

**KAROON GAS AUSTRALIA LTD
(ACN 107 001 338)**

NOTICE OF ANNUAL GENERAL MEETING

And

EXPLANATORY MEMORANDUM

Date of Meeting: 12 November 2009

Time of Meeting: 11am EST (Registration opens at 10am EST)

Place of Meeting: River Rooms 2 & 3 at the Crown Towers,
Level 1, 8 Whiteman Street, Southbank, VIC 3006

This Notice of Meeting and Explanatory Memorandum should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

KAROON GAS AUSTRALIA LTD ACN 107 001 338

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting of shareholders of Karoon Gas Australia Ltd ACN 107 001 338 ("**Company**") will be held at 11am EST on Thursday, 12 November 2009 at River Rooms 2 & 3 at the Crown Towers, Level 1, 8 Whiteman Street, Southbank, VIC 3006.

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

AGENDA

1. FINANCIAL REPORTS

To receive and consider the annual financial statements of the Company for the year ended 30 June 2009, together with the Directors' report and the external auditor's report in accordance with the Corporations Act 2001 (Cth) ("**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 2009, as contained within the Directors' Report, be adopted."

Note

This resolution shall be determined as if it were an ordinary (majority) resolution, but under section 250R(3) of the Corporations Act, the vote is advisory only and does not bind the Directors of the Company.

3. RESOLUTION 2 - APPROVAL OF RE-APPOINTMENT OF MR STEPHEN POWER AS A DIRECTOR

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

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

4. RESOLUTION 3 - RATIFICATION OF SHARE PLACEMENT

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

*"That, for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of 22,333,934 Shares at \$6.70 each to sophisticated and professional investors ("**Placement Shares**"), for the purposes and on the terms set out in the Explanatory Memorandum."*

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by any person who participated in the issue 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.

5. RESOLUTION 4 - APPROVAL TO EXECUTE DEED OF ACCESS, INSURANCE AND INDEMNITY

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

“That, except where the Board determines to the contrary, approval is given for the Company to enter into deeds with all present and future Directors of the Company, in substantially the same form as the document entitled ‘Deed of Access, Insurance and Indemnity’, described in the Explanatory Memorandum.”

6. RESOLUTION 5 - APPROVAL OF THE REVISED EMPLOYEE SHARE OPTION PLAN

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

“That, for the purposes of Listing Rule 7.2 (Exception 9) and for all other purposes, approval is given for the continued operation of the Company’s Employee Share Option Plan (“ESOP”), as described in the Explanatory Memorandum, and that the grant of options from time to time under the ESOP remain an exception to Listing Rule 7.1.”

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.

7. RESOLUTION 6 - APPROVAL TO ISSUE OPTIONS TO A DIRECTOR - MR GEOFF ATKINS

To consider and, if thought fit, to pass 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 issue to Mr Geoff Atkins or his nominee, 500,000 Options to acquire Shares at an exercise price of \$14.07 each, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by Mr Geoff Atkins or his nominee and any of his associates or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares. 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.

8. RESOLUTION 7 - APPROVAL TO ISSUE OPTIONS TO A DIRECTOR - MR STEPHEN POWER

To consider and, if thought fit, to pass 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 issue to Mr Stephen Power or his nominee, 500,000 Options to acquire Shares at an exercise price of \$14.07 each, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by Mr Stephen Power or his nominee and any of his associates or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares. 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.

9. RESOLUTION 8 - APPROVAL TO ISSUE ESOP OPTIONS TO MR SCOTT HOSKING

To consider and, if thought fit, to pass 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 issue to Mr Scott Hosking or his nominee 300,000 Options to acquire Shares, at an exercise price of \$14.07 each, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by Mr Scott Hosking or his nominee and any of his associates or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities. 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.

10. RESOLUTION 9 - APPROVAL TO ISSUE ESOP OPTIONS TO MR TIMOTHY HOSKING

To consider and, if thought fit, to pass 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 issue to Mr Timothy Hosking or his nominee 230,000 Options to acquire Shares, at an exercise price of \$14.07 each, on the terms and conditions set out in the Explanatory Memorandum.”

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by Mr Timothy Hosking or his nominee and any of his associates or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities. 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.

OTHER BUSINESS

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

REQUIRED MAJORITIES

Resolutions 1, 2, 3, 4, 5, 6, 7, 8 and 9 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: 18 September 2009

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 LTD

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 Ltd (“**Company**”) in connection with the business to be transacted at the Annual General Meeting of the Company to be held at River Rooms 2 & 3 at the Crown Towers, Level 1, 8 Whiteman Street, Southbank, VIC 3006 on Thursday, 12 November 2009 at 11am EST (registration from 10am EST) (“**Annual General Meeting**”).

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

- (a) Adopting the Remuneration Report;
- (b) Approving the re-appointment of Mr Stephen Power as a Director of the Company;
- (c) Ratifying the issue of the Share Placement;
- (d) Approving the execution of Deeds of Access, Insurance and Indemnity;
- (e) Approving the revised Employee Share Option Plan in accordance with the rules attached as Annexure A;
- (f) Approving the issue of Options to a Director – Mr Geoff Atkins or his nominee;
- (g) Approving the issue of Options to a Director – Mr Stephen Power or his nominee;
- (h) Approving the issue of ESOP Options to Mr Scott Hosking; and
- (i) Approving the issue of ESOP Options to Mr Timothy Hosking.

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.

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.

At the end of 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 in accordance with the instructions contained in the proxy form and the Notice of Meeting. Lodgement of a proxy form will not preclude a Shareholder from attending and voting at the Annual General Meeting in person.

3. ANNUAL FINANCIAL REPORTS

Section 317 of the Corporations Act requires the Company’s financial statements and reports of the Directors’ and of the external auditor for the year ended 30 June 2009 to be laid before the Annual General Meeting. The financial statements and the reports of the Directors’ and of the Company’s external auditor are contained in the Company’s 2009 Annual Report, a copy of which has been sent 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 when this item is being considered.

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.

4. RESOLUTION 1 - ADOPTION OF REMUNERATION REPORT

Section 250R(2) of the Corporations Act requires the Company to propose a resolution that the Remuneration Report be adopted. The vote on this resolution is advisory only and does not bind the Directors of the Company.

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

The Remuneration Report may be found within the Directors' report in the 2009 Annual Report.

The Board abstains from making a recommendation in relation to this resolution.

5. RESOLUTION 2 - APPROVAL OF RE-APPOINTMENT OF MR STEPHEN POWER AS A DIRECTOR

Resolution 2 seeks Shareholder approval for the Company to re-appoint Mr Stephen Power as a Director of the Company.

In accordance with Listing Rule 14.4 and paragraph 11.3 of the Constitution of the Company, at the Annual General Meeting in every year, one-third of the Directors for the time being, and any other Director not in such one-third who has held office for three years or more (except the Managing Director), must retire from office. Pursuant to paragraph 11.4 of the Constitution of the Company, a retiring Director is eligible for re-election.

Mr Power is required to retire and, being eligible for re-election, offers himself for re-election. Mr Power is a commercial lawyer who has spent approximately 20 years providing advice to participants in the resources industry in Australia and overseas. Mr Power brings a sound commercial background gained through his extensive legal experience to the Board and the Board considers Mr Power's experience and input to be essential to the ongoing management and development of the Company and unanimously supports the re-election of Mr Power.

A brief CV of Mr Power can be found on page 18 of the 2009 Annual Report of the Company.

6. RESOLUTION 3 - RATIFICATION OF SHARE PLACEMENT

Resolution 3 seeks the ratification of the issue of the Placement Shares which took place on 16 June, 2009. The issue of the Placement Shares did not require the prior approval of Shareholders as it was made in accordance with the 15% limit allowed under Listing Rule 7.1.

Listing Rule 7.1, in effect, allows a company to issue securities without the prior approval of its Shareholders if the securities will not, in themselves or when aggregated with the securities issued by a company during the previous 12 months, exceed 15% of the number of securities on issue at the commencement of that 12 month period.

Listing Rule 7.4 allows issues of securities to be subsequently ratified and thereby reinstate the ability of the company to issue up to 15% of its issued share capital under Listing Rule 7.1. Listing Rule 7.4 states that an issue by a company of securities made without approval under Listing Rule 7.1 (as is the case with the Placement Shares) is treated as having been made with approval for the purpose of Listing Rule 7.1 if the issue did not breach Listing Rule 7.1 and the company's members subsequently approve it.

In accordance with Listing Rule 7.4, the Company seeks from Shareholders approval for the issue of the Placement Shares so as to enable it to issue up to 15% of its share capital within the next 12 months if so required.

Outlined below is the information required to be provided to Shareholders pursuant to Listing Rule 7.5 for the purpose of obtaining Shareholder approval under Listing Rule 7.4:

- (a) the number of securities which were allotted was 22,333,934 Shares;
- (b) the Shares were issued at \$6.70 each;
- (c) the Shares have been issued to a range of institutional and sophisticated investors as determined by the managers of the placement;
- (d) the Shares rank pari passu with existing Shares on issue;
- (e) the funds will be used for the purpose of providing the Company with a strong cash position for its continued exploration and appraisal program in the Browse Basin, along with the upcoming exploration programs in Peru and Brazil; and
- (f) the Company will disregard any votes cast on this resolution by any person who participated in the issue and any of their associates.

The Board believes that the ratification of this issue is beneficial for the Company. The Board recommends Shareholders vote in favour of Resolution 3 as it allows the Company to ratify the above issue of Shares and retain the flexibility to issue further securities representing up to 15% of the Company's share capital during the next 12 months.

7. RESOLUTION 4 - APPROVAL TO EXECUTE DEED OF ACCESS, INSURANCE AND INDEMNITY

The purpose of Resolution 4 is to enable the Company to provide the Directors of the Company with a reasonable level of protection in relation to claims made against the Directors of the Company, effective from the date of appointment of each.

Given their duties and responsibilities as directors of a public company and their potential liabilities, the Directors consider it appropriate that they be suitably protected from certain claims made against them. The proposed protection will not extend to the extent it is prohibited by the Corporations Act.

As a person may be called to account for his or her actions several years after ceasing to be a director of a company, it is considered reasonable that suitable protection should extend for a period of time after the Directors have ceased to be a Director of the Company.

The Deed of Access, Insurance and Indemnity will require:

- the Company to indemnify the Director during the period of their directorship and after the cessation of their directorship, in respect of certain claims made against that Director in their capacity as a Director of the Company to the extent allowable under the Corporations Act;
- the Company to use its best endeavours (subject to cost and availability) to maintain an insurance policy and pay the premiums of insurance as assessed at market rates applicable from time to time, to the extent available under the Corporations Act, for each Director in respect of certain claims made against them in their capacity as a Director of the Company and to continue to pay those premiums for a period of up to 10 years following the termination of their directorship; and

- the Company to provide each Director with access, upon ceasing for any reason to be a Director of the Company and for a period of up to 10 years following cessation, to any Company records which are either prepared or provided to the Director during which the person was a director of the Company.

The Deed of Access, Insurance and Indemnity will also require each of the Directors to maintain confidentiality and to protect the Company's intellectual property.

8. RESOLUTION 5 - APPROVAL OF THE REVISED EMPLOYEE SHARE OPTION PLAN

The Company has had an existing Employee Share Option Plan ("**ESOP**") which has been operating since the listing of the Company on the ASX. During 2006, the Company sought and gained Shareholder approval of the ESOP in accordance with Exception 9 of Listing Rule 7.2, so that future securities issued under the ESOP would be exempt from the restrictions relating to the issue of securities under Listing Rule 7.1. Listing Rule 7.1 restricts the issue of securities, without shareholder approval, above 15% of the issued share capital of the company in any year.

Exception 9 of Listing Rule 7.2 provides that Listing Rule 7.1 does not apply to an issue under an employee incentive scheme if, within the 3 years before the date of issue, shareholders have approved the issue as an exception to Listing Rule 7.1.

As it is coming up to 3 years from the last Shareholder approval of the ESOP, and in accordance with rule 13.3 of the ESOP rules and Exception 9 of Listing Rule 7.2, the Directors hereby submit the ESOP to the Shareholders to approve its continued operation and the issue of securities from time to time under the revised ESOP, as an exception to Listing Rule 7.1. The Directors have taken the opportunity to review the ESOP rules and have amended the rules to take into account the current operations, changes to government legislation and size of the Company. The revised ESOP rules are attached to this Explanation Memorandum as Annexure "A".

3,285,000 employee options have been issued under the ESOP since it was last approved on 3 November 2006. The Board believes that the ESOP continues to form an effective means of rewarding past contributions and providing an incentive for future performance and that the revised rules enhance this function. Accordingly, the Directors (none of whom participate in the ESOP) recommend that Shareholders vote in favour of Resolution 5.

9. RESOLUTION 6 - APPROVAL TO ISSUE OPTIONS TO A DIRECTOR - MR GEOFF ATKINS

Resolution 6 seeks Shareholder approval for the Company to grant a total of 500,000 Options to Mr Geoff Atkins, a Director of the Company, or his nominee.

The Company has carefully considered the issue of Non-Executive Director remuneration and considers that the issue of options should form part of this remuneration because:

- The Company is not yet in the production phase of activities and all expenses incurred are currently funded from the proceeds of equity issues. Any cash component of Non-Executive Directors' remuneration will, therefore, involve the issue of equity which has, in the past, been carried out at prices which are below the market price of the Company's Shares at the time;
- The issue of options at an exercise price which is set at a premium to the market price at the time of setting that price means the small dilutive effect of such an issue on other Shareholders is minimised; and
- The issue of options represent a cost effective means of properly remunerating experienced professionals at an appropriate level.

The Company also considered the level of remuneration and options to be issued taking into account various issues which, in the Company's opinion, had increased the responsibility and commensurate risk attached to the position of a Non-Executive Director of the Company. The issues considered included:

- The greatly increased market capitalisation of the Company and the scope and value of its activities;
- The Company has increased its geographical footprint into international activities, as demonstrated by its successful entry into South America;
- The increase in the size and level of the day to day operations of the Company;
- The increase in the complexity and importance of the strategic decisions facing the Company; and
- The continuing increase in the level of responsibility attaching to the office of a Non-Executive Director.

The exercise price of the Options was set following the investigation of market levels of remuneration and independent advice. The exercise price was calculated by determining the volume weighted average sale price ("**VWAP**") of the Company's shares traded on the ASX in the 20 days prior to 16 September, 2009, being the date the exercise price was set. This VWAP price was then increased by 35% to reach a final exercise price of \$14.07.

The terms of the Options are set out in Annexure "B" to this Explanatory Memorandum. It should be noted that the Options are subject to an escrow period whereby they cannot be exercised until 3 years after the date of their grant, leaving a 12 month period prior to their expiry in which they may be exercised.

In light of the above, the Company believes that the issue of Options, the subject of Resolution 6, to Mr Atkins enables the Company to reward Mr Atkins accordingly and appropriately, whilst enabling the Company to preserve its cash reserves for expenditure on principal activities.

Shareholder approval for the grant of the Options, the subject of Resolution 6, 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", for example 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 10.14, which requires the grant of securities to a director of a company to be approved by shareholders.

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 \$7,035,000 in gross Share proceeds would be raised if the Options were exercised in full.

Subject to Shareholder approval, the Options will be granted on the terms and conditions set out in Annexure "B" to this Explanatory Memorandum.

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 or his nominee involves the provision of a financial benefit to a related party of the Company, and therefore, requires Shareholders' approval.

In accordance with the requirements of Part 2E of the Corporations Act, and in particular sections 219 and 221, the following information is provided to Shareholders to allow them to assess the proposed grant of 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) 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 "B" to this Explanatory Memorandum;
- (c) Those Directors who have no interest in the outcome of Resolution 6 (being all Directors of the Company other than Mr Atkins) recommend that the Shareholders vote in favour of Resolution 6 on the basis that the Options to be granted provide Mr Atkins with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;
- (d) Mr Atkins makes no recommendation in relation to Resolution 6 on the basis that he has an interest in the outcome of the resolution;
- (e) The Options will be issued for no consideration. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements;
- (f) The exercise price and exercise date for the Options are set out in Annexure "B" to this Explanatory Memorandum;
- (g) Based on a Black & Scholes option pricing model, the Company estimates that each Option, the subject of Resolution 6, has a value of \$3.67 at 18 September 2009 as detailed in the table below;

This estimate is based on the following assumptions	
Exercise Price	\$14.07
VWAP for the 20 days ended 16 September 2009	\$10.48
Time to expiration of Option	48 months
Volatility	53%
Risk free interest rate	3%
Annualised dividend yield	Nil

- (h) Over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$1.65 on 10 October 2008 and the highest was \$12.10 on 24 July 2009. At the close of trading on 18 September 2009 the Share price was \$10.98;
- (i) Following the passing of Resolution 6 and the issue of the Options the subject of that resolution, Mr Atkins will hold an interest in 427,000 Shares and 1,000,000 Options;
- (j) Mr Atkins receives current Director's fees of \$54,800 per annum;

- (k) The Company has 177,016,198 Shares and 6,310,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Stephen Power, Mr Scott Hosking and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 7, 8 and 9, Mr Atkins interest including all the Shares and Options currently held will represent approximately 0.078% of the Company's diluted capital; and
- (l) Neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 6.

The following information is provided for the purposes of Listing Rules 7.1 and 10.13:

- (a) The name of the person who will be issued Options is Mr Geoff Atkins or his nominee;
- (b) Mr Atkins will be issued 500,000 Options;
- (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; and
- (e) The terms of the Options are set out in Annexure "B" to this Explanatory Memorandum.

10. RESOLUTION 7 - APPROVAL TO ISSUE OPTIONS TO A DIRECTOR - MR STEPHEN POWER

Resolution 7 seeks Shareholder approval for the Company to grant a total of 500,000 Options to Mr Stephen Power, a Director of the Company, or his nominee.

Shareholders are referred to the opening paragraphs of Section 9 of this Explanatory Memorandum which outlines the reasons for the Company's inclusion of an option component to Non-Executive Director remuneration and the level of such issue.

The exercise price of the Options was set following the investigation of market levels of remuneration and independent advice. The exercise price was calculated by determining the VWAP of the Company's shares traded on the ASX in the 20 days prior to 16 September 2009, being the date the exercise price was set. This VWAP price was then increased by 35% to reach a final exercise price of \$14.07.

The terms of the Options are set out in Annexure "B" to this Explanatory Memorandum. It should be noted that the Options are subject to an escrow period whereby they cannot be exercised until 3 years after the date of their grant leaving a 12 month period prior to their expiry in which they may be exercised.

The Company believes that the issue of Options, the subject of Resolution 7, to Mr Power enables the Company to reward Mr Power accordingly and appropriately, whilst enabling the Company to preserve its cash reserves for expenditure on its existing business.

Shareholder approval for the grant of the Options, the subject of Resolution 7, 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", for example 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 10.14, which requires the grant of securities to a director of a company to be approved by shareholders.

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 \$7,035,000 in gross Share proceeds would be raised if the Options were exercised in full.

Subject to Shareholder approval, the Options will be granted on the terms and conditions set out in Annexure “B” to this Explanatory Memorandum.

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 or his nominee involves the provision of a financial benefit to a related party of the Company, and therefore, requires Shareholders’ approval.

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

- 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) of the Corporations Act;
- The nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure “B” to this Explanatory Memorandum;
- Those Directors who have no interest in the outcome of Resolution 7 (being all Directors of the Company other than Mr Power) recommend that the Shareholders vote in favour of Resolution 7 on the basis that the Options to be granted provide Mr Power with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;
- Mr Power makes no recommendation in relation to Resolution 7 on the basis that he has an interest in the outcome of the resolution;
- The Options will be issued for no consideration. Any funds raised from the exercise of the options will be used for the Company’s general working capital requirements;
- The exercise price and exercise date for the Options are set out in Annexure “B” to this Explanatory Memorandum;
- Based on a Black & Scholes option pricing model, the Company estimates that each Option, the subject of Resolution 7, has a value of \$3.67 at 18 September 2009 detailed in the table below;

This estimate is based on the following assumptions	
Exercise Price	\$14.07
VWAP for the 20 days ended 16 September 2009	\$10.48
Time to expiration of Option	48 months
Volatility	53%
Risk free interest rate	3%
Annualised dividend yield	Nil

- (h) Over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$1.65 on 10 October 2008 and the highest was \$12.10 on 24 July 2009. At the close of trading on 18 September 2009 the Share price was \$10.98;
- (i) Following the passing of Resolution 7 and the issue of Options the subject of that resolution, Mr Power will hold an interest in 300,000 Shares and 1,000,000 Options;
- (j) Mr Power receives current Director's fees of \$40,000 per annum;
- (k) The Company has 177,016,198 Shares and 6,310,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Geoff Atkins, Mr Scott Hosking and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 6, 8 and 9, Mr Power's interest including all the Shares and Options currently held will represent approximately 0.07% of the Company's diluted capital; and
- (l) Neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 7.

The following information is provided for the purposes of Listing Rules 7.1 and 10.13:

- (a) The name of the person who will be issued Options is Mr Stephen Power or his nominee;
- (b) Mr Power will be issued 500,000 Options;
- (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; and
- (e) The terms of the Options are set out in Annexure "B" to this Explanatory Memorandum.

11. RESOLUTION 8 - APPROVAL TO ISSUE ESOP OPTIONS TO MR SCOTT HOSKING

Subject to the ESOP being approved and renewed pursuant to Resolution 5, Resolution 8 seeks Shareholder approval for the Company to grant 300,000 Options to Mr Scott Hosking or his nominee pursuant to the approved and revised ESOP. The grant of Options to Mr Scott Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Scott Hosking is the son of Mr Robert Hosking.

Mr Scott Hosking is being issued the Options in accordance with the normal operation of the Company's ESOP and employee incentivisation programme in common with all other employees of the Company. The exercise price was calculated by determining the VWAP of the Company's shares traded on the ASX in the 20 days prior to 16 September 2009, being the date the exercise price was set. This VWAP price was then increased by 35% to reach a final exercise price of \$14.07.

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

Shareholder approval for the grant of the Options the subject of Resolution 8 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”, for example children of 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 10.14, which requires the grant of securities to a related party of a company to be approved by shareholders.

Mr Scott Hosking is the Company’s Chief Financial Officer and Company Secretary. The number of Options being issued to Mr Scott Hosking is considered reasonable in regard to his responsibilities and his achievements to date.

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 Scott Hosking involves the provision of a financial benefit to a related party of the Company, and therefore, requires Shareholders 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 \$4,221,000 in gross Share proceeds would be raised if the Options were exercised in full.

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

- (a) Being a son of Mr Robert Hosking, a Director of the Company, Mr Scott Hosking is a related party of the Company to whom the financial benefit would be given by virtue of section 228(3) of the Corporations Act;
- (b) The nature of the financial benefit to be given is the grant of 300,000 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 6 recommend that the Shareholders vote in favour of Resolution 8 on the basis that the Options to be granted provide Mr Scott Hosking with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;
- (d) Mr Robert Hosking makes no recommendation in relation to Resolution 8 on the basis that he is the father of Mr Scott Hosking;
- (e) The Options will be issued for no consideration. Any funds raised from the exercise of the Options will be used for the Company’s general working capital requirements;
- (f) The exercise price and exercise date for the Options are set out in Annexure “C” to this Explanatory Memorandum;
- (g) Based on a Black & Scholes option pricing model, the Company estimates that each Option, the subject of Resolution 8, has a value of \$3.67 at 18 September 2009 detailed in the table below;

This estimate is based on the following assumptions	
Exercise Price	\$14.07
VWAP for the 20 days ended 16 September 2009	\$10.48
Time to expiration of Option	48 Months
Volatility	53%
Risk free interest rate	3%
Annualised dividend yield	Nil

- (h) Over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$1.65 on 10 October 2008 and the highest was \$12.10 on 24 July 2009. At the close of trading on 18 September 2009 the Share price was \$10.98;
- (i) Following the passing of Resolution 8, Mr Scott Hosking will hold an interest in 73,329 Shares and 600,000 Options;
- (j) Mr Scott Hosking receives a current base salary of \$250,000 per annum;
- (k) The Company has 177,016,198 Shares and 6,310,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Geoff Atkins, Mr Stephen Power and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 6, 7 and 9, Mr Scott Hosking's interest including all the Shares and Options currently held will represent approximately 0.036% of the Company's diluted capital; and
- (l) Neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 8.

The following information is provided for the purposes of Listing Rules 7.1 and 10.13:

- (a) The name of the person who will be issued Options is Mr Scott Hosking or his nominee;
- (b) Mr Scott Hosking or his nominee will be issued 300,000 Options;
- (c) The Options will be issued within one month of Shareholder approval;
- (d) Mr Scott Hosking is the son of Mr Robert Hosking, a Director of the Company;
- (e) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options; and
- (f) The terms of the Options are set out in Annexure "C" to this Explanatory Memorandum.

12. RESOLUTION 9 - APPROVAL TO ISSUE ESOP OPTIONS TO MR TIMOTHY HOSKING

Subject to the ESOP being approved and renewed pursuant to Resolution 5, Resolution 9 seeks Shareholder approval for the Company to grant 230,000 Options to Mr Timothy Hosking or his nominee pursuant to the approved and revised ESOP. The grant of Options to Mr Timothy Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Timothy Hosking is the son of Mr Robert Hosking.

Mr Timothy Hosking is being issued the Options in accordance with the normal operation of the Company's ESOP and employee incentivisation programme in common with all other employees of the Company. The exercise price was calculated by determining the VWAP of the Company's shares traded on the ASX in the 20 days prior to 16 September 2009, being the date the exercise price was set. This VWAP price was then increased by 35% to reach a final exercise price of \$14.07.

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

Shareholder approval for the grant of the Options the subject of Resolution 9 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", for example children of 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 10.14, which requires the grant of securities to a related party of a company to be approved by shareholders.

Mr Timothy Hosking is the Company's Business Development Manager, specifically responsible for the South American operations. The number of Options being issued to Mr Timothy Hosking is considered reasonable in regard to his responsibilities and his achievements to date.

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 Timothy Hosking involves the provision of a financial benefit to a related party of the Company, and therefore, requires Shareholders 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 \$3,236,000 in gross Share proceeds would be raised if the Options were exercised in full.

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

- (a) Being a son of Mr Robert Hosking, a Director of the Company, Mr Timothy Hosking is a related party of the Company to whom the financial benefit would be given by virtue of section 228(3) of the Corporations Act;
- (b) The nature of the financial benefit to be given is the grant of 230,000 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 6 recommend that the Shareholders vote in favour of Resolution 9 on the basis that the Options to be granted provide Mr Timothy Hosking with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;
- (d) Mr Robert Hosking makes no recommendation in relation to Resolution 9 on the basis that he is the father of Mr Timothy Hosking;
- (e) The Options will be issued for no consideration. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements;

- (f) The exercise price and exercise date for the Options are set out in Annexure “C” to this Explanatory Memorandum;
- (g) Based on a Black & Scholes option pricing model, the Company estimates that each Option, the subject of Resolution 9, has a value of \$3.67 at 18 September 2009 detailed in the table below;

This estimate is based on the following assumptions	
Exercise Price	\$14.07
VWAP for the 20 days ended 16 September 2009	\$10.48
Time to expiration of Option	48 months
Volatility	53%
Risk free interest rate	3%
Annualised dividend yield	Nil

- (h) Over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$1.65 on 10 October 2008 and the highest was \$12.10 on 24 July 2009. At the close of trading on 18 September 2009 the Share price was \$10.98;
- (i) Following the passing of Resolution 9, Mr Timothy Hosking will hold an interest in 269,093 Shares and 230,000 Options;
- (j) Mr Timothy Hosking receives a current base salary of \$218,000 per annum;
- (k) The Company has 177,016,198 Shares and 6,310,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Geoff Atkins, Mr Stephen Power and Mr Scott Hosking exercise all of the Options to be granted to them pursuant to Resolutions 6, 7 and 8, Mr Timothy Hosking’s interest including all the Shares and Options currently held will represent approximately 0.027% of the Company’s diluted capital; and
- (l) Neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 9.

The following information is provided for the purposes of Listing Rules 7.1 and 10.13:

- (a) The name of the person who will be issued Options is Mr Timothy Hosking or his nominee;
- (b) Mr Timothy Hosking or his nominee will be issued 230,000 Options;
- (c) The Options will be issued within one month of Shareholder approval;
- (d) Mr Timothy Hosking is the son of Mr Robert Hosking, a Director of the Company;
- (e) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options; and
- (f) The terms of the Options are set out in Annexure “C” to this Explanatory Memorandum.

13. 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.
Company:	Karoon Gas Australia Ltd (ACN 107 001 338).
Corporations Act:	Corporations Act 2001 (Cth).
Corporations Regulations:	Corporations Regulations 2001 (Cth).
Director:	A director of the Company.
ESOP:	The Company's Employee Share Option Plan.
EST: Victoria.	Eastern Standard Time, being the time in Melbourne, Victoria.
Listing Rules:	The Official Listing Rules of the ASX, as amended from time to time.
Notice of Meeting:	The notice convening the Annual General Meeting which accompanies this Explanatory Memorandum.
Options:	Options to subscribe for Shares.
Placement Shares:	The June 2009 allotment and issue of 22,333,934 Shares at \$6.70 each to sophisticated and professional investors.
Remuneration Committee:	The remuneration committee of the Company.
Remuneration Report:	The Remuneration Report for the year ended 30 June 2009 as contained within the Directors' report and forming part of the 2009 Annual Report.
Shareholders:	Holders of Shares.
Shares:	Fully paid ordinary shares in the capital of the Company.

PROXY AND VOTING ENTITLEMENT INSTRUCTIONS

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 shareholder who is entitled to cast two or more votes at the Annual General Meeting may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one half of the votes.

A 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 his or her discretion.

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

Share Registrar: Computershare Investor Services Pty Limited

Physical Address: Yarra Falls, 452 Johnston Street, Abbotsford, Vic 3067, Australia

Postal Address: GPO Box 242, Melbourne, Vic 3001, Australia

Facsimile Number: 1800 783 447 (within Australia)
 +61 3 9473 2555 (outside Australia)

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

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

In accordance with regulation 7.11.38 of the Corporations Regulations, the Company determines that fully paid ordinary shares held as at 5.00pm (EST) on 10 November 2009 will be taken, for the purposes of the Annual General Meeting, to be held by the persons who held them at that time.

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 proxies are appointed, you may delete "all" and insert the relevant number or proportion of shares in respect of which each such appointment is made. A separate proxy must be completed for each proxy.
5. If 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.

ANNEXURE "A"

2009 KAROON GAS AUSTRALIA LTD EMPLOYEE SHARE OPTION PLAN

1. PRELIMINARY

In these Rules:

"2006 Employee Share Option Plan" means the 2006 Karoon Gas Australia Employee Share Option Plan which was approved by the Shareholders in a general meeting of shareholders on 3 November 2006;

"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 10 Business Days in each case from the date of the Offer;

"Accounting Event" means a determination by the Directors, following the receipt of advice from a reputable accountant experienced in such matters, including but not limited to the external auditor of Karoon, that a change in legislation, Regulatory or Corporate Principles has the effect that the Option Plan may have an unintended deleterious effect on Holders or the Company;

"AEST" means Australian Eastern Standard Time;

"Allotment Date" means the date of grant and issue of an Option under Rule 4.9 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 ASX Ltd (ACN 008 624 691);

"Board" means the board of Directors;

"Business Day" has the same meaning as defined in the Listing Rules;

"Company" means Karoon Gas Australia Ltd (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 Plan;

"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 Plan;

“Option Plan” means the “2009 Karoon Gas Australia Ltd 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 Plan 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 Directors) by the Option Plan;

“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;

“Shareholder” means a person registered as the holder of a Share;

“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 OPTION PLAN

- 2.1 This Option Plan replaces the 2006 Employee Share Option Plan. The Directors hereby re-establish the Option Plan in accordance with these Rules.
- 2.2 The Option Plan shall be known as the “2009 Karoon Gas Australia Ltd Employee Share Option Plan”.
- 2.3 These Rules do not vary the terms of any Options issued under the 2006 Employee Share Option Plan. An Option issued under the 2006 Employee Share Option Plan shall be interpreted according to the terms and conditions of the 2006 Employee Share Option Plan.

3. OBJECT

The object of the Option Plan 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. The Option Plan is an effective means of rewarding past contributions and providing an incentive for future performance.

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 Plan and, from amongst those Eligible Persons, who will participate in the Option Plan.
- 4.2 The Directors shall determine in their absolute discretion the extent of participation by Eligible Persons in the Option Plan and the terms and conditions of any Offer. Following such determination the Company may by notice in writing (specifying an Acceptance Date) offer to grant Options to such Eligible Persons.

- 4.3 The Directors retain the right to amend or suspend the Option Plan, at any time, on the occurrence of an Accounting Event.
- 4.4 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; and
 - (d) any performance hurdles or other conditions whatsoever to the exercise of the Options.
- 4.5 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).
- 4.6 A Participant may only accept an Offer by delivering the duly completed Application Form to the Company at its registered office before 5:00 pm AEST on the Acceptance Date.
- 4.7 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.
- 4.8 A Participant may accept an Offer in his or her name, or in that of a nominated Associate.
- 4.9 Following receipt by the Company of the completed Application Form the Company shall grant the Options and issue an Option certificate for such Options.

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 on a date determined by the Directors but 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 or an Associated Company;
 - (e) not be transferable, except with the written consent of the Directors or 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 4.5 are not satisfied.

6. PRICE

The issue of an Option shall be granted for no consideration.

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 of any pro-rata issue of shares to Shareholders, in accordance with the Listing Rules. 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 (i.e. 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 (i.e. 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

If, prior to the Expiry Date of an Option, there is a reorganisation of the issued capital of the Company, the rights of a Holder will be changed to the extent necessary to comply with the applicable Listing Rule in force at the time of reorganisation.

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:
 - (i) a Participant, he or she ceases employment with the Company or an Associated Company for any reason; or
 - (ii) a nominated Associate of a Participant, that Participant ceases employment with the Company or an Associated Company for any reason,
 - (b) 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;
 - (c) 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
 - (d) 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 or her 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 AEST on the Expiry Date or 5.00 pm AEST 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.
- 10.3 Any Shares issued upon the exercise of an Option may not, while a Participant remains an employee of the Company, be traded, during any trading restriction period or black-out period advised by the Directors to Participants or as included in any policy adopted by the Company from time to time without, in each case, the prior consent in writing of the Directors.

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 Plan shall be administered by the Directors who shall have the power to:

- (a) determine appropriate procedures for the administration of the Option Plan consistent with the Rules;
- (b) resolve conclusively all questions of fact or interpretation in connection with the Option Plan;
- (c) recommend for approval by the Company’s Shareholders any amendments or additions to the terms and conditions of the Option Plan; and
- (d) delegate to a committee of 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 Plan, including this Rule 13.

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

13.3 The Directors will, at least every 3 years from the date of the Option Plan, submit the Option Plan 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 the 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.

ANNEXURE "B"

TERMS AND CONDITIONS OF THE OPTIONS PROPOSED TO BE GRANTED TO MR GEOFF ATKINS & MR STEPHEN POWER

1. Each Option entitles the holder to subscribe for and be allotted one fully paid ordinary share ("**Share**") in the Company.
2. The Options cannot be exercised until the date which is three years after the date of issue ("**Exercise Date**") except in the circumstances set out in paragraph 7 below.
3. The exercise price of the Options is \$14.07 per Share ("**Exercise Price**").
4. The Options will lapse at 5.00pm (Australian Eastern Standard Time) four years from the date the Options are granted ("**Expiry Date**").
5. Any Options which have not been exercised on or before 5.00pm (Australian Eastern Standard Time) on the Expiry Date lapse automatically.
6. The Options are transferable after the Exercise Date although no application will be made to the ASX for Official Quotation of the Options.
7. Options may be exercised or transferred prior to the Exercise Date in the event of a takeover bid for the Company being made pursuant to Chapter 6 of the Corporations Act or in the event of a scheme of arrangement under Part 5.1 of the Corporations Act being proposed by the Company.
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 Shares to the Shareholders 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 Listing Rules in force at the time of the reorganisation.

ANNEXURE "C"

TERMS AND CONDITIONS OF THE OPTIONS PROPOSED TO BE GRANTED TO MR TIMOTHY HOSKING AND MR SCOTT HOSKING (each "Employee")

1. The exercise price of Options is \$14.07 per Share ("**Exercise Price**").
2. The Options will lapse at 5.00pm (Australian Eastern Standard Time) three years from the date the Options are granted ("**Expiry Date**").
3. If the Employee ceases to be employed by the Company or any of its related bodies corporate (as that term is defined in the Corporations Act) for any reason, any unexercised Options will lapse on the day the Employee ceases to be employed.
4. If the Employee dies or becomes incapacitated, any unexercised Options will lapse unless exercised by the Employee's personal representative within 3 months of the Employee's death.
5. If a Takeover Offer is made for the Company the Employee will be afforded the opportunity to exercise all of the Employee's Options.
6. Generally, as set out in the rules of the ESOP which is available upon request.

