



KAROON GAS AUSTRALIA LIMITED ABN 53 107 001 338

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Shareholders of Karoon Gas Australia Limited ABN 53 107 001 338 ("**Karoon**" or "**Company**") will be held 11.00 am (EST) on Friday, 26 October 2007 at Garden Rooms 2 & 3 at Level One of the Crown Towers, 8 Whiteman Street, Southbank, Melbourne, Victoria.

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

AGENDA

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 2007.

RESOLUTION 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 Company's Annual Report for the financial year ended 30 June 2007 be adopted."

This Remuneration Report is set out in the Company's Annual Report for the financial year ended 30 June 2007. Please note that the vote on this resolution is advisory only, and does not bind the directors of Karoon Gas.

RESOLUTION 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 Mark Smith, who retires in accordance with Article 11.12 of the Company's constitution and, being eligible, offers himself for re-election, be re-elected as a Director."

RESOLUTION 3 - Issue of Options to Director – Geoffrey Atkins

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

"That for the purposes of Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue 500,000 Options exercisable at 2.95 each on or before 31 October 2010 to acquire ordinary fully paid shares in the capital of the Company to Geoffrey Atkins on the terms and conditions set out in the Explanatory Memorandum accompanying this notice."

Voting Exclusion Statement: The Company will disregard any votes cast on this resolution by Mr Atkins or any of his 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.***

The instrument appointing the proxy must be received by the Company at the address specified above at least 48 hours before the time notified for the AGM (proxy forms can be lodged by facsimile).

In accordance with regulation 7.11.38 of the Corporations Regulations 2001, the Company determines that ordinary shares held as at 7.00pm (EST) on Wednesday, 24 October 2007 will be taken, for the purposes of the AGM, to be held by the persons who held them at that time.

REQUIRED MAJORITIES

Resolutions 1,2,3,4 and 5 are ordinary resolutions and will be passed only if supported by a majority of the votes cast by Shareholders entitled to vote on the resolutions.

DATED: 25 September 2007.

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

KAROON GAS AUSTRALIA LIMITED

(ACN 107 001 338)

EXPLANATORY MEMORANDUM TO SHAREHOLDERS

1. INTRODUCTION

This Explanatory Memorandum has been prepared for the information of Shareholders of Karoon Gas Australia Limited ("**Karoon**" or "**Company**") in connection with the business to be transacted at the Annual General Meeting ("**AGM**") of Karoon to be held on Friday, 26 October 2007. Certain terms are defined in the Glossary at the end of this Explanatory Memorandum.

At the AGM, Shareholders will be asked to pass resolutions:

Resolution 1. Remuneration Policy

The Company, in accordance with its remuneration policy, remunerates in a fashion that motivates Executive Directors and senior executives 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 2007 is set out on page 16 of the Company's Annual Report for the financial year ended 30 June 2007. The Remuneration Report sets out the Company's remuneration arrangements for directors, including the Managing Director, and senior executives. The Chair of the AGM will allow a reasonable opportunity for Shareholders to ask questions about or make comments on the Remuneration Report at the AGM. In addition, the Corporations Act 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.

Resolution 2. Re-Election Of Director

Mark Smith was elected a Director of the Company in December 2005. Mr Smith 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. Mark has over 25 years continuous experience as a geologist and exploration manager in petroleum exploration and development in Australia, Southeast Asia and North America. The bulk of this experience was gained while with BHP Petroleum. Mark has been directly involved with seven economic oil and gas discoveries.

Resolution 3. Issue of Options to Director – Geoffrey Atkins

Resolution 3 seeks Shareholder approval for the Company to grant 500,000 Options to Mr Geoffrey Atkins a Director of the Company. The terms and conditions of the Options are set out in Annexure "A" to this Explanatory Memorandum.

Shareholder approval for the grant of the Options the subject of Resolution 3 is sought for the purposes of:

- Division 3 of Part 2E.1 of the Corporations Act – which governs the giving of financial benefits to "related parties", e.g. directors of a company;
- Listing Rule 7.1 – which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without Shareholder approval; and
- Listing Rule 10.11 – which requires the grant of securities to a related party of a Company to be approved by Shareholders.

Mr Atkins was appointed to the Board in February 2005 to further strengthen the Board through the benefit of his substantial experience. In order to incentivise Mr Atkins to continue working for the benefit of the Company's Shareholders he will be offered 500,000 Options on the terms and conditions set out in Annexure "A" to this Explanatory Memorandum. The number of Options proposed to be granted to Mr Atkins has been determined on the basis that it is reasonable in the circumstances and relative to the number of Options proposed to be offered to other Directors of the Company. The Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the Options. A total of \$1,475,000 in additional Share capital would be raised if the Options were exercised in full.

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

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

The proposed grant of Options to Mr Atkins involves the provision of a financial benefit to a related party of the Company and, therefore, requires prior Shareholder approval.

In accordance with the requirements of Part 2E of the Corporations Act, and in particular sections 218 and 221, the following information is provided to Shareholders to allow them to assess the proposed grant of Options:

- (a) being a Director, Mr Atkins is a related party of the Company to whom the financial benefit would be given by virtue of Section 228(2)(a) of the Corporations Act;
- (b) the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure "A" to this Explanatory Memorandum;
- (c) those Directors who have no interest in the outcome of Resolution 3 (being all Directors other than Mr Atkins) recommend that Shareholders vote in favour of Resolution 3 on the basis that the Options to be granted provide Mr Atkins with an appropriate incentive in recognition of his knowledge and experience in relevant industries;
- (d) Mr Atkins makes no recommendation in relation to Resolution 3 on the basis that he has an interest in the outcome of the resolution;
- (e) the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements;
- (f) based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 3 has a value of \$0.54 (\$270,000 in aggregate) as at 17 August 2007.

This estimate is based on the following assumptions:

Exercise price	\$2.95
Market value of underlying Shares	
at time of setting exercise price	\$2.10
Time to expiration of Option	3 years
Volatility	45 %
Risk free interest rate	6.7%
Annualised dividend yield	Nil

- (g) over the last 12 months, the lowest recorded price of the Company's Shares in SEATS trading on ASX was \$1.20 on 14 March 2007 and the highest was \$2.89 on 17 July 2007. At the close of trading on 17 August 2007, the Company's Share price was \$2.10;
- (h) following the passing of Resolution 3, Mr Atkins will hold an interest in 427,000 Shares and 500,000 Options exercisable at \$2.95 on or before 31 October 2010;
- (i) Mr Atkins is entitled to receive Directors' fees of \$40,000 per annum. As a non-executive director Mr Atkins does not receive a salary;
- (j) assuming the issue of Options contemplated by this notice of meeting, the Company will have 114,427,897 Shares and 5,675,000 Options on issue. Assuming that Mr Atkins exercises all of the Options to be granted to him pursuant to Resolution 3, Mr Atkins would hold an interest in 0.80% of the Company's diluted capital; and
- (k) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 3.

The following information is provided for the purposes of Listing Rules 7.1 and 10.11:

- (a) The name of the person who will be issued Options is Mr Geoffrey Atkins.
- (b) Mr Geoffrey Atkins will be issued 500,000 Options. The terms and conditions of these Options are set out in Annexure "A" to this Explanatory Memorandum.
- (c) The Options will be issued within one month of shareholder approval.
- (d) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options.

Resolution 4. Issue of Options to Director – Stephen Power

Resolution 4 seeks Shareholder approval for the Company to grant 500,000 Options to Mr Stephen Power a Director of the Company. The terms and conditions for the Options are set out in Annexure “A” to this Explanatory Memorandum.

Shareholder approval for the grant of the Options the subject of Resolution 4 is sought for the purposes of:

- Division 3 of Part 2E.1 of the Corporations Act – which governs the giving of financial benefits to “related parties”, e.g. directors of a company;
- Listing Rule 7.1 – which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without Shareholder approval; and
- Listing Rule 10.11 – which requires the grant of securities to a related party of a Company to be approved by Shareholders.

Mr Power was appointed to the Board in February 2005 to further strengthen the Board through the benefit of his substantial experience. In order to incentivise Mr Power to continue working for the benefit of the Company’s Shareholders he will be offered 500,000 Options on the terms and conditions set out in Annexure “A” to this Explanatory Memorandum. The number of Options proposed to be granted to Mr Power has been determined on the basis that it is reasonable in the circumstances and relative to the number of Options proposed to be offered to other Directors of the Company. The Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the Options. A total of \$1,475,000 in additional share capital would be raised if the Options were exercised in full.

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

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

The proposed grant of Options to Mr Power involves the provision of a financial benefit to a related party of the Company and, therefore, requires prior Shareholder approval.

In accordance with the requirements of Part 2E of the Corporations Act, and in particular sections 218 and 221, the following information is provided to Shareholders to allow them to assess the proposed grant of Options:

- (a) being a Director Mr Power is a related party of the Company to whom the financial benefit would be given by virtue of Section 228(2)(a) of the Corporations Act;
- (b) the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure “A” to this Explanatory Memorandum;
- (c) those Directors who have no interest in the outcome of Resolution 4 (being all Directors other than Mr Power) recommend that Shareholders vote in favour of Resolution 4 on the basis that the Options to be granted provide Mr Power with an appropriate incentive in recognition of his knowledge and experience in relevant industries;
- (d) Mr Power makes no recommendation in relation to Resolution 4 on the basis that he has an interest in the outcome of the resolution;
- (e) the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company’s general working capital requirements;
- (f) based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 4 has a value of \$0.54 (\$270,000 in aggregate) as at 17 August 2007.

This estimate is based on the following assumptions:

Exercise price	\$2.95
Market value of underlying Shares	
at time of setting exercise price	\$2.10
Time to expiration of Option	3 years
Volatility	45 %
Risk free interest rate	6.7%
Annualised dividend yield	Nil

- (g) over the last 12 months, the lowest recorded price of the Company's Shares in SEATS trading on ASX was \$1.20 on 14 March 2007 and the highest was \$2.89 on 17 July 2007. At the close of trading on 17 August 2007, the Company's Share price was \$2.10;
- (h) following the passing of Resolution 4, Mr Power will hold an interest in 15,000 Shares and:
- 500,000 Options exercisable at \$1.65 on or before 31 October 2007;
 - 500,000 Options exercisable at \$2.95 each on or before 31 October 2010.
- (i) Mr Power is entitled to receive Directors' fees of \$40,000 per annum. As a non-executive director Mr Power does not receive a salary;
- (j) assuming the issue of options contemplated by this notice of meeting the Company will have 114,427,897 Shares and 5,675,000 Options on issue. Assuming that Mr Power exercises all of the Options to be granted to him pursuant to Resolution 4, Mr Power would hold an interest in approximately 0.89% of the Company's diluted capital; and
- (k) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 4.

The following information is provided for the purposes of Listing Rules 7.1 and 10.11:

- (a) The name of the person who will be issued Options is Mr Stephen Power.
- (b) Mr Stephen Power will be issued 500,000 Options. The terms and conditions of these Options are set out in Annexure "A" to this Explanatory Memorandum.
- (c) The Options will be issued within one month of Shareholder approval.
- (d) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options.

Resolution 5. Issue of Options to Company Secretary – Scott Hosking

Resolution 5 seeks Shareholder approval for the Company to grant to Mr Scott Hosking (the Company Secretary of the Company), pursuant to the Karoon Gas Australia Ltd Employee Share Purchase Plan ("ESOP"):

- (a) 100,000 Options exercisable at \$2.03 each on or before 30 October 2008 ("Tranche 1 Options"); and
- (b) 100,000 Options exercisable at \$2.95 each on or before 31 October 2010 ("Tranche 2 Options").

The terms and conditions of the Tranche 1 Options are set out in Annexure "B" to this Explanatory Memorandum. The terms and conditions of the Tranche 2 Options are set out in Annexure "C" to this Explanatory Memorandum.

Shareholder approval for the grant of the Options the subject of Resolution 5 is sought for the purposes of:

- Division 3 of Part 2E.1 of the Corporations Act – which governs the giving of financial benefits to "related parties", e.g. children of directors;
- Listing Rule 7.1 – which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without Shareholder approval;
- Listing Rule 10.11 – which requires the grant of securities to a related party of a Company to be approved by Shareholders.

Mr Hosking was appointed as Company Secretary in March 2006. In order to create goal congruence between the executive branch of the Company and the Company's Shareholders Mr Hosking will be offered 200,000 Options in two tranches (as set out above). The number of Options proposed to be granted to Mr Hosking have been determined on the basis that it is reasonable relative to the number of Options granted to the other employees of the Company when the Options were issued to employees in October 2006 and the number of Options proposed to be granted to the other employees of the Company in October 2007. These Options were and are not able to be issued to Mr Hosking at those times due to the Related Party provision of the Corporations Act and the ASX Listing Rules and the consequent need for Shareholder approval.

The Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the Options. A total of \$498,000 in additional share capital would be raised if the options were exercised in full.

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

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

The proposed grant of Options to Mr Hosking involves the provision of a financial benefit to a related party of the Company and, therefore, requires prior Shareholder approval.

In accordance with the requirements of Part 2E of the Corporations Act, and in particular sections 218 and 221, the following information is provided to Shareholders to allow them to assess the proposed grant of Options:

- (a) being a child of the Chairman, Mr Hosking is a related party of the Company to whom the financial benefit would be given by virtue of Section 228(3)(b) of the Corporations Act;
- (b) the nature of the financial benefit to be given is the grant of 100,000 Tranche 1 Options on the terms set out in Annexure "B" to this Explanatory Memorandum and the grant of 100,000 Tranche 2 Options on the terms set out in Annexure "C" to this Explanatory Memorandum;
- (c) those Directors who have no interest in the outcome of Resolution 5 (being all Directors) recommend that Shareholders vote in favour of Resolution for the reasons set out above;
- (d) the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements;
- (e) based on a Black & Scholes valuation method, the Company estimates that each Tranche 1 Option and each Tranche 2 Option the subject of Resolution 5 has a value of \$0.18 and \$0.54 respectively (\$72,000 in aggregate) as at 17 August 2007.

This estimate is based on the following assumptions:

Tranche 1 Option

Exercise price	\$2.03
Market value of underlying Shares at time of setting exercise price	\$1.40
Time to expiration of Option	2 years
Volatility	40 %
Risk free interest rate	5.25%
Annualised dividend yield	Nil

Tranch 2 Option

Exercise price	\$2.95
Market value of underlying Shares at time of setting exercise price	\$2.10
Time to expiration of Option	3 years
Volatility	45 %
Risk free interest rate	6.7%
Annualised dividend yield	Nil

- (f) over the last 12 months, the lowest recorded price of the Company's Shares in SEATS trading on ASX was \$1.20 on 14 March 2007 and the highest was \$2.89 on 17 July 2007. At the close of trading on 17 August 2007, the Company's Share price was \$2.10;

- (g) following the passing of Resolution 5, Mr Hosking will hold an interest in 170,140 Shares and:
- 100,000 Options exercisable at \$2.03 each on or before 30 October 2008;
 - 100,000 Options exercisable at \$2.95 each on or before 31 October 2010.
- (h) as Company Secretary Mr Hosking receives a salary of \$140,000 per year.
- (i) assuming the issue of options contemplated by this notice of meeting, the Company has 114,427,897 Shares and 5,675,000 Options on issue. Assuming that Mr Hosking exercises all of the Options to be granted to him pursuant to Resolution 5, Mr Hosking would hold an interest in approximately 0.32% of the Company's diluted capital; and
- (j) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 5.

The following information is provided for the purposes of Listing Rules 7.1 and 10.11:

- (a) The name of the person who will be issued Options is Mr Scott Hosking.
- (b) Mr Scott Hosking will be issued 100,000 Tranche 1 Options and 100,000 Tranche 2 Options.
- (c) The Options are issued under the Karoon Gas Employee Share Option Plan ("ESOP"). The terms and conditions of the ESOP are set out in Annexure "D".
- (d) The Options will be issued within one month of Shareholder approval.
- (e) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options.

ANNEXURE "A"

TERMS AND CONDITIONS OF OPTIONS PROPOSED TO BE GRANTED TO MR ATKINS AND MR POWER

1. Each Option entitles the holder to subscribe for and be allotted one fully paid ordinary share ("**Share**") in the Company.
2. The exercise price of the Options is \$2.95 per Share ("**Exercise Price**").
3. The Options will lapse at 5.00pm (Australian Eastern Standard Time) on 31 October 2010 ("**Expiry Date**").
4. Any Options which have not been exercised on or before 5.00pm (Australian Eastern Standard Time) on the Expiry Date lapse automatically.
5. The Options are not transferable without the prior written consent of the Board.
6. No application will be made to the ASX for Official Quotation of the Options.
7. All Shares allotted upon the exercise of Options will rank pari passu in all respects with other fully paid ordinary shares in the Company then on issue.
8. Options may only be exercised by notice in writing ("**Exercise Notice**") delivered to the registered office of the Company. The Exercise Notice must specify the number of options being exercised and must be accompanied by:
 - (a) the Exercise Price for the number of Options specified in the Exercise Notice; and
 - (b) the certificate for those Options, for cancellation by the Company.
9. The Exercise Notice only becomes effective when the Company has received cleared funds for the full amount of the Exercise Price.
10. Within 10 Business Days after the Exercise Notice becomes effective, the Board must:
 - (a) allot and issue the number of Shares specified in the Exercise Notice to the Option Holder;
 - (b) cancel the certificate for the Options being exercised;
 - (c) If applicable, issue a new certificate for any remaining 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.
11. 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 the Company's 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 of any new issues of capital offered to the Company's shareholders. This will give optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
12. If from time to time on or prior to the Expiry Date the Company makes an issue of share to the holders of ordinary shares in the Company by way of capitalisation of profits or reserves (a **bonus issue**), then upon exercise of Options an optionholder will be entitled to have issued to him (in addition to the Shares which would otherwise be issued to him under that bonus issue (**bonus shares**) if on the record date for the bonus issue the optionholder has been registered as the holder of the number of Shares of which he would have been registered as holder if, immediately prior to that date, he had duly exercised his Options and the Shares the subject of such exercise had been duly allotted and issued to him. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank pari passu in all respects with the other shares allotted under the bonus issue.
13. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of an optionholder will be changed to the extent necessary to comply with the applicable ASX Listing Rules in force at the time of the reorganisation.

ANNEXURE "B"

TERMS AND CONDITIONS OF THE TRANCHE 1 OPTIONS TO BE GRANTED TO MR HOSKING

1. The Exercise Price of each Option is \$2.03.
2. The options are subject to a voluntary escrow period ending 31st October 2007 and will expire on the 31st October 2008.
3. Option commences on the Date of Allotment and ends on the Expiry Date.
4. If you cease to be employed by Karoon Gas Australia Limited or an Associated Company for any reason, any unexercised Options will lapse on the day you cease to be employed.
5. If you die or become incapacitated, any unexercised Options will lapse unless exercised by your personal representative within 3 months of your death.
6. If a Takeover Offer is made for Karoon Gas Australia Limited you will be afforded the opportunity to exercise all of your Options.
7. Generally, as set out in the Rules of the Employee Share Option Plan.

ANNEXURE "C"

TERMS AND CONDITIONS OF THE TRANCHE 2 OPTIONS TO BE GRANTED TO MR HOSKING

1. The Exercise Price of each Option is \$2.95.
2. The Options vest on 31 October 2008 and will expire on 31 October 2010.
3. If you cease to be employed by Karoon Gas Australia Limited or an Associated Company for any reason, any unexercised Options will lapse on the day you cease to be employed.
4. If you die or become incapacitated, any unexercised Options will lapse unless exercised by your personal representative within 3 months of your death.
5. If a Takeover Offer is made for Karoon Gas Australia Limited you will be afforded the opportunity to exercise all of your Options.
6. Generally, as set out in the Rules of the Employee Share Option Plan.

ANNEXURE "D"

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,
 - (d) 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.
 - (e) 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
 - (f) 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.

GLOSSARY

ASX	Australian Stock Exchange Limited
Board	Board of Directors of Karoon Gas Australia Ltd
Corporations Act	Corporations Act 2001 (Cth)
Directors	Directors of Karoon Gas Australia Ltd
EST	Eastern Standard Time, being the time in Melbourne, Victoria
ESOP	Karoon Gas Australia Employee Share Option Plan
Listing Rules	Any rule of the ASX which are applicable while Karoon is admitted to the official list of the ASX.
Options	Options to subscribe for Shares.
Shares	Fully paid ordinary shares in the capital of Karoon Gas Australia Ltd
Shareholders	Holders of Shares

