, the Company's remuneration practices. The Board has also exercised restraint in terms of the outcomes this financial year in light of the difficult market conditions and share price performance, notwithstanding that we continue to make good progress operationally.

The key outcomes for the 2016 financial year and 2017 financial year are:

- key management personnel - fixed remuneration will remain unchanged;
- Non-Executive Director and Board Committee fees will remain unchanged;
- STI – 55% of the available pool will be awarded for the 2016 financial year based on the achievement of a proportion of the pre-determined operational milestones. Vesting of the STI remains subject to a one year retention period before vesting, and in the case of the Executive Directors, approval by Shareholders at this Annual General Meeting;
- LTI – there will be NIL reward payable due to non-achievement of the Relative TSR objective. The long-term incentive was measured over the period from 2012 to 2016;
- related party remuneration – there were no new related party remuneration transactions during the 2016 financial year; and
- Remuneration Report – the structure and style of the Remuneration Report has been refined to provide the best possible explanations and transparency to our Shareholders and other stakeholders.

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

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

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

Voting exclusion statement with regard to resolution 1

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

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

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

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

5. RESOLUTION 2 – ELECTION OF MS LUCIANA RACHID

Resolution 2 relates to the election of Ms Luciana Rachid as a Director of the Company.

The Company, through its Nomination Committee conducted a comprehensive search and selection process and, as a result of that process Ms Luciana Rachid was appointed by the Company as an independent Non-Executive Director on 26 August 2016.

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 corporate 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 of 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 financial team including Executive Manager of Investor Relations, Executive Manager of Financial Planning and Risk Management. In the Gas & Energy Division, she served as General Manager of Marketing and Trading, Executive Manager of Corporate Affairs, Executive Manager for Logistics and Investments in Natural Gas and Chief Executive Officer Transportadora Brasileira Gasoduto Bolivia Brazil and most recently Chief Executive Officer of Transportadora Associada de Gas SA.

Luciana has a Bachelor's degree in chemical engineering with a specialization in process modelling from the Universidade Federal do Rio de Janeiro and a post graduate degree in Corporate Finance.

Member of the Nomination Committee and Risk and Governance Committee.

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

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

6. RE-ELECTION OF EXISTING DIRECTORS

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

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

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

6.1 RESOLUTION 3 – APPROVAL OF RE-ELECTION OF MR MARK SMITH AS A DIRECTOR

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

Mark Smith is the Exploration Director and has more than 30 years' experience as a geologist and exploration manager in petroleum exploration and development in Australia, South East Asia, North and South America. His early experience was gained while working with BHP Petroleum. Mark has been directly involved with 16 economic oil and gas discoveries.

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

Mark's education includes Dip. App. Geol, Bsc. (Geology)

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

6.2 RESOLUTION 4 – APPROVAL OF RE-ELECTION OF MR PETER TURNBULL AS A DIRECTOR

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

Peter Turnbull is an Independent Non-Executive Director of the Company appointed on 6 June 2014.

Peter has significant experience as an independent Non-Executive Director from a range of organisations and industries and is a current and long-standing Director, and former President, of the Governance Institute of Australia. Peter has over 30 years of senior executive experience gained in publicly listed, private and government owned organisations in Australia, South East Asia, Europe and the United Kingdom. Peter's experience includes over a decade in energy markets and the resources sector in senior executive positions including as Company Secretary of Newcrest Mining Limited, Company Secretary and General Counsel of BTR Nyllex Limited and General Manager, Legal and Corporate Affairs with Energex Limited.

Peter also has extensive experience in designing and managing corporate governance frameworks, including risk management and remuneration regimes.

Peter has degrees in law and commerce, is a Director and Fellow of the Governance Institute of Australia and the Australian Institute of Company Directors. Peter is International Council member of several global organisations which promote good governance and is a regular contributor and speaker on corporate governance issues. Peter also has significant regulatory and public policy experience including as a former Director of corporate finance for the Securities and Futures Commission of Hong Kong.

Chairman of the Remuneration Committee and Risk and Governance Committee.

Member of the Audit Committee and Nomination Committee.

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

7. RESOLUTION 5 – APPROVAL OF THE EMPLOYEE SHARE OPTION PLAN 2016 AND ISSUES OF SECURITIES UNDER IT

The Company's previous share option plan, the Employee Share Option Plan 2012 (**2012 ESOP**), was approved by Shareholders at the 2012 Annual General Meeting and has now expired. In accordance with Exception 9 of ASX Listing Rule 7.2, the Company now submits a new employee share option plan, the Employee Share Option Plan 2016 (**2016 ESOP**) to Shareholders of the Company to approve its operation and the issue of securities from time to time under it, as an exception to ASX Listing Rule 7.1. The Directors have taken the opportunity to review the 2012 ESOP rules and have prepared the 2016 ESOP taking into account the current operations, changes to government legislation, industry market practice and size of the Company.

Issues under the 2016 ESOP are intended to provide share options to employees with the intent of rewarding long-term performance and superior Shareholder returns. Under the plan, share options will only vest if the pre-determined performance conditions are achieved and the individual remains employed by the Company for the duration of the performance period.

Participation in the 2016 ESOP is at the discretion of the Board (on the recommendation of the Remuneration Committee and senior executives) and no eligible employee has a contractual right to receive an option under the 2016 ESOP.

Grant of options

Rule 7.1 of the ASX Listing Rules restricts a listed company from issuing or agreeing to issue more than 15% of its equity securities in a 12-month period without Shareholder approval, unless an exception applies (**15% Limit**). The Company has not exceeded this 15% Limit at the date of this Notice of Meeting.

ASX Listing Rule 7.2 contains a number of exceptions to the 15% Limit in Listing Rule 7.1, allowing certain issues or agreements to issue equity securities to be excluded from the 15% limit. One exception is issues or agreements to issue equity securities under an employee share plan which have been approved by Shareholders as an exception to the 15% Limit (exception 9(b)). The exception applies for such issues which are made within 3 years from the date of Shareholder approval. At the end of the 3-year period a further Shareholder approval must be obtained.

The 2016 ESOP is an employee share plan of the type contemplated by Exception 9(b) of ASX Listing Rule 7.2. The options which eligible employees may receive are options to subscribe for ordinary shares. These options are “equity securities” for the purposes of the ASX Listing Rules. For the purpose of this Notice of Meeting, these options are referred to as 2016 ESOP Options.

Subject to satisfaction of the relevant vesting conditions, each 2016 ESOP Option will give the holders the right to subscribe for one ordinary share, subject to any adjustment in accordance with the 2016 ESOP. Accordingly, the Board is seeking Shareholder approval for the 2016 ESOP and the issue by the Company of 2016 ESOP Options under the 2016 ESOP (and the subsequent consequential issues of ordinary shares in the Company if vesting conditions are satisfied and any 2016 ESOP Option is exercised), as an exception to ASX Listing Rule 7.1 and the 15% Limit.

The quantum of 2016 ESOP Options issued to an eligible employee will be based on the pre-determined percentage of total salary that is allocated to the long term incentive divided by the Company’s share price in the period leading up to the first day of the performance period, normally 1 July annually. The portion of total salary to be allocated to the long term incentives will be determined at the commencement of the performance period.

The ASX Listing Rules require the Notice of Meeting relating to the Annual General Meeting at which Shareholders are required to consider a resolution to approve securities to be issued in respect of ASX Listing Rule 7.2 exception 9(b), to include certain specified information in respect of resolution 5. This information is set out below.

Summary of the terms of 2016 ESOP

A summary of the main terms and conditions of the 2016 ESOP is set out in Annexure "A". A copy of the 2016 ESOP is available on Karoon’s website and is accessible via the following link:
www.karoongas.com.au/governance.

Number of securities previously issued under the scheme

No securities have been previously issued under the 2016 ESOP, however, there are currently 4,976,806 options outstanding as part of the 2012 ESOP. These options have exercise prices ranging from \$3.04 up to \$4.06.

Voting exclusion statement with regard to resolution 5

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

- by or on behalf of any Director who is eligible to participate in the 2016 ESOP; or
- as a proxy by any Director who is eligible to participate in the 2016 ESOP.

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.

Board recommendation

The Directors of the Company make no recommendation in relation to resolution 5 on the basis that the 2016 ESOP allows for options to be granted to Directors, and consequently the resolution relates to Directors' remuneration.

8. RESOLUTION 6 – APPROVAL OF THE PERFORMANCE RIGHTS PLAN 2016 AND ISSUES OF SECURITIES UNDER IT

The 2016 ESOP provides for long term incentives for the eligible employees as described above. The Company has considered the value of short term incentives being issued to the eligible employees and now submits a Performance Rights Plan (**2016 PRP**) to Shareholders of the Company to approve its operation and the issue of securities from time to time under the 2016 PRP, as an exception to ASX Listing Rule 7.1.

The 2016 PRP will provide flexibility to the Company’s remuneration arrangements and create a mutual interdependence between eligible employees and the Company for the long term benefit of both parties. The Directors have prepared the 2016 PRP taking into account the current operations, changes to government legislation, industry market practice and size of the Company.

Under the 2016 PRP eligible employees may be awarded Rights (**Performance Rights**) to be issued and allotted fully paid ordinary shares for nil consideration, provided that certain performance conditions have been met either over a short or long term. Each Performance Right can be converted into one fully paid ordinary share of the Company, subject to any adjustment in accordance with the 2016 PRP. The Remuneration Committee will be responsible for assessing whether the performance measures have been achieved.

The grant of Performance Rights as part of the STI program is conditional on the achievement of specified performance measures over a one-year performance period, and conditional on the employee remaining employed by the Company for an additional year past the performance period.

The grant of Performance Rights as part of the LTI program is conditional on long-term performance and superior Shareholder returns. Under the plan, share options will only vest if the pre-determined performance conditions are achieved and the individual remains employed by the Company for the duration of the performance period.

The quantum of Performance Rights to be given to eligible employees will be based on a pre-determined percentage of total salary that is allocated to the STI or LTI amount, divided by the Company's weighted average share price in the period leading up to the first day of the performance period, normally 1 July annually. The portion of total salary to be allocated to the short or long term incentives will be determined at the commencement of the performance period.

Grant of Performance Rights

Please see the commentary on Listing Rule 7.1 and Exception 9(b) in Listing Rule 7.2, at section 7 of this Explanatory Memorandum above.

The restrictions in Listing Rule 7.1 and the 15% Limit apply to the issue of Performance Rights, and the subsequent issue of ordinary shares on the exercise of any Performance Rights under the 2016 PRP, unless exception 9(b) in Listing Rule 7.2 applies.

The 2016 PRP is an employee share plan of the type contemplated by exception 9(b) of ASX Listing Rule 7.2. Accordingly, the Board is seeking Shareholder approval of the 2016 PRP and the issue by the Company of Performance Rights under the 2016 PRP (and the subsequent issue of ordinary shares in the Company if vesting conditions are satisfied and a Performance Right is exercised), as an exception to ASX Listing Rule 7.1 and the 15% Limit.

The ASX Listing Rules require the Notice of Meeting relating to the Annual General Meeting at which Shareholders are required to consider a resolution to approve securities to be issued in respect of ASX Listing Rule 7.2 Exception 9(b), to include certain specified information in respect of resolution 6. This information is set out below.

Summary of the terms of the 2016 PRP

A summary of the main terms and conditions of the 2016 PRP is set out in Annexure "B". A copy of the 2016 PRP is available on Karoon's website and is accessible via the following link:
www.karoongas.com.au/governance.

Number of securities previously issued under the scheme

No securities have been previously issued under the 2016 PRP, however, there are currently 1,417,867 PRP outstanding as part of the Performance Rights Plan 2012.

Voting exclusion statement with regard to resolution 6

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

- by or on behalf of any Director who is eligible to participate in the 2016 PRP; or
- as a proxy by any Director who is eligible to participate in the 2016 PRP.

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.

Board recommendation

The Directors of the Company make no recommendation in relation to resolution 6 on the basis that the Performance Rights Plan 2016 allows for Performance Rights to be granted to Directors and consequently the resolution relates to Directors' remuneration.

9. RESOLUTIONS 7 AND 8 – APPROVAL TO ISSUE LTI ESOP OPTIONS AND LTI PERFORMANCE RIGHTS AND STI PERFORMANCE RIGHTS TO MR ROBERT HOSKING AND MR MARK SMITH

Resolutions 7 and 8 seek Shareholder approval for the Company to grant to Mr Robert Hosking or his nominee and to Mr Mark Smith or his nominee;

- a) 423,378 Long Term Incentive (LTI) ESOP Options at an exercise price of \$1.82 and 192,758 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 2016; and
- b) 105,714 Performance Rights, to be granted as a result of the satisfaction of 55% of short term incentive (STI) performance hurdles over the 2016 financial year,

pursuant to the 2016 ESOP and 2016 PRP.

Why is Shareholder approval being sought?

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

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

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

As set out in more detail in the 2016 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 7 and 8 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 2016. Specifically, vesting will be subject to the Company's relative Total Shareholder Return (TSR) performance exceeding the Relative TSR of the following bespoke group of companies:

Table 1

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

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

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

Table 2

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

For peers reporting or quoted in currencies other than Australian dollars, the value of foreign currencies will be measured using the prevailing foreign exchange rate as found on the Reserve Bank of Australia website and normalised to Australian dollars on the first day of the testing period and the last day of the testing period. The Australian dollar value of returns to peer companies in foreign currencies will be measured using the foreign exchange rate as recorded on the Reserve Bank of Australia website on the day the return is announced.

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

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

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

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

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

Table 3

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

*excluding superannuation of \$19,616

** 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	\$1.40 per right	\$0.64 per option
	Target Remuneration Amount	\$224,884	\$224,884
	Maximum Number of Securities which could vest (including 120% for outperformance)	192,758	423,378
Mr Smith	% of LTI	50%	50%
	Per security value	\$1.40 per right	\$0.64 per option
	Target Remuneration Amount	\$224,884	\$224,884
	Maximum Number of Securities which could vest (including 120% for outperformance)	192,758	423,378

Calculation of Exercise Price of the LTI Options

The exercise price of the LTI ESOP Options to be granted is calculated by applying a 30% premium to the Volume Weighted Average Price (VWAP) of the Company's shares traded on the ASX in the 20 days before and after 1 July 2016 (**Premium Exercise Price**). 1 July 2016 is the commencement of the testing period for the Relative TSR calculation. The VWAP is \$1.40 and the exercise price of the Options, if approved, will be \$1.82. This methodology to calculate the Premium Exercise Price for ESOP Options is consistent with the Company's approach used in prior ESOP grants for other participants in the plan and is also consistent with the exercise price determined for ESOP Options to be awarded to other participants in the FY2017 grant.

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 value (including the exercise price, current and expected volatility of the underlying shares, dividends expected to be paid in relation to the shares and the life of the Option) and is consistent with the methodology required under the applicable accounting standards.

Based on the Black and Scholes option pricing model described above, the Company estimates that each of the ESOP Options, the subject of resolutions 7 and 8, have a value of \$0.64 at the time of preparing this notice, based on the assumptions in the table below:

Table 5

Exercise Price (being the VWAP over the 20 days either side of the beginning of the performance period, being 1 July 2016, (\$1.40) plus a 30% premium)	\$1.82
Time to expiration of Option	4 years
Volatility	60.40%
Risk free interest rate	1.30%
Annualised dividend yield	Nil

Calculation of LTI Performance Right Fair Value

The Fair Value of Performance Rights is equivalent to the VWAP of the Company's shares traded on the ASX in the 20 days before and after 1 July 2016. 1 July 2016 is the first day of the testing period for the Relative TSR calculation. The VWAP, and therefore the value of the Performance Right, is \$1.40.

Grant and Vesting of STI Performance Rights

STI Performance Rights proposed for approval under resolution 7 and 8 are the result of the satisfaction of 55% of performance hurdles set at the beginning of the 2016 financial year. Performance Rights that will be granted if resolutions 7 and 8 are approved will be subject to a retention period and become exercisable from 1 July 2016.

In respect of the 2016 financial year, the target STI component of remuneration for Mr Hosking and Mr Smith was \$449,769 each.

The maximum Performance Rights available is calculated by dividing that amount by the Rights Fair Value.

For the purpose of calculating the maximum Performance Rights available, the estimated fair value for the Performance Rights is the 20-day Volume Weighted Average Price assessed prior to the commencement of testing period of 1 July 2016 being \$2.34.

As a result, a maximum of 192,209 Performance Rights were at risk in respect of the 2016 financial year.

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

Table 6

Performance Condition	Achievement Against STI Performance Targets	STI at Risk (% of Maximum STI Opportunity)	STI Vesting Outcome (% of Maximum STI Opportunity)
Safety	Total Recordable Incident Rate ('TRIR') of < 2.	Gateway	TRIR 0.00
	Contingent resource definition in the Kangaroo and Echidna light oil discoveries Santos Basin (Brazil).	55%	55%
Operational	Delineation of proposed concepts for the Santos Basin field development plan.		
	Completion of a farm-out in the South American portfolio.	15%	Nil%
	2016 financial year corporate and capital expenditure is managed effectively while meeting operational objectives. Specifically:		
	<ul style="list-style-type: none"> improvements made on budgeted corporate cost outcomes during the 2016 financial year; and effective management of costs relating to budgeted capital expenditure during the 2016 financial year. 	5%	Nil%
Financial		25%	Nil%
Anti-Bribery and Corruption Clawback	The amount of STI that may vest may be reduced, based on the Company's implementation and enforcement of its Anti-Bribery and Corruption Policy, particularly in relation to any incidence of corrupt activity.	No 'Clawback'	No 'Clawback', training was undertaken and there was no incidence of bribery or corruption
Resulting STI Grant		192,209 Performance Rights	105,714 Performance Rights

As outlined above, a total of 55% of the available STI opportunity, 105,714 Performance Rights, being 55% of 192,209, are now proposed to be issued to 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 the discovery of new hydrocarbons, 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 2016 and are summarised in Annexure "D" 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. The Company estimates that each of the STI Performance Rights, the subject of resolutions 7 and 8, have a value of \$1.33 as at 26 August 2016 being the closing share price on that day.

Other details

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

Over the 12 months prior to 26 August 2016, the lowest recorded price of Shares in SEATS trading on ASX was \$1.14 on the 5 April 2016 and the highest was \$2.15 on 9 October 2015.

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

Mr Hosking's interest in Shares

Since the date of the last AGM, Mr Hosking was granted 490,909 Options under the 2012 ESOP and 142,417 Performance rights under the 2012 PRP. There was no amount payable for the grant of the 2012 ESOP Options or 2012 PRP Performance Rights. The Options and Rights were approved by shareholders at the 2015 AGM.

As at the date of this Notice of Meeting, Mr Hosking had an interest in 11,874,462 Shares, 915,219 Options and 142,417 Performance Rights. That represents 5.28% of the total Shares in the Company. If Shareholders approve resolution 7, and all ESOP Options and Performance Rights are granted as contemplated by this Notice of Meeting, Mr Hosking will have the following interest in Shares, Options and Performance Rights:

Shares	Options	Performance Rights
11,874,462	1,338,597	440,889

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 7 vest and are paid in Shares, Mr Hosking would acquire an additional 1, 779,486 Shares. If these were newly issued Shares, Mr Hosking would have an interest in 5.55% 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 490,909 Options under the 2012 ESOP. There was no amount payable for the grant of the 2012 ESOP Options.

As at the date of this Notice of Meeting, Mr Smith had an interest in 2,892,037 Shares, 915,219 Options and 142,417 Performance Rights. That represents 1.61% of the total Shares in the Company. If Shareholders approve resolution 8, and all ESOP Options and Performance Rights are granted as contemplated by this Notice of Meeting, Mr Smith will have the following interest in Shares, Options and Performance Rights:

Shares	Options	Performance Rights
2,892,037	1,338,597	440,889

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 8 vest and are paid in Shares, Mr Smith would acquire an additional 1,779,486 Shares. If these were newly issued Shares, Mr Smith would have an interest in 1.91% of the total issued Shares in the Company.

Additional information regarding resolutions 7 and 8

All Directors are Eligible Employees for the purposes of the 2016 ESOP and 2016 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 regard to resolutions 7 and 8

In respect of resolutions 7 and 8, the Company will disregard any votes cast on the resolution:

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

However, the Company need not disregard any vote by any such person excluded from voting on resolutions 7 or 8 if:

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

Board recommendation

The Directors of the Company make no recommendation in relation to resolutions 7 and 8 on the basis that the Directors are Eligible Employees for the purposes of the 2016 ESOP and 2016 PRP and consequently the resolutions relate to Directors' remuneration.

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 2016.
ESOP Options:	Options issued under the ESOP.
Listing Rules:	The Official Listing Rules of the ASX, as amended from time to time.
LTI:	Long Term Incentive
Key Management Personnel or KMP:	Those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.
Notice of Meeting:	The notice convening the Annual General Meeting which accompanies this Explanatory Memorandum.
Options:	Options to acquire shares in the Company.
Performance Rights:	Rights issued under the Performance Rights Plan 2016.
PRP	The Performance Rights Plan 2016.
Remuneration Committee:	The Remuneration Committee of the Company.
Remuneration Report:	The Remuneration Report for the year ended 30 June 2016 as contained within the Directors' report and forming part of the 2016 Annual Report.
Shareholders:	Holders of Shares.
Shares:	Fully paid ordinary shares in the capital of the Company.
STI:	Short Term Incentive.
Total Shareholder Return or TSR:	A measure of the entire return a Shareholder would obtain from holding an entity's securities over a period, taking into account factors such as changes in the market value of the securities and dividends paid over the period.
VWAP:	Volume weighted average price

Offers

- A. The Company may from time to time during the operation of the 2016 ESOP make an offer in writing to any Eligible Employee specifying:
- the number of Options for which the Eligible Employee may subscribe;
 - the period during which the offer may be accepted;
 - the exercise price of the Options to be issued;
 - any conditions that will apply;
 - the period (if any) that an Eligible Employee must wait before any ordinary shares acquired on the exercise of any Option may be disposed of;
 - the date on which the Eligible Employee's right to subscribe for and be issued or transferred ordinary shares will lapse;
 - circumstances in which the Eligible Employee's right to subscribe for and be issued or transferred ordinary shares will lapse; and
 - any other matters required to be specified by the Corporations Act or the ASX Listing Rules.

Eligible Employees

- B. Any full-time or part-time employee or any Director of the Company or any subsidiary.

Grant of Options

- C. 2016 ESOP Options offered to an Eligible Employee will, if the vesting conditions are met, entitle the Eligible Employee to subscribe for and be issued or transferred the relevant number of fully paid ordinary shares to the Eligible Employee for such consideration as determined by the Board at the time of granting the Options.

Exercise price

- D. The Board will determine the exercise price in respect of a 2016 ESOP Option at the time of the grant of the option. The exercise price must not be less than a minimum price of $WP \times 1.00$, where WP is the weighted average of the prices at which shares of the Company were traded on the ASX during the period of 20 days up to and including the day upon which the exercise price for that option is to be determined.

Participant

- E. An Eligible Employee who has been granted 2016 ESOP Options will be a participant.

Vesting conditions

- F. Unless otherwise determined by the Board, 2016 ESOP Options will vest on any date after the third anniversary of the grant date, subject to all other vesting conditions being met.
- G. If a participant dies, becomes permanently disabled, is retrenched, reaches the age of retirement or is given a bona fide redundancy or if the Company is in the process of a winding up, and at that time the participant holds a right to subscribe for ordinary shares (which are subject to the satisfaction of any relevant vesting condition), the Board may resolve that all or a specified number of the participant's Options vest immediately.

Cessation of employment

- H. If a participant ceases to be an employee before or after the vesting conditions attaching to an offer of Options are met, then all rights in respect of those Options lapse, unless the participant ceases to be an employee by reason of death, permanent disability, retrenchment, retirement or redundancy.

Death, permanent disability, retirement, retrenchment or redundancy

- I. If a participant dies, becomes permanently disabled, is retrenched, reaches the age of retirement or is given a bona fide redundancy, and at that time the participant holds a right to subscribe for ordinary shares (whether or not subject to satisfaction of any relevant vesting condition), the participant, or in the event of death or legal incapacity, the participant's legal personal representative, retains the Options subject to lapsing for any other reason under the 2016 ESOP.

Adjustments and reorganisations

- J. A participant has no right to any variation in the offer price or the number of securities to be granted in an offer of shares upon the occurrence of a new issue of shares or other securities to holders of shares, unless the participant has validly exercised their Options in accordance with the 2016 ESOP prior to the record date for the new issue.
- K. In respect of a participant who has accepted an offer of Options, if there is a bonus issue to the Company's Shareholders prior to the time at which the Option has been exercised, that participant will be entitled, upon later issue of the relevant ordinary shares, to receive an issue of so many additional shares as would have been issued to a Shareholder who, on the record date for determining entitlements under the bonus issue, held ordinary shares equal in number to the shares comprised in the offer of Options.
- L. In the event of any reorganisation of the issued capital of the Company other than a bonus issue, the rights of each participant will be changed to the extent necessary to comply with the ASX Listing Rules (where relevant) applying to a reorganisation of capital of a body corporate.

Takeover

- M. If the Board determines that there has been a change of control of the Company, the replacement of a majority of the Board is imminent or that a bidder who did not have a relevant interest in more than 50% of the Company's issued shares has acquired (or become entitled to acquire) a relevant interest in more than 50% of the Company's issued shares, then the Board may resolve that the Company notify each participant in writing that some or all of the participant's unvested Options have vested on the basis of a pro-rate achievement of any vesting conditions applying to those unvested Options.

Termination or suspension

- N. Subject to the Listing Rules, the 2016 ESOP may be amended at any time by a resolution of the Board.

Offers

- A. The Company may from time to time during the operation of the 2016 PRP make an offer in writing to any Eligible Employee specifying:
- the number of Performance Rights for which the Eligible Employee may subscribe;
 - the period during which the offer may be accepted;
 - any conditions that will apply;
 - the period (if any) that an Eligible Employee must wait before any ordinary shares acquired on the exercise of any Right may be disposed of;
 - the date on which the Eligible Employee's right to subscribe for and be issued or transferred ordinary shares will lapse;
 - circumstances in which the Eligible Employee's right to subscribe for and be issued or transferred ordinary shares will lapse; and
 - any other matters required to be specified by the Corporations Act or the ASX Listing Rules.

Eligible Employees

- B. Any full-time or part-time employee or any Director of the Company or any subsidiary.

Grant of Performance Rights

- C. Performance Rights offered to an Eligible Employee will entitle the Eligible Employee to subscribe for and be issued or transferred the relevant number of fully paid ordinary shares.

Exercise price

- D. There will be no exercise price required to be paid on exercise of the Right.

Participant

- E. An Eligible Employee who has been granted Performance Rights will be a participant.

Vesting conditions

- F. Unless otherwise determined by the Board, Performance Rights granted under the 2016 PRP will vest on the first anniversary of the grant date, subject to all other conditions being met.
- G. If a participant dies, becomes permanently disabled, is retrenched, reaches the age of retirement or is given a bona fide redundancy, or if the Company is in the process of winding-up, and at that time the participant holds Performance Rights which are subject to the satisfaction of any relevant vesting condition, the Board may resolve that all or a specified number of the participant's Performance Rights vest immediately.

Cessation of employment

- H. If a participant ceases to be an employee before or after he or she has satisfied the vesting conditions attaching to an offer of Performance Rights, then all rights in respect of those Performance Rights lapse, unless the participant ceases to be an employee by reason of death, permanent disability, retrenchment, retirement or redundancy.

Death, permanent disability, retirement, retrenchment or redundancy

- I. If a participant dies, becomes permanently disabled, is retrenched, reaches the age of retirement or is given a bona fide redundancy, and at that time the participant holds a right to subscribe for ordinary shares (whether or not subject to satisfaction of any relevant vesting condition), the participant, or in the event of death or legal incapacity, the participant's legal personal representative, retains the Performance Rights subject to lapsing for any other reason under the 2016 PRP.

Adjustments and reorganisations

- J. A participant has no right to any variation in the offer price or the number of securities to be granted in an offer of shares upon the occurrence of a new issue of shares or other securities to holders of shares, unless the participant has validly exercised their Performance Rights in accordance with the 2016 PRP prior to the record date for the new issue.
- K. In respect of a participant who has accepted an offer of Performance Rights, if there is a bonus issue to the Company's Shareholders prior to the time at which the Right has been exercised, that participant will be entitled, upon later issue of the relevant ordinary shares, to receive an issue of so many additional shares as would have been issued to a Shareholder who, on the record date for determining entitlements under the bonus issue, held ordinary shares equal in number to the shares comprised in the offer of Performance Rights.
- L. In the event of any reorganisation of the issued capital of the Company other than a bonus issue, the rights of each participant will be changed to the extent necessary to comply with the ASX Listing Rules (where relevant) applying to a reorganisation of capital of a body corporate.

Takeover

- M. If the Board determines that there has been a change of control of the Company, the replacement of a majority of the Board is imminent or that a bidder who did not have a relevant interest in more than 50% of the Company's issued shares has acquired (or become entitled to acquire) a relevant interest in more than 50% of the Company's issued shares, then the Board may resolve that the Company notify each participant in writing that some or all of the participant's unvested Performance Rights have vested on the basis of a pro-rated achievement of any vesting conditions applying to those unvested Performance Rights.

Termination or suspension

- N. Subject to the Listing Rules, the 2016 PRP may be amended at any time by a resolution of the Board.

ANNEXURE "C"

THE ESOP OPTIONS PROPOSED TO BE GRANTED UNDER RESOLUTIONS 7 AND 8

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 2016 to 30 June 2019.
6. The ESOP options cannot be exercised until 1 July 2019 (**Exercise Date**) except in the circumstances set out in paragraph 8 below.
7. The ESOP Options will lapse at 5.00pm (Melbourne Time) 12 months from the relevant Exercise Date (**Expiry Date**). Any ESOP Options which have not been exercised on or before 5.00pm (Melbourne Time) on the Expiry Date lapse automatically.
8. In the event of a takeover of the Company or a change of control, the Board may accelerate the vesting of the Options according to pro rata achievement of the performance conditions.
9. ESOP Options may only be exercised by notice in writing (**Exercise Notice**) delivered to the registered office of the Company. The Exercise Notice must specify the number of options being exercised and must be accompanied by:
 - (a) the Exercise Price for the number of ESOP Options specified in the Exercise Notice; and
 - (b) the certificate for those Options or ESOP Options, for cancellation by the Company.
10. The Exercise Notice only becomes effective when the Company has received cleared funds for the full amount of the Exercise Price.
11. On receipt of the Exercise Notice, the Board must:
 - (a) allot and issue or transfer the number of Shares specified in the Exercise Notice to the ESOP Option holder;
 - (b) cancel the certificate for the ESOP Options being exercised;
 - (c) if applicable, issue a new certificate for any remaining ESOP Options covered by the certificate accompanying the Exercise Notice; and
 - (d) apply for Official Quotation by the ASX of all Shares issued in accordance with the Exercise Notice.
12. There are no participating rights or entitlements inherent in the ESOP Options and holders will not be entitled to participate in new issues of capital offered to the Company's Shareholders during the currency of the ESOP Options. However, the Company will send a notice to each holder of the ESOP Options in accordance with the Listing Rules before the record date of any new issues of capital offered to the Company's Shareholders.
13. If from time to time on or prior to the Expiry Date the Company makes an issue of Shares to the Shareholders by way of capitalisation of profits or reserves (a **Bonus Issue**), then upon exercise of ESOP Options an Option holder will be entitled to have issued to him/her (in addition to the Shares which would otherwise be issued to him/her under that Bonus Issue) bonus shares (**Bonus Shares**) if on the record date for the bonus issue the Option holder has been registered as the holder of the number of Shares of which he/she would have been registered as holder if, immediately prior to that date, he/she had duly exercised his/her ESOP Options and the Shares the subject of such exercise had been duly allotted and issued or transferred to him/her. The Bonus Shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the Bonus Issue and upon issue will rank pari passu in all respects with the other Shares allotted under the Bonus Issue.
14. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of an Option holder will be changed to the extent necessary to comply with the applicable Listing Rules in force at the time of the reorganisation.
15. Generally, as set out in the rules of the approved Employee Share Option Plan 2016.

ANNEXURE "D"

THE PERFORMANCE RIGHTS PROPOSED TO BE GRANTED UNDER RESOLUTIONS 7 AND 8

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 2017 (**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. Generally, as set out in the approved Performance Rights Plan 2016.
12. 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.

