



KAROOON GAS AUSTRALIA LIMITED ABN 53 107 001 338

Notice of Annual General Meeting 2006

Notice is hereby given that a General Meeting of shareholders of Karoon Gas Australia Limited ABN 53 107 001 338 ("Karoon" or "Company") will be held at the Bourke Room, RACV Club, Level 2, 501 Bourke Street, Melbourne, Victoria commencing at 10.30am on the 3rd November 2006. The Explanatory Statement that accompanies and forms part of this Notice of General Meeting describes the various matters to be considered.

Business

Financial Reports

To receive the financial statements, Directors' report and Auditor's report for the Company and its controlled entities for the period ended 30 June 2006.

Ordinary Resolutions

1. **Remuneration Policy**

To consider and, if thought fit, to pass with or without amendment, the following resolution as a non-binding **ordinary resolution**:

"That the Remuneration Report contained in the Directors Report section of the Annual Report for the year ended 30 June 2006 be adopted."

This Remuneration Report is set out in the 2006 Karoon Gas Annual Report.

Please note that the vote on this resolution is advisory only, and does not bind the directors or Karoon Gas

2. **Re-election of Director**

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

"That Stephen Power, who retires in accordance with Article 11.12 of Karoon's constitution and, being eligible, offers himself for re-election, be re-elected as a Director."

3. **Review of Non-Executive Director Remuneration**

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

"That the total amount available to the Company to pay Non-Executive Directors fees be increased to \$200,000 per annum."

Voting Exclusion Statement:

The Company will disregard any votes cast on this resolution by a director and any of their associates.

However, the Company need not disregard a vote if:

- It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides

4. Employee Share Option Plan

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

"That the issue of securities in accordance with the Karoon Gas Employee Share Option Plan be approved for the purposes of ASX Listing Rule 7.2 and for all other purposes."

Voting Exclusion Statement:

The Company will disregard any votes cast on this resolution by a director and any of their associates.

However, the Company need not disregard a vote if:

- It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides

Proxies and Voting

Instruction for Voting

Shareholders are entitled to appoint one proxy to attend and vote on their behalf. If a shareholder is entitled to 2 or more votes, that shareholder may appoint 2 proxies to attend and vote on its behalf. Where more than one proxy is appointed each proxy may be appointed to represent a specific proportion of the shareholder's voting rights. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes.

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be deposited at or sent by facsimile transmission to **Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, VIC 3067, facsimile number +61 3 9473 2555**, not less than 48 hours before the time for holding the annual general meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

The proxy form must be signed by the shareholder or his/her attorney duly authorised in writing or, if the shareholder is a corporation, in a manner permitted by the Corporations Act.

The proxy may, but need not, be a shareholder of Karoon.

In the case of shares jointly held by two or more persons, all joint holders must sign the proxy form.

A proxy form is attached to this Notice.

Voting Entitlement

For the purposes of determining voting entitlements at the annual general meeting, shares will be taken to be held by the persons who are registered as holding the shares at 7.00pm (Melbourne Time) on 1st November 2006. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

By order of the Board.



Chairman

22 September 2006

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of shareholders of Karoon Gas Australia Limited ("Karoon" or "Company") in connection with the business to be conducted at the Annual General Meeting of shareholders to be held at the Bourke Room, RACV Club Melbourne Level 2, 501 Bourke Street, Melbourne, Victoria on the 3rd November 2006 at 10.30 am.

This Explanatory Statement should be read in conjunction with the accompanying Notice of Meeting.

If you are in doubt about what to do in relation to the items which are presented in the Notice of Meeting for your consideration, you should consult your financial or other professional advisor.

1. Remuneration Policy

The Company, in accordance with its remuneration policy, remunerates in a fashion that motivates Directors to pursue the long term growth and success of the Company within an appropriate control framework that demonstrates a clear relationship between key executives performance and remuneration.

The remuneration report of the Company for the financial year ended 30 June 2006 is located in the Directors' Report of Karoon Gas Annual Report 2006. The Remuneration Report sets out Karoon Gas remuneration arrangements for directors, including the Managing Director, and senior executives. The Chair of the meeting will allow a reasonable opportunity for shareholders to ask questions about or make comments on the Remuneration Report at the meeting. In addition, the Corporations Act 2001 requires that shareholders be asked to vote on the Remuneration Report. However, this vote is of an advisory nature only and does not bind the Company or its directors.

2. Re-Election Of Director

Stephen Power was elected as Director of the Company in 2005.

Mr Power is required to retire under the provisions of Article 11.6 of the Company's constitution and, being eligible, has offered himself for re-election as a Director.

Mr Power has over 20 years experience in corporate law, particularly in the resources area. Mr Power is a principal director of a boutique law firm in Perth, Western Australia.

3. Review of Non-Executive Director Remuneration

A review of Non-Executive Directors remuneration across the ASX has highlighted the need to increase the remuneration available to be paid to Non-Executive Directors of the Company.

In accordance with its remuneration policy, the Company remunerates in a fashion that motivates Directors to pursue the long term growth and success of the Company within an appropriate control framework that demonstrates a clear relationship between Director performance and remuneration.

The Company intends to set the payment levels of Non-Executive Directors at an amount of \$40,000. The aggregate amount payable to all non-executive directors is currently \$50,000p.a. Should this resolution be passed the aggregate amount payable to all non-executive directors would increase to \$200,000p.a. and each Non-Executive Director would receive an increase of \$15,000p.a. The increase in the allowance will allow the Company to respond to market forces in relation to remuneration of Non-Executive Directors and also to consider the appointment of additional Non-Executive Directors should this be required in the future.

4. Employee Share Option Scheme

Karoon has an existing Employee Share Option Plan (**ESOP**) which has been operating since the listing of the Company on the ASX. Following the principles of the Karoon Gas Remuneration Policy, Karoon intends to utilise the ESOP as part of its remuneration policy. In order that issues of securities under the ESOP are exempt from the restrictions relating to the issue of securities under Listing Rule 7.1, Karoon seeks approval of the ESOP in accordance with Exemption 9 of Listing Rule 7.2.

The approval of the ESOP will mean that the Company will be able to issue options under the ESOP without requiring shareholder approval and such issues will not be included as issues under the "15% rule" in ASX Listing Rule 7.1 which, essentially, restrict issues of securities without shareholder approval above 15% of the issued share capital of the Company in any year.

There have been 415,000 options issued under the ESOP since the company listed on the ASX. All such options have either lapsed or have been exercised and there is currently no options outstanding which were issued under the ESOP.

The terms and conditions of the Karoon Gas Employee Share Option Plan are attached as Annexure A.

ANNEXURE A

Karoon Gas Australia Employee Share Option Plan rules

1. Preliminary

In these Rules:

“**Acceptance Date**” means the last Business Day upon which a Participant may accept an Offer extended by the Company pursuant to Rule 4.2 as specified in the Offer to the Participant and which shall be at least twenty 20 Business Days in each case from the date of the Offer;

“**Allotment Date**” means the date of grant and issue of an Option under Rule 4.8 as determined from the Register;

“**Application Form**” means an application for Options, which shall accompany the Offer to grant Options referred to in Rule 4.2;

“**Associate**” has the same meaning as in Section 139GE of the Income Tax Assessment Act, 1936;

“**Associated Company**” means any of:

- (a) a Subsidiary; or
- (b) a corporation in which the Company or a Subsidiary holds not less than 20% of the issued voting share capital;

“**ASX**” means Australian Stock Exchange Limited (ACN 008 624 691);

“**Board**” means the board of Directors;

“**Business Day**” means a day on which banks are open for business in Melbourne, Victoria or if the Company is admitted to the official list of ASX “Business Day” shall have the meaning given it in the Listing Rules;

“**Company**” means Karoon Gas Australia Limited (ACN 107 001 338);

“**Corporations Act**” means the Corporations Act 2001 (Commonwealth);

“**Date of Issue**” means the date on which Options are issued to a Participant;

“**Directors**” means the directors of the Company from time to time acting as a board;

“**Eligible Person**” means a person who is a director, officer or employee (whether full-time or part-time) of the Company or any Associated Company and who is determined by the Board to be an Eligible Person for the purposes of the Option Scheme;

“**Exercise Notice**” means a notice of exercise of Option in the form annexed to these Rules;

“**Exercise Period**” means the period during which an Option may be exercised, and ends on the Expiry Date;

“**Exercise Price**” means, in relation to an Option, the issue price for a Share payable upon the exercise of that Option;

“**Expiry Date**” means the last day (being a Business Day) on which an Option may be exercised;

“**Holder**” means the person registered as the holder of Options in the Register;

“**Listing Rules**” means the Official Listing Rules of ASX (as amended from time to time);

“**Offer**” means an offer to grant Options in accordance with Rule 4.2;

“**Option**” means an option to take up a Share pursuant to the Option Scheme;

“**Option Scheme**” means “the Karoon Gas Australia Employee Share Option Plan” the terms of which are set out in these Rules;

“**Participant**” means an Eligible Person invited by the Directors to participate in the Option Scheme in accordance with Rule 4.1 and includes a nominated Associate of an Eligible Person who agrees to be bound (in a manner satisfactory to the Committee) by the Option Scheme;

“**Register**” means the register of Options kept under the Corporations Act;

“**Rules**” means these Rules as modified from time to time;

“**Share**” means a fully paid ordinary share in the capital of the Company;

“**Subsidiary**” means a corporation which is a subsidiary of the Company under Division 6 of Part 1.2 of the Corporations Act; and

“**Takeover Offer**” includes a takeover offer and any offer made pursuant to a takeover announcement to acquire Shares, under Chapter 6 of the Corporations Act;

where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings; and words importing:

- (a) the masculine gender shall include the feminine and neuter; and
- (b) the singular shall include the plural and vice versa.

2. Establishment of Scheme

2.1 The Directors hereby re-establish the Option Scheme in accordance with the Rules.

2.2 The Option Scheme hereby constituted is called “The Karoon Gas Australia Employee Incentive Option Scheme”.

3. Object

The object of the Option Scheme is to issue Options to Eligible Persons entitling them to subscribe for Shares and thereby to advance the interests of the Company and its shareholders by enabling Eligible Persons to share in the Company’s growth and prosperity by providing an incentive to maximise their contribution to the Company.

4. Issue of Options

4.1 The Directors may at any time and from time to time determine Eligible Persons for the purposes of the Option Scheme and from amongst those Eligible Persons, who will participate in the Option Scheme.

4.2 The Directors shall determine in their absolute discretion the extent of participation by Eligible Persons in the Option Scheme. Following such determination the Company may by notice in writing (specifying an Acceptance Date) offer to grant Options to such Eligible Persons.

4.3 Any Offer shall specify:

- (a) the maximum number of Options available to the Participant;
- (b) the Exercise Price of those Options;
- (c) the Exercise Period of those Options;
- (d) any performance hurdles or other conditions to the exercise of the Options.

4.4 An Offer shall not be made unless:

- (a) disclosure to the Participant pursuant to Part 6D.2 of the Corporations Act is not required and the sale of any Shares upon the exercise of an Option would not require the preparation of a disclosure document pursuant to section 707(3) of the Corporations Act; or
- (b) at the time of issue of the Options the Company has available a current prospectus which complies with the requirements of chapter 6D of the Corporations Act (subject to any relief from those requirements granted by the Australian Securities & Investments Commission).

4.5 A Participant may only accept an Offer by delivering the duly completed Application Form to the Company at its registered office by 5:00 pm on the Acceptance Date.

4.6 A Participant may accept an Offer in whole, or in part but if in part, may only do so in multiples of 1,000 Options and may not subsequently take up the remaining Options pursuant to that Offer.

4.7 A Participant may accept an Offer in his or her name, or in that of a nominated Associate.

4.8 Following receipt by the Company of the completed Application Form the Company shall grant the Options and issue an Option certificate for such Options.

4.9 The number of Options issued pursuant to this Option Scheme shall not exceed 10% of the issued capital of the Company from time to time.

5. Options

5.1 Subject to Rules 9 and 10, an Option shall:

- (a) not be exercisable until after such period or periods (if any) as the Directors may decide;
- (b) expire not later than 5 years after the Allotment Date;
- (c) entitle the Participant, subject to any adjustments made pursuant to Rules 7 and 8, to be allotted 1 Share;
- (d) automatically lapse if not exercised on, or prior to, the Expiry Date or earlier on the Participant ceasing to be an officer or employee of the Company;
- (e) not be transferable, except to the offeror under a Takeover Offer or under a scheme of arrangement under Part 5.1 of the Corporations Act which is proposed by the Company; and
- (f) not be exercisable at any time whilst the requirements of Rule 4.4 are not satisfied.

6. Price

The issue of an Option shall be free.

7. New Issues

7.1 There are no participating rights or entitlements inherent in the Options and Holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will send a notice to each Holder of Options at least nine business days before the record date. This will give Holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

7.2 If from time to time on or prior to the Expiry Date the Company makes an issue of Shares to the holders of Shares in the Company by way of capitalisation of profits or reserves (a **bonus issue**), then upon exercise of its Options a Holder will be entitled to have issued to it (in addition to the Shares which would otherwise be issued to it upon such exercise) the number of Shares of the class which would have been issued to it under that bonus issue (**bonus shares**) if on the record date for the bonus issue it had been registered as the Holder of the number of Shares of which it would have been registered as holder if, immediately prior to that date, it had duly exercised its Options and the Shares the subject of such exercise had been duly allotted and issued to it. 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 upon exercise of the Options.

7.3 There is no right to a change in the exercise price of the Options or to the number of shares over which the Options are exercisable in the event of a new issue of capital (other than a bonus issue) during the currency of the Options.

8. Reorganisation

Should the Company be admitted to the Official List of ASX at any time, the Company must comply with the Listing Rules in relation to any reorganisation of its capital and the holder shall accept any consequential reorganisation of the Options.

9. Lapse and Takeover Offers

9.1 An Option shall not be capable of exercise after its Expiry Date.

9.2 It is a term of each Option that:-

- (a) subject to clause 9.3, if the Holder is:
- (b) a Participant, he or she ceases employment with the Company or an Associated Company for any reason; or
- (c) a nominated Associate of a Participant, that Participant ceases employment with the Company or an Associated Company for any reason,
then any unexercised Options shall lapse on the day the Participant ceases to be employed except where the Participant dies or is retrenched (where retrenchment does not include the dismissal by the Company of the Participant for wrongdoing or poor performance or any resignation by the Participant), in which event any unexercised Options shall lapse on the date which is 3 months from the date of such death or retrenchment.
- (d) if a Holder dies, the Options shall form part of the estate of the Holder and shall immediately become capable of exercise by the Holder's personal representative for a period of 3 months after the date of death at which time the Options shall lapse; and
- (e) no notice of the lapse of an Option (for any reason) need be given by the Company.

9.3 If a Takeover Offer is made and either:

- (a) the offeror is at the time the offeror announces its intention to make a takeover offer or takeover announcement, then entitled to more than 50% of the voting shares of the Company; or
- (b) if sub-clause (a) does not apply, the offeror becomes entitled to more than 50% of the voting shares of the Company,

then the Directors must give written notice to the Holders and immediately thereafter each Holder shall become and remain entitled to exercise his Options at any time within 30 days of such notice.

10. **Exercise of Options**

10.1 Options shall be exercised by the Holder completing and lodging the Exercise Notice, together with the relevant Option certificate and payment of the Exercise Price for each Option exercised, in the form of a cheque in Australian currency drawn on an Australian trading bank in favour of the Company, at the registered office of the Company before 5.00 pm on the Expiry Date or 5.00 pm on an earlier Business Day during the Exercise Period.

10.2 Upon allotment to the Participant of the Shares specified in the relevant Exercise Notice, the Company shall note on the copy of the Option certificate held by the Company, and the Register the number of Options exercised by the Participant and the number of Options, if any, outstanding. The information contained on such copy or Register shall be conclusive evidence of the matters recorded therein.

11. **Time for Issue and Allotment**

11.1 The Company shall allot to the Holder within 5 Business Days of the receipt of an Exercise Notice and payment of the Exercise Price for each Option exercised, the number of Shares that corresponds with the number of Options exercised, and issue a Share certificate therefore.

11.2 Any Shares allotted pursuant to an Exercise Notice shall rank pari passu in all respects with the Shares of the Company on issue at the date of the allotment of such Shares.

12. **GST**

12.1 Unless expressly stated otherwise, all monetary amounts referred to in these Rules are exclusive of GST.

12.2 If at any time GST as defined below becomes payable by a Party (in each case "the supplier") on any taxable supply made by the supplier to another Party ("the recipient") under or arising from this Agreement ("a relevant taxable supply") the supplier is entitled to recover by way of increase in the price for the taxable supply the GST

otherwise payable by the supplier on that taxable supply ("the Original Amount") in each case treating the Original Amount as the value of the taxable supply, the increased price in each case being calculated by multiplying the Original Amount by the GST rate prevailing on the making of the relevant taxable supply and adding the resultant product to the Original Amount ("the GST Inclusive Amount"). The recipient is in each case entitled to a tax invoice from the supplier within 3 days of request by the recipient.

12.3 If a relevant taxable supply is made the recipient of the relevant taxable supply must upon request pay to the supplier the difference between the Original Amount and the GST Inclusive Amount.

12.4 For the purposes of this clause :

(a) the expression "GST rate" means the percentage of the value of the taxable supply that is the amount of GST being at the date of this Agreement 10%;

(b) the expression "GST law" has the meaning given to it in *A New Tax System (Goods and Services Tax) Act 1999* ("GST Act"); and

(c) the expressions "value", "supply", "taxable supply", "GST", "enterprise", "registered", "tax invoice" and other expressions defined in GST law have the meanings given to those expressions in GST law.

13. Administration

13.1 The Option Scheme shall be administered by the Directors who shall have the power to:

(a) determine appropriate procedures for the administration of the Option Scheme consistent with the Rules;

(b) resolve conclusively all questions of fact or interpretation in connection with the Option Scheme;

(c) recommend for approval by the shareholders any amendments or additions to the terms and conditions of the Option Scheme; and

(d) delegate to the Board or any one or more persons for such period and on such conditions as they may determine the exercise of any of their powers or discretions arising under the Option Scheme, including this Rule 12.

13.2 The costs of administration of the Option Scheme shall be borne by the Company.

13.3 The Directors will, at least every 3 years from date of the Option Scheme, submit the Option Scheme to a general meeting of shareholders of the Company to approve its continued operation.

14. Power to Vary Rules

14.1 The Directors, subject to obtaining any necessary prior approval of shareholders in accordance with the Listing Rules (if applicable), may at any time and from time to time by supplemental document revoke, alter, add to, or vary (in this Rule 14 called a "Change"), all or any of the Rules and may by the same or any other document declare any new or other Rules concerning the granting of Options to Participants.

14.2 Any Change shall:

(a) relate to the granting of Options, or the Company's, or the Director's powers or discretions; and

(b) not affect a Participant's entitlement in respect of any Option or any rights or restrictions in relation to such an Option which arose before the date of Change, unless prior written consent is obtained from each affected Participant.

14.3 The Rules shall not be capable of being changed, otherwise than as provided in this Rule 14, or the Listing Rules.