



KAROON GAS AUSTRALIA LTD
(ACN 107 001 338)

NOTICE OF ANNUAL GENERAL MEETING
and
EXPLANATORY MEMORANDUM

Date of Meeting: 25 October 2012

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

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

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

KAROON GAS AUSTRALIA LTD ACN 107 001 338**NOTICE OF ANNUAL GENERAL MEETING**

Notice is given that an Annual General Meeting of shareholders of Karoon Gas Australia Ltd ACN 107 001 338 (**Company**) will be held at 11.00am EDT on 25 October 2012 at River Rooms 2 & 3 at Crown Towers, Level 1, 8 Whiteman Street, Southbank, VIC 3006.

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

AGENDA**1. FINANCIAL REPORTS**

To receive and consider the financial report of the Company for the year ended 30 June 2012, together with the directors' report and the auditor's report in accordance with the Corporations Act.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

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

"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report for the year ended 30 June 2012, as contained within the directors' report, be adopted."

Note

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

3. RESOLUTION 2 – RE-ELECTION OF 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 – RE-ELECTION OF MARK SMITH AS A DIRECTOR

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

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

5. RESOLUTION 4 - EMPLOYEE SHARE OPTION PLAN

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

"That the Company approve for all purposes, including Listing Rule 7.2 Exception 9, the Employee Share Option Plan 2012 as described in the Explanatory Memorandum accompanying this Notice of Meeting and the issue of securities under the Employee Share Option Plan 2012."

6. RESOLUTION 5 - PERFORMANCE RIGHTS PLAN

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

"That the Company approve for all purposes, including Listing Rule 7.2 Exception 9, the Performance Rights Plan 2012 as described in the Explanatory Memorandum accompanying this Notice of Meeting and the issue of securities under the Performance Rights Plan 2012."

7. RESOLUTION 6 – RATIFICATION OF PAYMENTS TO NON-EXECUTIVE DIRECTORS

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

"The Shareholders ratify the payment to Non-Executive Directors of the Company of the amount of \$510,215 during the financial year ended 30 June 2012."

8. RESOLUTION 7 – CONFIRMATION OF AGGREGATE FEE POOL FOR NON-EXECUTIVE DIRECTORS

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

"That Shareholders approve for all purposes, including Listing Rule 10.17, that the maximum aggregate amount payable to Directors of the Company for services as Non-Executive Directors is \$900,000, to be used to remunerate them for their services to the Company and its subsidiaries."

9. RESOLUTION 8 - APPROVAL TO ISSUE OPTIONS TO A NON EXECUTIVE DIRECTOR - MR JOSE COUTINHO BARBOSA

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

"Conditional on the passing of resolution 4, that the Company approve for all purposes, including Listing Rule 10.11 and Chapter 2E of the Corporations Act, the issue to Mr Jose Coutinho Barbosa, or his nominee, of 200,000 options to acquire Shares, at an exercise price of \$6.85 each and otherwise on the terms and conditions set out in the Explanatory Memorandum."

It is the intended that vesting of each of the Options is subject to the achievement by the Company of the relative Total Shareholder Return target as set out in the explanatory memorandum.

10. RESOLUTION 9 – APPROVAL TO ISSUE 2012 ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR SCOTT HOSKING

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

"Conditional on the passing of resolutions 4 and 5, that the Company approve for all purposes, including Listing Rule 10.11 and Chapter 2E of the Corporations Act, the issue to Mr Scott Hosking or his nominee of:

a) 102,041 2012 ESOP Options at an exercise price of \$6.85 each; and

b) 22,124 Performance Rights,

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

It is intended that vesting of each of the 2012 ESOP Options and the Performance Rights is subject to the achievement by the Company of the relative Total Shareholder Return targets, company wide operational objectives and achievement by Mr Hosking of personal performance targets as set out in the explanatory memorandum.

11. RESOLUTION 10 – APPROVAL TO ISSUE 2012 ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR TIM HOSKING

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

“Conditional on the passing of resolutions 4 and 5, that the Company approve for all purposes, including Listing Rule 10.11 and Chapter 2E of the Corporations Act the issue to Mr Tim Hosking or his nominee of:

- a) 100,000 2012 ESOP Options at an exercise price of \$6.85 each; and*
- b) 22,124 Performance Rights,*

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

It is intended that vesting of each of the 2012 ESOP Options and the Performance Rights is subject to the achievement by the Company of the relative Total Shareholder Return targets, company-wide operational objectives and achievement by Mr Hosking of personal performance targets as set out in the explanatory memorandum.

OTHER BUSINESS

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

REQUIRED MAJORITIES

Resolutions 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 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: 12 September 2012

BY ORDER OF THE BOARD



Scott Hosking

Company Secretary

How to Vote

Voting entitlements

In accordance with regulation 7.11.38 of the Corporations Regulations, the Company determines that fully paid ordinary shares held as at 7.00pm (EDT) on 23 October 2012 will be taken, for the purposes of the Annual General Meeting, to be held by the persons who held them at that time.

Appointing a proxy

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

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

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

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

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

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

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

Notes:

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

"Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, Downloadable Forms.

6. If you need any further information about this form or attendance at the Annual General Meeting please contact the Share Registrar - Computershare Investors Services Pty Limited on (within Australia) 1300 850 505 (outside Australia) +61 3 9415 4000.

Voting restrictions that may affect your proxy

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

- Resolution 4 (Employee Share Option Plan 2012);
- Resolution 5 (Performance Rights Plan 2012);
- Resolution 6 (Ratification of Payments to Non-Executive Directors);
- Resolution 7 (Confirmation of Aggregate Fee Pool for Non-Executive Directors);
- Resolution 8 (Approval to issue Options to Mr Jose Coutinho Barbosa);

How the Chairman of the meeting will vote proxies

The Company notes that, if the Chairman is appointed as proxy for any Shareholder, the Chairman will vote the proxy in the manner specified by the Shareholder in that proxy. The Chairman will vote undirected proxies on, and in favour of, all of the proposed resolutions, except that in respect of resolutions 4, 5, 6, 7, and 8, where the Chairman will only vote undirected proxies on, and in favour of, those resolutions expressly authorised by the shareholder having marked the box in the second section of step 1 on the Proxy Form.

KAROON GAS AUSTRALIA LTD

ACN 107 001 338

EXPLANATORY MEMORANDUM TO SHAREHOLDERS

1. INTRODUCTION

This Explanatory Memorandum has been prepared for the information of shareholders (**Shareholders**) of Karoon Gas Australia Ltd (**Company**) in connection with the business to be transacted at the Annual General Meeting of the Company to be held at River Rooms 2 & 3 at Crown Towers, Level 1, 8 Whiteman Street, Southbank, VIC 3006 on 25 October 2012 at 11.00am EDT (registration from 10.00am EDT) (**Annual General Meeting**).

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

1. adopt the Remuneration Report;
2. re-elect Mr Stephen Power as a Director of the Company;
3. re-elect Mr Mark Smith as a Director of the Company;
4. approve the Employee Share Option Plan 2012 and issues of securities under it;
5. approve the Performance Rights Plan 2012 and issues of securities under it;
6. ratify the payment of remuneration to non-executive directors of the Company during the financial year ended 30 June 2012;
7. confirm the aggregate non-executive director fee pool;
8. approve the issue of Options to Non-Executive Director Jose Coutinho Barbosa or his nominee;
9. approve the issue of options under Employee Share Option Plan 2012 and performance rights under the Performance Rights Plan 2012 to Mr Scott Hosking or his nominee; and
10. approve the issue of options under Employee Share Option Plan 2012 and performance rights under the Performance Rights Plan 2012 to Mr Tim Hosking or his nominee.

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

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

2. ACTION TO BE TAKEN BY SHAREHOLDERS

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

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 report, director's report and auditor's report for the year ended 30 June 2012 to be laid before the Annual General Meeting. The financial report, the directors' report and the auditor's report are contained in the Company's 2012 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 of the Company when this item is being considered. In accordance with the Corporations Act, Shareholders will be given an opportunity to ask questions about and make comments on the management of the Company. The Company's external auditor will also be present at the meeting and Shareholders will have an opportunity to ask the external auditor questions in relation to the conduct of the audit, the auditor's report and the independence of the auditor. Shareholders may submit a written question to the auditor if the question is relevant to the content of the auditor's report or the audit of the annual financial report. If you wish to do so you must submit any such written question by 18 October 2012.

4. RESOLUTION 1 - ADOPTION OF REMUNERATION REPORT

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

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

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

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

The Remuneration Report may be found within the directors' report in the 2012 Annual Report.

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

Voting exclusion statement with regard to resolution 1

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

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

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

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

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

Resolution 2 seeks Shareholder approval for the Company to re-elect 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 a commercial lawyer who has spent over 25 years providing advice to participants in the resources industry in Australia and overseas. Stephen was previously a partner in a boutique law firm that provided commercial advice to a predominantly listed client base. Stephen has extensive experience in all facets of commercial and resources law, including the oil and gas sector, both in an Australian and international context including farm-in arrangements, joint ventures, production agreements and other facets of resources related commercial transactions as well as capital raisings and the planning and implementation of mergers and acquisitions.

Current directorships of other listed companies held by Mr Power include Antipa Minerals Limited, of which he has been a director since 1 November 2010.

Other than Mr Power, the Board unanimously supports the re-election of Mr Power. Mr Power makes no recommendation.

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

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

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 Smith was appointed to the Board on 20 November 2003. Mr Smith has more than 30 years experience as a geologist and exploration manager in petroleum exploration and development in Australia, South East Asia and North America. The bulk of this experience was gained while working with BHP Petroleum. Mark has been directly involved with 11 economic oil and gas discoveries.

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

Other than Mr Smith the Board unanimously supports the re-election of Mr Smith. Mr Smith makes no recommendation.

7. RESOLUTION 4 - APPROVAL OF THE EMPLOYEE SHARE OPTION PLAN 2012 AND ISSUES OF SECURITIES UNDER IT

The Company currently has one employee share option plan, the 2009 Karoon Gas Australia Employee Share Option Plan, which was approved by shareholders at the 2009 Annual General Meeting.

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 ASX Listing Rule 7.2, the Company now submits a new ESOP, the Employee Share Option Plan 2012 (**2012 ESOP**) to shareholders of the Company to approve its operation and the issue of securities from time to time under it, as an exception to ASX Listing Rule 7.1. The Directors

have taken the opportunity to review the ESOP rules and have prepared the 2012 ESOP taking into account the current operations, changes to government legislation, industry market practice and size of the Company.

The purpose of the proposed 2012 ESOP is to:

- attract and retain quality Eligible Employees;
- motivate the performance of Eligible Employees by providing an incentive for long term performance by enabling them to share in any Company growth creation and encouraging them to improve the longer term performance of the Company and, in turn, its returns to shareholders;
- advance the interests of all shareholders by motivating and incentivising the Eligible Employees;
- provide a mechanism for Eligible Employees to share the rewards of the success of the Company through the issuance of unlisted options; and
- facilitate capital management by enabling the Company to preserve cash reserves for expenditure on principal activities.

Issues under the 2012 ESOP will provide unlisted options to Eligible Employees with the intent of rewarding long-term performance and superior shareholder returns. Under the 2012 ESOP, Eligible Employees may be granted options that only vest if the Company-wide performance measures are achieved and the Eligible Employee remains employed by the Company.

Participation in the 2012 ESOP is at the discretion of the Board (on the recommendation of the Remuneration Committee and senior executives) and no Eligible Employee has a contractual right to receive an option under the 2012 ESOP.

Grant of options

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

ASX Listing Rule 7.2 contains a number of exceptions to the 15% limit in Listing Rule 7.1, allowing certain issues or agreements to issue equity securities to be excluded from the 15% limit. One exception is an issue or an agreement to issue equity securities which have been approved by shareholders under an employee share plan (exception 9(b)). The exception applies for such issues which are made within 3 years from the date of approval of the issues of options under the 2012 ESOP by shareholders. At the end of the 3 year period, shareholder approval for the 2012 ESOP must be obtained again for any subsequent grants of 2012 ESOP Options to fall within ASX Listing Rule 7.2 exception 9(b).

The 2012 ESOP is an employee share plan of the type contemplated by exception 9(b) of ASX Listing Rule 7.2. The options which Eligible Employees will receive under the ESOP are options to subscribe for ordinary shares. These options are "equity securities" for the purposes of the ASX Listing Rules. For the purpose of this Notice of Meeting, these options are referred to as 2012 ESOP Options.

Accordingly, the Board is seeking Shareholder approval for the 2012 ESOP and the issue by the Company of 2012 ESOP Options under the 2012 ESOP (and the subsequent consequential issues of ordinary shares in the Company if vesting conditions are satisfied such that the holder of the 2012 ESOP Option may exercise the 2012 ESOP Option and subscribe for ordinary shares) as an exception to ASX Listing Rule 7.1 15% limit.

Subject to satisfaction of the relevant vesting conditions attached to the Options, each 2012 ESOP Option will give the holders the right to subscribe for one ordinary share, subject to any adjustment in accordance with the 2012 ESOP, which the Company will issue in due course.

The quantum of 2012 ESOP Options issued to an Eligible Employee will be based on the pre-determined percentage of total salary that is allocated to the long term incentive divided by the Company's share price in the period leading up to the first day of the performance period, normally 1 July annually. The portion of total salary to be allocated to the long term incentives will be determined at the commencement of the performance period.

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

Summary of the terms of 2012 ESOP

A summary of the main terms and conditions of the 2012 ESOP is set out in Annexure "A". A copy of the 2012 ESOP is attached as Annexure "B".

Number of securities previously issued under the scheme

No securities have been previously issued under the 2012 ESOP, however, there are currently 5,495,000 options outstanding as part of the 2009 Employee Share Option Plan. These options have exercise prices ranging from \$7.30 up to \$14.07.

Board recommendation

The Directors of the Company make no recommendation in relation to resolution 4 on the basis that the 2012 ESOP allows for options to be granted to Directors and consequently the resolution relates to Directors' remuneration.

8. RESOLUTION 5 – APPROVAL OF THE 2012 PERFORMANCE RIGHTS PLAN AND ISSUES OF SECURITIES UNDER IT

The 2012 ESOP provides for long term incentives for the Eligible Employees as described above. The Company has considered the value of short term incentives being issued to the Eligible Employees and now submits a Performance Rights Plan (**2012 PRP**) to shareholders of the Company to approve its operation and the issue of securities from time to time under the 2012 PRP, as an exception to ASX Listing Rule 7.1.

The 2012 PRP will provide flexibility to the Company's remuneration arrangements and create a mutual interdependence between Eligible Employees and the Company for the long term benefit of both parties. The Directors have prepared the 2012 PRP taking into account the current operations, changes to government legislation, industry market practice and size of the Company.

Eligible Employees will have the opportunity to earn an annual short-term incentive, provided personal performance and Company-wide measures are achieved. Under the 2012 PRP, Eligible Employees will be given rights (**Performance Rights**) to be issued and allotted ordinary shares, to be issued as fully paid for nil consideration, provided that certain performance conditions have been met.

The purpose of the proposed 2012 PRP is to:

- attract and retain quality Eligible Employees;
- motivate Eligible Employees by enabling them to share in any Company growth creation and improve the performance of the Company and, in turn, returns to Shareholders;
- advance the interests of all Shareholders by motivating the Eligible Employees;

- provide a mechanism for Eligible Employees to share the rewards of the success of the Company through the issuance of options; and
- facilitate capital management by enabling the Company to preserve cash reserves for expenditure on principal activities.

The issue of Performance Rights rather than cash is considered appropriate by the Company because the Company is still in the exploration and evaluation phase of activities and is not currently generating earnings and/or sales revenue, from which to pay bonuses.

Vesting of Performance Rights is conditional on the achievement of the following performance measures, over the relevant one year performance period, and provided the employee remains employed by the Company for an additional year:

- personal performance as assessed during the annual performance review period. The Group conducts annual performance reviews, measured against an individual's job description and role within the Group as assessed by senior management and the Remuneration Committee where appropriate (weighting 50% p.a.); and
- Company-wide operational objectives, as reviewed annually by the Remuneration Committee through a review of the Company's operational work plans for the upcoming financial year and assessing the relevant individual's involvement. For example, during the financial year ending 30 June 2013 the predominant work plan involves the commencement of drilling programmes in two countries. Operational success could be measured by successful target selection, adherence to time and cost budgeting, compliant health, safety and environment record and efficient operations (weighting 50% p.a.).

The quantum of Performance Rights will be based on the pre-determined percentage of total salary that is allocated to the short term incentive divided by the Company's share price in the period leading up to the first day of the performance period, normally 1 July annually. The portion of total salary to be allocated to the short term incentives will be determined at the commencement of the performance period.

Performance Rights vesting is based on a one year performance period followed by a one year retention period, after such time each Right can be converted to one fully paid ordinary share of the Company. In each case, the Remuneration Committee will be responsible for assessing whether the performance measures have been achieved.

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

ASX Listing Rule 7.2 contains a number of exceptions to the 15% limit in Listing Rule 7.1, allowing certain issues or agreements to issue equity securities to be excluded from the 15% limit. One exception is an issue or an agreement to issue equity securities which have been approved by shareholders under an employee share plan (exception 9(b)). The exception applies for such issues which are made within 3 years from the date of approval of issues of Performance Rights under the 2012 PRP by Shareholders. At the end of the 3 year period, shareholder approval for the 2012 PRP must be obtained again for any subsequent issues of Performance Rights to fall within ASX Listing Rule 7.2 exception 9(b).

The 2012 PRP is an employee share plan of the type contemplated by exception 9(b) of ASX Listing Rule 7.2.

Accordingly, the Board is seeking Shareholder approval of the 2012 PRP and the issue by the Company of Performance Rights under the 2012 PRP (and the subsequent consequential issues of ordinary shares in the Company if vesting conditions are satisfied such that the holder of the Right may exercise the Right and subscribe for ordinary shares) as an exception to ASX Listing Rule 7.1 15% limit.

Subject to satisfaction of the relevant vesting conditions attached to the Performance Rights, each Right will give the holder the right to subscribe for one ordinary share, subject to any adjustment in accordance with the 2012 PRP, which the Company will issue in due course.

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

Summary of the terms of the 2012 PRP

A summary of the main terms and conditions of the 2012 PRP as set out in Annexure "C". A copy of the 2012 PRP is attached as Annexure "D".

Number of securities previously issued under the scheme

No securities have been previously issued under the 2012 PRP.

Board recommendation

The Directors of the Company make no recommendation in relation to resolution 5 on the basis that the Performance Rights Plan 2012 allows for Performance Rights to be granted to Directors and consequently the resolution relates to Directors' remuneration.

9. RESOLUTION 6 - RATIFY THE PAYMENT OF REMUNERATION TO NON-EXECUTIVE DIRECTORS OF THE COMPANY DURING THE FINANCIAL YEAR ENDED 30 JUNE 2012

At the 2010 Annual General Meeting of the Company, the Shareholders approved an increase in the maximum aggregate amount that may be paid to Directors of the Company in fees for services as Non-Executive Directors from \$200,000 to \$900,000 for any financial year.

In the Explanatory Memorandum to Shareholders for the 2010 Annual General Meeting (**2010 Explanatory Memorandum**) the Company outlined the requirement for the aggregate amount to increase. One reason for the increase was the expected remuneration to the Directors for their services as Non-Executive Directors of Karoon Brazil. Two fee pools were contemplated within the maximum aggregate amount, with up to \$400,000 to be paid by the Company and \$500,000 to be paid by Karoon Brazil.

As the initial public offering of Karoon Brazil did not proceed, the Non-Executive Directors of the Company did not provide services to Karoon Brazil, and Karoon Brazil did not make any payments to the Non-Executive Directors. However, in 2010 the additional responsibility of acting on the Audit Committee was required of the Non-Executive Directors of the Company. During 2011 Non-Executive Directors of the Company were also required to act on the Remuneration Committee of the Company, in addition, Mr Jose Coutinho Barbosa was appointed as an additional Non-Executive Director. The Non-Executive Directors received remuneration for the additional responsibilities and Mr Barbosa was remunerated in line with the other Non-Executive Directors. An aggregate \$510,215 was paid to Non-Executive Directors of the Company for services to the Company during the financial year ended 30 June 2012. While the amount was below the \$900,000 aggregate amount approved, it is above the \$400,000 that was anticipated by the Company in 2010 to be paid to the Non-Executive Directors of the Company for services to the Company.

The Company requests that the Shareholders ratify the payments to the Non-Executive Directors of the Company made during the financial year ended 30 June 2012.

10. RESOLUTION 7 - CONFIRM THE AGGREGATE NON-EXECUTIVE DIRECTOR FEE POOL

As described above, at the 2010 Annual General Meeting of the Company, the Shareholders approved an increase in the maximum aggregate amount that may be paid to Directors of the Company in fees for services as Non-Executive Directors from \$200,000 to \$900,000 for any financial year.

In the 2010 Explanatory Memorandum the Company contemplated two fee pools within this maximum aggregate amount, one for services to the Company, and one for services to Karoon Brazil. As the initial public offering of Karoon Brazil did not proceed, this is no longer an appropriate characterisation of the remuneration for services provided by the Non-Executive Directors.

Since 2010 the Non-Executive Directors of the Company have undertaken additional responsibilities in serving on the Audit Committee and the Remuneration Committee, and Mr. Jose Coutinho Barbosa was appointed as an additional Non-Executive Director during 2011. The Company reviews the composition of the Board on an ongoing basis having regard to the growth of the Company's business and has a view to appointing a majority of Independent Directors in the future. The Company will require a total aggregate Non-Executive Director Fee Pool that allows for this. The amount of compensation that the Company provides its current Non-Executive Directors is set out in the Remuneration Report.

In order to clarify the approval of the aggregate Non-Executive Director Fee Pool the Company requests that the Shareholders confirm that the maximum aggregate amount that may be paid to Directors of the Company in fees for services as Non-Executive Directors is \$900,000, to be used to remunerate the Non-Executive Directors for services to the Company and its subsidiaries.

11. RESOLUTION 8 - APPROVAL TO ISSUE OPTIONS TO MR JOSE COUTINHO BARBOSA

Resolution 8 seeks Shareholder approval for the Company to grant a total of 200,000 Options to Mr Barbosa, Non-Executive Director, or his nominee.

Director Remuneration

The Company has carefully considered the issue of options to Mr Barbosa. While the Company acknowledges the ASX Corporate Governance Guidelines regarding appropriate practice for non-executive director remuneration suggests that it is not ordinarily appropriate for non-executive directors to receive options, the Company considers this proposed issue of options to Mr Barbosa is essential to remain competitive in order to retain a non-executive director of this quality in light of the current climate of director remuneration in Brazil. Issues that have been considered are as follows:

- this issue of Options is intended to be on the same terms and conditions that apply to issue of Options to Eligible Employees under the 2012 ESOP;
- this issue of Options to Mr Barbosa is structured in a way that creates alignment of interests between the Board and Shareholders through the use of a Company-wide performance hurdle and resulting sliding scale vesting;
- 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 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 market capitalisation of the Company and the scope and value of its activities;
- the Company's geographical footprint into international activities, including South America;
- the size and level of the day to day operations of the Company;
- the complexity and importance of the strategic decisions facing the Company, particularly in South America;
- the level of responsibility attaching to the office of a Director; and

- the exercise price of the Options will be \$6.85. This exercise price is calculated by adding a premium of 51.5% to the volume weighted average sale price (**VWAP**) of the Company's shares traded on the ASX in the 3 month period preceding 1 August 2012 (**Determination Date**) as described below. Pricing the Options at a premium to the weighted average market price, and the provision of a three year vesting period provides for as incentive that rewards relative long term performance rather than short term gains.

The Company also considered the level of remuneration and options to be issued taking into account various issues which, in the Company's opinion, result in a high level of responsibility, involve a competitive market for highly qualified directors and involve commensurate risk being attached to the position of a director of the Company.

As set out in more detail in the 2012 Annual Report, the Company aims to align the interests of its Directors and employees with the shareholder's interests. Vesting of the proposed Options will only occur if Company-wide performance measures are achieved over a three year vesting period. Vesting of the options will be subject to the Company's total shareholder return exceeding the total shareholder return of companies in the S&P ASX 200 Energy Index. Vesting will occur in proportion to the Company's performance measures, as follows:

TSR Rank	Proportion of Unlisted Options to Vest
Less than 50 th percentile	0%
At 50 th percentile	50%
Between 50 th and 75 th percentile	50% plus 2% for each additional percentile ranking above 50 th percentile
At or above 75 th percentile	100%

The terms of the Options being issued to Mr Barbosa are the same as the terms and conditions of the 2012 ESOP Options set out in Annexure "E" to this Explanatory Memorandum.

Jose Coutinho Barbosa

Mr Barbosa was appointed by the Board as a Director of the Company on 31 August 2011. Mr Barbosa graduated with a bachelors degree in Geology from the Ouro Preto School of Mines (State of Minas Gerais, Brazil) in 1964, and with a Master's Degree in Geophysics in 1967.

Mr Barbosa joined Petrobras as Geophysicist in 1965, and has held several technical and management positions with Petrobras throughout his 38 year career there. He has been Acting President and CEO of Petrobras, the Holding Company, as well as the Managing Director for Exploration and Production of Petrobras, Executive Vice-President and CEO of Petrobras Internacional S.A BRASPETRO, headquartered in Rio de Janeiro and president and CEO of Petrobras America, Inc., BRASPETRO's Subsidiary in Houston, Texas, USA, as from the Company's incorporation.

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

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

Appropriate remuneration

In light of the above, the Company believes that the issue of Options, the subject of resolution 8, to Mr Barbosa enables the Company to reward Mr Barbosa appropriately, while 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 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 directors of a company; and

- Listing Rule 10.11, which requires the grant of securities to a related party of a company to be approved by shareholders.

The Options are being granted for no consideration. Consequently, no funds will be raised as a result of the grant of the Options to Mr Barbosa. A total of \$1,370,000 in gross Share proceeds would be raised if all of the Options granted to him were exercised in full by Mr Barbosa (assuming the achievement by the Company of the Total Shareholder Return). The number of Options being issued to Mr Barbosa is considered reasonable in regard to his responsibilities and 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 Barbosa, or his nominee involves the provision of a financial benefit to a related party of the Company. Even though the proposed grant of Options to Mr Barbosa is considered reasonable having regard to both the Company's and Mr Barbosa's circumstances, for the purposes of corporate governance the Company seeks Shareholders' approval for the grant.

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:

1. being a Director of the Company, Mr Barbosa is a related party of the Company to whom a financial benefit would be given by virtue of section 228(2) of the Corporations Act;
2. the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure "E" to this Explanatory Memorandum;
3. the Directors of the Company make no recommendation in relation to resolution 8 on the basis that the resolution relates to a Director's remuneration;
4. the Options are issued as remuneration. 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;
5. the exercise price and exercise date for these Options are set out in Annexure "E" to this Explanatory Memorandum;
6. based on a Binomial option pricing model, the Company estimates that each Option the subject of resolution 8, has a value of \$0.98 as at 1 August 2012 as detailed in the table below:

This estimate is based on the following assumptions	
Exercise Price	\$6.85
VWAP for the 90 days ending 1 August 2012	\$4.52
Time to expiration of Option	48 months
Volatility	51.58
Risk free interest rate	3.52%
Annualised dividend yield	Nil
Total value for Options proposed to be issued	\$196,000

7. 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 \$2.60 on 26 September 2011 and the highest was \$6.85 on 27 March 2012. At the close of trading on 1 August 2012 the Share price was \$3.76;
8. following the passing of resolution 8 and the issue of the Options the subject of that resolution, Mr Barbosa will hold an interest in no Shares and 500,000 Options;
9. as a Non-Executive Director Mr Barbosa will receive a base salary of \$100,000 in 2012;
10. the Company has 221,420,769 Shares and 11,645,000 Options on issue. Assuming that each of the resolutions 4, 5, 8, 9 and 10 outlined in the Notice of Meeting are approved, and the Company achieves a specified total shareholder return and that Mr Barbosa exercises all of the Options which are proposed to be granted to him pursuant to resolution 8, Mr Barbosa's interest including all the Shares and Options currently held will represent approximately 0.21% of the Company's diluted capital; and
11. 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 Rule 10.13:

- (a) the name of the person who will be issued Options is Mr Jose Coutinho Barbosa or his nominee;
- (b) Mr Barbosa will be issued 200,000 Options at an exercise price of \$6.85;
- (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 2012 ESOP Options; and
- (e) the terms of the Options being issued to Mr Barbosa are as set out in Annexure "E" to this Explanatory Memorandum.

Voting exclusion statement with regard to resolutions 4, 5, 6, 7 and 8

In respect of resolutions 4, 5, 6, 7 and 8 the Company will disregard any votes cast on the resolution:

- by any Director of the Company or any of their associates; or
- as a proxy by a member of the KMP or a KMP's closely related party.

However, the Company need not disregard any vote by any such person excluded from voting on resolution 4, 5, 6, 7 and 8 if:

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

12. RESOLUTION 9 - APPROVAL TO ISSUE 2012 ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR SCOTT HOSKING

Resolution 9 seeks Shareholder approval for the Company to grant 102,041 2012 ESOP Options and 22,124 Performance Rights to Mr Scott Hosking or his nominee pursuant to the 2012 ESOP and the 2012 PRP. The grant of 2012 ESOP Options and Performance Rights to Mr Scott Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Scott Hosking is the son of Mr Robert Hosking.

As set out in more detail in the 2012 Annual Report, the Company aims to align the interests of its Directors and employees with the shareholder's interests. The vesting of the 2012 ESOP Options that will be granted if this resolution 9 is approved is linked to the performance of the Company. Vesting of the 2012 ESOP Options will only occur if Company-wide performance measures are achieved over a three year vesting period. Vesting of the options will be subject to the Company's total shareholder return exceeding the total shareholder return of companies in the S&P ASX 200 Energy Index. Vesting will occur in proportion to the Company's performance measures, as follows:

TSR Rank	Proportion of Unlisted Options to Vest
Less than 50 th percentile	0%
At 50 th percentile	50%
Between 50 th and 75 th percentile	50% plus 2% for each additional percentile ranking above 50 th percentile
At or above 75 th percentile	100%

The terms of the 2012 ESOP Options being issued to Mr Scott Hosking are set out in Annexure "E" to this Explanatory Memorandum.

Vesting of the Performance Rights that will be granted if this resolution 9 is approved is conditional on the achievement of performance measures, over the relevant one year performance period, and is subject to the employee remaining employed by the Company for a one year period following achievement of those performance measures. Vesting will occur if:

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

The terms of the Performance Rights being issued to Mr Scott Hosking are set out in Annexure "F" to this Explanatory Memorandum.

Scott Hosking

Mr Scott Hosking is the Company's Chief Financial Officer and Company Secretary. The number of 2012 ESOP Options and Performance Rights being issued to Mr Scott Hosking is considered reasonable in regard to his responsibilities and his achievements to date. Mr Hosking has significant involvement in all facets of the business of the company and therefore it is considered reasonable that he should have the performance measures relate to the overall performance of the company both operationally and in terms of its TSR performance against its peers in the ASX S&P 200 Energy Index.

The structure of Mr Scott Hosking's remuneration is derived from the same structure that will be applied to all employees and executives, provided that resolution 4 and 5 are approved.

Provided resolutions 4 and 5 and this resolution are approved the cash and performance based remuneration mix of Mr Scott Hosking, is expected to be as follows, based on valuations below:

	Value	Percentage of total remuneration
Base Remuneration	\$366,477	64%
"At Risk" Remuneration:		
Short Term Incentive (Performance Rights)	\$83,816	18%
Long Term Incentive 2012 ESOP (Options)	\$100,000	18%

Shareholder approval for the grant of these 2012 ESOP Options and Performance Rights the subject of resolution 9 is sought for the purposes of:

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

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

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

The proposed grant of 2012 ESOP Options and Performance Rights to Mr Scott Hosking involves the provision of a financial benefit to a related party of the Company. Even though the proposed grant of 2012 ESOP Options and Performance Rights to Mr Scott Hosking is considered reasonable having regard to both the Company's and Mr Scott Hosking's circumstances, for the purposes of corporate governance the Company seeks Shareholders' approval for the grant.

The 2012 ESOP Options and Performance Rights are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the 2012 ESOP Options or Performance Rights. A total of \$685,000 in gross Share proceeds would be raised if the 2012 ESOP Options were exercised in full. No proceeds would be raised if the Performance Rights 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 2012 ESOP Options and Performance Rights:

1. being a son of Mr Robert Hosking, a Director of the Company, Mr Scott Hosking is a related party of the Company to whom a financial benefit would be given by virtue of section 228(3) of the Corporations Act;
2. the nature of the financial benefit to be given is the grant of 102,041 2012 ESOP Options on the terms set out in Annexure "E" to this Explanatory Memorandum and 22,124 Performance Rights on the terms set out in Annexure "F" to this Explanatory Memorandum;
3. the Directors of the Company make no recommendation in relation to resolution 9 on the basis that the resolution relates to the remuneration of a related party of a Director;
4. the 2012 ESOP Options and Performance Rights will be issued for no consideration. Any funds raised from the exercise of the 2012 ESOP Options will be used for the Company's general working capital requirements;

5. the exercise price and exercise date for these 2012 ESOP Options are set out in Annexure "E" to this Explanatory Memorandum. The exercise date for the Performance Rights is set out in Annexure "F" to this Explanatory Memorandum;
6. based on a Binomial option pricing model, the Company estimates that each of the 2012 ESOP Options the subject of resolution 9, has a value of \$0.98 at 1 August 2012 as detailed in the table below:

This estimate is based on the following assumptions	
Exercise Price	\$6.85
VWAP for the 90 days ending 1 August 2012	\$4.52
Time to expiration of Option	48 months
Volatility	51.58
Risk free interest rate	3.52%
Annualised dividend yield	Nil
Total value for 2012 ESOP Options proposed to be issued	\$100,000

7. based on a Binomial option pricing model, the Company estimates that the total value of all of the 2012 ESOP Options proposed to be issued to Mr Scott Hosking to be \$100,000;
8. the Company estimates that each of the Performance Rights the subject of resolution 9, has a value of \$3.76 at 1 August 2012;
9. the Company estimates that the total value of all of the Performance Rights proposed to be issued to Mr Scott Hosking to be \$83,186;
10. over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$2.60 on 26 September 2011 and the highest was \$6.85 on 27 March 2012. At the close of trading on 1 August 2012 the Share price was \$3.76;
11. following the passing of resolution 9, Mr Scott Hosking will hold an interest in 280,659 Shares and 652,041 Options and 22,124 Performance Rights;
12. Mr Scott Hosking receives a current base salary of \$366,470 per annum;
13. the Company has 221,420,769 Shares and 11,645,000 Options on issue. Assuming that each of the resolutions 4, 5, 8, 9 and 10 outlined in the Notice of Meeting are approved and each of Mr Jose Barbosa, Mr Tim Hosking and Mr Scott Hosking exercises all of the Options and, where applicable, Performance Rights proposed to be granted to him pursuant to these resolutions, Mr Scott Hosking's interest including all the Shares and Options currently held will represent approximately 0.41% of the Company's diluted capital; and
14. neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass resolution 9.

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

- (a) the name of the person who will be issued 2012 ESOP Options and Performance Rights is Mr Scott Hosking or his nominee;
- (b) Mr Scott Hosking or his nominee will be issued 102,041 2012 ESOP Options at an exercise price of \$6.85 each and 22,124 Performance Rights at a nil exercise price;
- (c) the 2012 ESOP Options and Performance Rights will be issued within one month of Shareholder approval;

- (d) Mr Scott Hosking is the son of Mr Robert Hosking, a Director of the Company;
- (e) Mr Scott Hosking is entitled to receive securities under the 2012 ESOP and 2012 PRP and is a related party of a director;
- (f) the 2012 ESOP Options and Performance Rights are being issued for no consideration and therefore no funds will be raised pursuant to the issue of 2012 ESOP Options or Performance Rights; and
- (g) the terms of the 2012 ESOP Options being issued to Mr Scott Hosking are set out in Annexure "E" to this Explanatory Memorandum and the terms of the Performance Rights being issued to Mr Scott Hosking are set out in Annexure "F" to this Explanatory Memorandum.

Voting exclusion statement with regard to resolution 9

In respect of resolution 9, the Company will disregard any votes cast on the resolution:

- by Mr Scott Hosking or an associate of Mr Scott Hosking; or
- as a proxy by a member of the KMP or a KMP's closely related party.

However, the Company need not disregard any vote by any such person excluded from voting on resolution 9 if:

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

13. RESOLUTION 10 - APPROVAL TO ISSUE 2012 ESOP OPTIONS AND PERFORMANCE RIGHTS TO MR TIM HOSKING

Resolution 10 seeks Shareholder approval for the Company to grant 100,000 2012 ESOP Options and 22,124 Performance Rights to Mr Tim Hosking or his nominee pursuant to the 2012 ESOP and the 2012 PRP. The grant of 2012 ESOP Options and Performance Rights to Mr Tim Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Tim Hosking is the son of Mr Robert Hosking.

As set out in more detail in the 2012 Annual Report, the Company aims to align the interests of its Directors and employees with the shareholder's interests. The vesting of the 2012 ESOP Options that will be granted if this resolution 10 is approved is linked to the performance of the Company. Vesting of the 2012 ESOP Options will only occur if Company-wide performance measures are achieved over a three year vesting period. Vesting of the options will be subject to the Company's total shareholder return exceeding the total shareholder return of companies in the S&P ASX 200 Energy Index. Vesting will occur in proportion to the Company's performance measures, as follows:

TSR Rank	Proportion of Unlisted Options to Vest
Less than 50 th percentile	0%
At 50 th percentile	50%
Between 50 th and 75 th percentile	50% plus 2% for each additional percentile ranking above 50 th percentile
At or above 75 th percentile	100%

The terms of the 2012 ESOP Options being issued to Mr Tim Hosking are set out in Annexure "E" to this Explanatory Memorandum.

Vesting of the Performance Rights that will be granted if this resolution 10 is approved is conditional on the achievement of performance measures, over the relevant one year performance period, and is subject to the

employee remaining employed by the Company for a one year period following achievement of those performance measures. Vesting will occur if:

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

The terms of the Performance Rights being issued to Mr Tim Hosking are set out in Annexure "F" to this Explanatory Memorandum.

Tim Hosking

Mr Tim Hosking is the General Manger of Karoon South America. The number of 2012 ESOP Options and Performance Rights being issued to Mr Tim Hosking is considered reasonable in regard to his responsibilities and his achievements to date. In the upcoming period Mr Hosking will be an integral part of the both the drilling campaigns in Brazil and Peru, along with the general navigation of the business environment in these countries.

The structure of Mr Tim Hosking's remuneration is derived from the same structure that will be applied to all employees and executives, provided that resolutions 4 and 5 are approved.

Provided resolutions 4 and 5 and this resolution are approved, the cash and performance based remuneration mix of Mr Tim Hosking, is expected to be as follows, based on valuations below:

	Value	Percentage of total remuneration
Base Remuneration	\$417,491	71%
"At Risk" Remuneration:		
Short Term Incentive (Performance Rights)	\$83,816	13%
Long Term Incentive 2012 ESOP (Options)	\$100,000	16%

As part of the annual remuneration review of all employees, the exercise price of the 2012 ESOP Options was calculated by determining the VWAP of the Company's shares traded on the ASX in the 90 days prior to 1 August 2012, being the date the exercise price was set. A premium of 51.5% of that VWAP amount was then added to reach a final exercise price of \$6.85. This exercise price is the same as all other employees who are eligible to receive options as part of the 2012 remuneration review. There is no exercise price applicable to any of the Performance Rights.

The terms and conditions of these 2012 ESOP Options are set out in Annexure "C" to this Explanatory Memorandum. The terms and conditions of these Performance Rights are set out in Annexure "D" to this Explanatory Memorandum.

Shareholder approval for the grant of the 2012 ESOP Options and Performance Rights the subject of resolution 10 is sought for the purposes of:

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

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

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

The proposed grant of 2012 ESOP Options and Performance Rights to Mr Tim Hosking involves the provision of a financial benefit to a related party of the Company. Even though the proposed grant of 2012 ESOP Options and Performance Rights to Mr Tim Hosking is considered reasonable having regard to both the Company's and Mr Tim Hosking's circumstances, for the purposes of corporate governance the Company seeks Shareholders' approval for the grant.

The 2012 ESOP Options and Performance Rights are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the 2012 ESOP Options or Performance Rights. A total of \$685,000 in gross Share proceeds would be raised if the 2012 ESOP Options were exercised in full. No proceeds would be raised if the Performance Rights 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 2012 ESOP Options and Performance Rights:

1. being a son of Mr Robert Hosking, a Director of the Company, Mr Tim Hosking is a related party of the Company to whom a financial benefit would be given by virtue of section 228(3) of the Corporations Act;
2. the nature of the financial benefit to be given is the grant of 100,000 2012 ESOP Options on the terms set out in Annexure "E" to this Explanatory Memorandum and 22,124 Performance Rights on the terms set out in Annexure "F" to this Explanatory Memorandum;
3. the Directors of the Company make no recommendation in relation to resolution 10 on the basis that the resolution relates to the remuneration of a related party of a Director;
4. the 2012 ESOP Options and Performance Rights will be issued for no consideration. Any funds raised from the exercise of the 2012 ESOP Options will be used for the Company's general working capital requirements;
5. the exercise price and exercise date for the ESOP Options are set out in Annexure "E" to this Explanatory Memorandum. The exercise date for the Performance Rights are set out in Annexure "F" to this Explanatory Memorandum;
6. based on a Binomial option pricing model, the Company estimates that each 2012 ESOP Option the subject of resolution 10, has a value of \$0.98 at 1 August 2012 detailed in the table below:

This estimate is based on the following assumptions	
Exercise Price	\$6.85
VWAP for the 90 days ending 1 August 2012	\$4.52
Time to expiration of Option	48 months
Volatility	51.58
Risk free interest rate	3.52%
Annualised dividend yield	Nil
Total value for 2012 ESOP Options proposed to be issued	\$98,000

7. based on a Binomial option pricing model, the Company estimates that the total value of all of the 2012 ESOP Options proposed to be issued to Mr Tim Hosking to be \$100,000;

8. based on a Binomial option pricing model, the Company estimates that each of the Performance Rights the subject of resolution 10, has a value of \$3.76 at 1 August 2012;
9. based on a Binomial option pricing model, the Company estimates that the total value of all of the Performance Rights proposed to be issued to Mr Tim Hosking to be \$100,000;
10. over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$2.60 on 26 September 2011 and the highest was \$6.85 on 27 March 2012. At the close of trading on 1 August 2012 the Share price was \$3.76;
11. following the passing of resolution 10, Mr Tim Hosking will hold an interest in 240,055 Shares and 550,000 Options and 22,124 Performance Rights;
12. Mr Tim Hosking receives a current base salary of \$442,061 per annum;
13. the Company has 221,420,769 Shares and 11,645,000 Options on issue. Assuming that each of the resolutions 4, 5, 8, 9 and 10 outlined in the Notice of Meeting are approved and each of Mr Jose Coutinho Barbosa, Mr Scott Hosking and Mr Tim Hosking exercises all of the 2012 ESOP Options, and where applicable Performance Rights, proposed to be granted to him pursuant to these resolutions, Mr Tim Hosking's interest including all the Shares and Options currently held will represent approximately 0.35% of the Company's diluted capital; and
14. neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass resolution 10.

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

- (a) the name of the person who will be issued 2012 ESOP Options and Performance Rights is Mr Tim Hosking or his nominee;
- (b) Mr Tim Hosking or his nominee will be issued 100,000 2012 ESOP Options at an exercise price of \$6.85 each and 22,124 Performance Rights at a nil exercise price;
- (c) the 2012 ESOP Options and Performance Rights will be issued within one month of Shareholder approval;
- (d) Mr Tim Hosking is the son of Mr Robert Hosking, a Director of the Company;
- (e) Mr Tim Hosking is entitled to receive securities under the 2012 ESOP and 2012 PRP and is a related parties of a director;
- (f) the 2012 ESOP Options and Performance Rights are being issued for no consideration and therefore no funds will be raised pursuant to the issue of 2012 ESOP Options or Performance Rights; and
- (g) the terms of the 2012 ESOP Options being issued to Mr Tim Hosking are set out in Annexure "E" to this Explanatory Memorandum and the terms of the Performance Rights being issued to Mr Tim Hosking are set out in Annexure "F" to this Explanatory Memorandum.

Voting exclusion statement with regard to resolution 10

In respect of resolution 10, the Company will disregard any votes cast on the resolution:

- by Mr Tim Hosking or an associate of Mr Tim Hosking; or
- as a proxy by a member of the KMP or a KMP's closely related party.

However, the Company need not disregard any vote by any such person excluded from voting on resolution 10 if:

- it is cast by any of them as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

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

14. GLOSSARY

The following terms and abbreviations used in this Explanatory Memorandum have the following meaning:

Annual General Meeting:	Is defined in section 1 of this Explanatory Memorandum.
ASX:	ASX Limited (ACN 008 624 691).
Board:	The Board of Directors of the Company.
Closely Related Party:	Includes a KMP's spouse, dependant and certain other close family members, as well as any companies controlled by the KMP.
Company:	Karoon Gas Australia Ltd (ACN 107 001 338).
Corporations Act:	Corporations Act 2001 (Cth).
Corporations Regulations:	Corporations Regulations 2001 (Cth).
EDT:	Eastern Daylight Time, being the time in Melbourne, Victoria.
2012 ESOP:	Employee Share Option Plan 2012.
2012 ESOP Options:	Options issued under the 2012 ESOP.
2012 PRP:	Performance Rights Plan 2012.
Eligible Employees:	A full-time or part-time employee or director of the Company or any of its subsidiaries.
Listing Rules:	The Official Listing Rules of the ASX, as amended from time to time.
Karoon Brazil	Karoon Petróleo & Gás S.A.
Key Management Personnel or KMP:	Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
Notice of Meeting:	The notice convening the Annual General Meeting which accompanies this Explanatory Memorandum.
Options:	Options to acquire shares in the Company.
Performance Rights:	Rights issued under the 2012 PRP.
Remuneration Committee:	The remuneration committee of the Company.
Remuneration Report:	The Remuneration Report for the year ended 30 June 2012 as contained within the Directors' report and forming part of the 2012 Annual Report.
Shareholders:	Holders of Shares.
Shares:	Fully paid ordinary shares in the capital of the Company.
Total Shareholder Return:	The achievements of the Company set out in Annexure "E" to this Explanatory Memorandum.

ANNEXURE "A"

SUMMARY OF THE TERMS OF THE 2012 ESOP PROPOSED TO BE APPROVED UNDER RESOLUTION 4

Offers

- A. The Company may from time to time during the operation of the 2012 ESOP make an offer in writing to any Eligible Employee specifying:
- the number of options for which the Eligible Employee may subscribe;
 - the period during which the offer may be accepted;
 - the exercise price of the options to be issued;
 - any conditions that will apply before any options issued will vest in the Eligible Employee;
 - the period (if any) that an Eligible Employee must wait before any ordinary shares acquired on the exercise of any option may be disposed of;
 - the date on which the Eligible Employee's right to subscribe for and be issued or transferred ordinary shares will lapse;
 - circumstances in which the Eligible Employee's right to subscribe for and be issued or transferred ordinary shares will lapse; and
 - any other matters required to be specified by the Corporations Act or the ASX Listing Rules.

Eligible Employees

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

Grant of options

- C. 2012 ESOP Options offered to an Eligible Employee will, if the vesting conditions are met, entitle the Eligible Employee to subscribe for and be issued or transferred the relevant number of fully paid ordinary shares to the Eligible Employee for such consideration as determined by the Board at the time of granting the options.

Exercise price

- D. The Board will determine the exercise price in respect of a 2012 ESOP Option at the time of the grant of the option. The exercise price must not be less than a minimum price of $WP \times 1.00$, where WP is the weighted average of the prices at which shares of the Company were traded on the ASX during the period of 5 days up to and including the day upon which the exercise price for that option is to be determined.

Participant

- E. An Eligible Employee who has been granted 2012 ESOP Options will be a participant.

Vesting conditions

- F. Unless otherwise determined by the Board, 2012 ESOP Options will vest on any date after the third anniversary of the grant date, subject to all other vesting conditions being met.

- G. If a participant dies, becomes permanently disabled, is retrenched, reaches the age of retirement or is given a bona fide redundancy or if the Company is in the process of a winding up, and at that time the participant holds a right to subscribe for ordinary shares (which are subject to the satisfaction of any relevant vesting condition), the Board may resolve that all or a specified number of the participant's options vest immediately.

Cessation of employment

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

Death, permanent disability, retirement, retrenchment or redundancy

- I. If a participant dies, becomes permanently disabled, is retrenched, reaches the age of retirement or is given a bona fide redundancy, and at that time the participant holds a right to subscribe for ordinary shares (whether or not subject to satisfaction of any relevant vesting condition), the participant, or in the event of death or legal incapacity, the participant's legal personal representative, retains the options subject to lapsing for any other reason under the 2012 ESOP.

Adjustments and reorganisations

- J. A participant has no right to any variation in the offer price or the number of securities to be granted in an offer of shares upon the occurrence of a new issue of shares or other securities to holders of shares, unless the participant has validly exercised their options in accordance with the 2012 ESOP prior to the record date for the new issue.
- K. In respect of a participant who has accepted an offer of options if there is a bonus issue to the Company's shareholders prior to the time at which the option has been exercised, that participant will be entitled, upon later issue of the relevant ordinary shares, to receive an issue of so many additional shares as would have been issued to a shareholder who, on the record date for determining entitlements under the bonus issue, held ordinary shares equal in number to the shares comprised in the offer of options.
- L. In the event of any reorganisation of the issued capital of the Company other than a bonus issue, the rights of each participant will be changed to the extent necessary to comply with the ASX Listing Rules (where relevant) applying to a reorganisation of capital of a body corporate.

Takeover

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

Termination or suspension

- N. Subject to the Listing Rules, the 2012 ESOP may be amended at any time by a resolution of the Board.

ANNEXURE "B"

2012 ESOP PLAN

Karoon Gas Australia Ltd ACN 107 001 338

Employee Share Option Plan 2012 Rules

Dated / /

Background

- A. The directors of the Company seek to reward past contributions of Eligible Employees and provide an incentive for future performance.
- B. The Plan provides a mechanism for the Company to issue Options to Eligible Employees entitling them to an option to be issued Shares and incentivising them to advance the interests of the Company and its shareholders.

1. Purpose of the Plan

The purpose of the Plan is to:

- 1.1 attract and retain quality Eligible Employees;
- 1.2 motivate Eligible Employees by enabling them to share in any growth in the value of the Company and encouraging them to improve the longer term performance of the Company and its returns to shareholders;
- 1.3 advance the interests of all shareholders by motivating the Eligible Employees and encouraging growth; and
- 1.4 provide a mechanism for Eligible Employees to share the rewards of the success of the Company through the issuance of Options.

2. Commencement and operation of the plan

2.1 Commencement

The Plan will commence operation on the date determined by the Board.

3. Offer of Options

3.1 Board discretion

Subject to these rules, the Board may in its absolute discretion from time to time make Offers to any Eligible Employee on the terms set out in this Plan and subject to any Performance Conditions and any additional conditions the Board determines.

3.2 Form of Offer

The Board will make an Offer on terms which the Board may, in its discretion from time to time, determine. Any Offer will state:

- 3.2.1 the maximum number of Options offered;
- 3.2.2 the period for acceptance of the Offer;
- 3.2.3 any Performance Conditions and any other specific terms and conditions applicable to each Option and to the Offer;
- 3.2.4 the Expiry Date;

3.2.5 the Exercise Price or the manner for determining the Exercise Price; and

3.2.6 any Disposal Restrictions that apply to any Shares that are acquired as a result of the exercise of each Option.

3.3 Accompanying documents

The Offer must be accompanied by these rules and any other documents and information or undertakings required by ASIC or under the Corporations Act.

3.4 Number of Options

The number of Options offered to an Eligible Employee shall be determined by the Board.

3.5 Exercise Price

Subject to rule 3.6 and any adjustment under rule 12, the Exercise Price in respect of an Option shall be such amount (if any) as the Board determines at the time of the grant of the Option.

3.6 Minimum Exercise Price

The Exercise Price in respect of an Option must not be less than the Minimum Price.

3.7 Offers personal

Subject to rule 3.8, an Offer is personal to the Eligible Employee to whom it is made and, accordingly, Options may be granted only to the Eligible Employee to whom the Offer is made.

3.8 Nominee

3.8.1 Upon receipt of an Offer, an Eligible Employee may, by notice in writing to the Board, nominate an Associate of the Eligible Employee (**Nominee**) in whose favour the Eligible Employee wishes to renounce the Offer.

3.8.2 Where an Eligible Employee provides a nomination in accordance with rule 3.8.1, the Board may decide, in its absolute discretion, whether or not to accept that renunciation in favour of a Nominee.

3.8.3 Where the Board accepts a nomination provided in accordance with rule 3.8.1, the Eligible Employee remains bound by these rules and must procure that the Nominee agrees to be bound by these rules, with all references to an Eligible Employee or Participant (as the case may require) to be read as a reference to the Nominee.

4. Acceptance of offer

4.1 Form of acceptance

An Eligible Employee who receives an Offer may accept it by delivering written notice of acceptance of the Offer to the Company (**Applicant**). An Offer may be accepted in whole or in part. An Offer not accepted by the Eligible Employee will lapse unless the Board determines otherwise.

4.2 When Offer may not be accepted

An Offer cannot be accepted, and no Options will be issued, if at the date the Offer would otherwise be accepted:

- 4.2.1 the Applicant is no longer an Eligible Employee;
- 4.2.2 the Applicant has given notice of his or her resignation as an Eligible Employee; or
- 4.2.3 the Applicant has been given notice of dismissal from employment by a Group Company.

4.3 Continue eligibility

No Options will be issued by the Company if, after acceptance of the Offer but prior to the grant of Options, any of the matters in clause 4.2 are applicable at any time to the Applicant.

4.4 Participant bound by rules

On delivery to the Company of written notice of acceptance of the Offer and acceptance of the application by the Company an Applicant becomes a Participant and is bound by these rules.

5. Grant of Options

5.1 Grant of Options

Subject to rule 4.2, the Company shall, within five business days, after receiving a written notice of acceptance from an Applicant, grant to the Applicant the Options the subject of the acceptance.

5.2 Certificates

The Company may issue to a Participant one or more certificates evidencing the Options granted to the Participant and setting out:

- 5.2.1 the number of Options granted;
- 5.2.2 the date of the grant;
- 5.2.3 any Performance Conditions;
- 5.2.4 the Expiry Date; and
- 5.2.5 any other relevant conditions to be attached to the Options or the Shares.

5.3 No consideration

Subject to the Board's discretion to require payment of nominal consideration for the grant of an Option, no consideration will be payable on the grant of an Option.

6. Nature of Options

6.1 One Share per Option

Each Option entitles the Participant who is the holder to subscribe for and be issued or transferred one Share at the Exercise Price.

6.2 Nature of Options

Except as otherwise provided for in the Plan, nothing in the Plan:

- 6.2.1 confers on any Employee the right to receive an Offer;
- 6.2.2 confers on any Participant the right to continue as an Employee;

6.2.3 affects any rights which a Group Company may have to terminate the employment of any Participant;

6.2.4 may be used to increase damages in any action brought against a Group Company in respect of a termination of any Participant's employment; or

6.2.5 gives an Eligible Employee a legal or beneficial interest in any Share, other security or other property by virtue of acquiring or holding an Option.

6.3 Options not quoted

The Company will not seek official quotation of any Options.

7. Vesting of Options

7.1 Vesting

7.1.1 Unless otherwise determined by the Board, an Option (which has not otherwise lapsed in accordance with rule 8) will vest in a Participant:

- (a) on any date after the third anniversary of the Grant Date, provided that the Performance Conditions notified to the Participant by the Board pursuant to rule 3.1 and 3.2.3 are satisfied or waived by the Board; or
- (b) where the Option vests in accordance with rule 7.2 or 7.3.

7.1.2 The Board will notify a Participant within a reasonable time after an Option has vested and the date that vesting occurred.

7.1.3 Unless otherwise determined by the Board, a Participant may only exercise a vested Option (that has not otherwise lapsed in accordance with rule 8) within 2 years of the date that the Option vests as notified by the Board.

7.2 Accelerated Vesting

7.2.1 The Board may, in its absolute discretion, determine that all or a specified number of a Participant's unvested Options vest where:

- (a) the Participant dies;
- (b) the Participant ceases to be employed by a Group Company, by reason of Redundancy, Retirement, Retrenchment or Total and Permanent Disability; or
- (c) the Company passes a resolution for voluntary winding up or an order is made for the compulsory winding up of the Company.

7.2.2 If within 30 days of an event occurring under rule 7.2.1 the Board determines that any Option does not vest, or where no determination is made, the Option will lapse, unless the Board determines otherwise.

7.3 Takeover Bid and change of Control events

If the Board determines that:

- 7.3.1 there has been a change of Control of the Company;
- 7.3.2 the replacement of a majority of the Board is imminent; or
- 7.3.3 a bidder who did not have a Relevant Interest in more than 50% of the Company's issued Shares has acquired (or become entitled to acquire) a Relevant Interest in more than 50% of the Company's issued Shares, whether by Takeover Bid or otherwise,

7.3.4 then, unless otherwise determined by the Board, the Company may notify each Participant in writing that a percentage amount of his or her unvested Options have vested on the basis of the pro-rata achievement of the Performance Conditions and, upon receipt of that notice, the Participant may exercise all or any of his or her Options up to the amount of Options specified in the notice and in accordance with rule 10.

8. Lapse of Options

8.1 Unvested Options

An Option that has not vested will lapse upon the earliest of:

- 8.1.1 a failure to meet the Performance Conditions by the dates or times specified in those conditions;
- 8.1.2 the Expiry Date;
- 8.1.3 the Option lapsing in accordance with rule 9.2 due to an authorised dealing with the Option;
- 8.1.4 the date the Board determines that the Option will lapse because the Participant (in the Board's opinion):
 - (a) has breached a material obligation under the Plan;
 - (b) has committed an act of fraud or serious misconduct in relation to the affairs of a Group Company (whether or not charged with an offence) or gross dereliction of duty;
 - (c) has become insolvent, declared himself or herself or become bankrupt or entered into administration or does something or has something done which prevents the Participant from or may result in the Participant being unable to properly perform his duties; or
 - (d) has done any act which brings or could bring a Group Company into disrepute; and
- 8.1.5 the Participant ceasing to be an Employee of a Group Company (unless the Participant ceases to be employed by a Group Company, by reason of the Participant's death, Redundancy, Retirement, Retrenchment or Total and Permanent Disability); and
- 8.1.6 the fifth anniversary of the Grant Date.

8.2 Vested Options

An Option that has vested but not been validly exercised will lapse upon the earlier to occur of:

- 8.2.1 the Expiry Date;
- 8.2.2 the Participant ceasing to be an Employee (unless the Participant ceases to be employed by a Group Company, by reason of the Participant's death, Redundancy, Retirement, Retrenchment or Total and Permanent Disability);
- 8.2.3 the Option lapsing in accordance with rule 9.2 due to an unauthorised dealing with the Option;
- 8.2.4 the date the Board determines that the Option will lapse because the Participant (in the Board's opinion):
 - (a) has breached a material obligation under the Plan;
 - (b) has committed an act of fraud or serious misconduct in relation to the affairs of a Group Company (whether or not charged with an offence) or gross dereliction of duty;

- (c) has become insolvent, declared himself or become bankrupt or entered into administration or does something or has something done which prevents the Participant from or may result in the Participant being unable to properly perform his duties; or
- (d) has done any act which brings a Group Company into disrepute; and

8.2.5 the fifth anniversary of the Grant Date.

8.3 Cessation of rights

On an Option lapsing, all rights of a Participant in respect of the Option shall cease.

9. Dealings with Options

9.1 No dealing in Options

A Participant must not, without the prior approval of the Board, dispose of, grant any Security Interest over or otherwise deal with any Options or any interest in any Options, and any such Security Interest or disposal or dealing will not be recognised by the Company.

9.2 Options lapse on unauthorised dealings

Where the Participant purports to deal in an Option other than in accordance with rule 9.1 the Option immediately lapses.

10. Exercise of Options

10.1 Form of exercise

An Option which has vested and has not lapsed may be exercised by the Participant delivering to the Company Secretary:

- 10.1.1 an Exercise Notice signed by the Participant and the Certificate or Certificates (if any); and
- 10.1.2 the subscription monies for the relevant Shares being the number of Options exercised by the Participant multiplied by the Exercise Price.

10.2 Multiples

A Participant must exercise Options in multiples of 1,000 or such other multiple as the Board determines and notifies to the Participant unless the Participant exercises all Options to be exercised by him or her at the time.

10.3 Multiple exercise

The exercise by a Participant of only some of the Options held by the Participant shall not affect the Participant's right to exercise its other Options at a later date.

10.4 Death or incapacity

If a Participant dies or becomes legally incapacitated before the Options granted to that Participant lapse, the Participant's Legal Personal Representative may exercise the Participant's rights under the Plan and shall be deemed to be a Participant for the purposes of these rules, subject to the prior production to the Company of such evidence as would be required to permit the Legal Personal Representative to become registered as a shareholder in respect of Shares held by the Eligible Employee.

10.5 Certificates

Where a Participant submits an Exercise Notice in respect of the Options covered by a Certificate, the Company shall cancel that Certificate and, if any Options which have not

lapsed remain unexercised, may issue a Certificate which evidences the remaining number of Options held by the Participant.

10.6 Issue of Shares

Subject to these rules and the Listing Rules, the Company must issue or transfer a Share on exercise of an Option within a reasonable time after a Participant validly exercises an Option in accordance with these rules.

10.7 Shares rank equally

Shares issued or transferred to the Participant on the exercise of Options will rank equally with all existing Shares on and from the date of issue in respect of all rights issues, bonus share issues and dividends which have a record date for determining entitlements on or after the date of issue of those Shares.

10.8 Quotation of Shares

The Company shall apply to ASX for quotation of Shares issued on exercise of Options if other Shares of the Company are officially quoted at that time, but quotation of such Shares cannot be guaranteed.

11. Restriction on disposal of shares

11.1 Restriction period

The Board may impose conditions on the sale, transfer, disposal or other dealings with any Share acquired through the exercise of an Option.

11.2 Enforcement of Restriction Period

The Company may implement any procedure it considers appropriate or desirable for the purpose of preventing a contravention of rule 11.1. Without limiting the generality of the foregoing, the Company may refuse to register a transfer of Shares acquired by a Participant under the Plan that would involve a contravention of rule 11.1 and may instruct its share registry to apply a Holding Lock to the Shares while the Shares are subject to the restriction on disposal under rule 11.1.

11.3 No disposal during Trading Halt

If the shares of the Company are subject to a Trading Halt applied by ASX, the Participant must not sell, transfer, dispose of or otherwise deal with any Share acquired as a result of the exercise of that Option until the end of the Trading Halt.

11.4 Enforcement of Trading Halt

The Company may implement any procedure it considers appropriate or desirable for the purpose of preventing a contravention of rule 11.3. Without limiting the generality of the foregoing, the Company may refuse to register a transfer of Shares acquired by a Participant under the Plan that would involve a contravention of rule 11.3 and may instruct its share registry to apply the Holding Lock to the Shares for the duration of the Trading Halt.

12. New issues, reconstructions of capital and external opportunities

12.1 Participation in new issues

12.1.1 Participants will not be entitled to participate in any new issue of securities in the Company unless:

- (a) their Options have vested under the Plan; and
- (b) they have exercised their Options in accordance with rule 11.1 prior to the record date for the determination

of entitlements to the new issue and participate as a result of being holders of Shares.

12.1.2 The Company must give to Participants in accordance with the Listing Rules, notice of any issue of securities before the record date for determining entitlements to the issue.

12.2 Bonus issues

If the Company makes (whether before or after the Options have vested) a bonus issue of Shares or other securities to existing shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Share has been acquired in respect of an Option before the record date for determining entitlements to the bonus issue, then the number of Shares the subject of the Option shall be:

12.2.1 increased by the number of Shares which the Participant would have received if the Participant had exercised the Option prior to such record date; or

12.2.2 adjusted in a manner determined by the Board and in accordance with the Listing Rules, in order to minimise or eliminate any material advantage or disadvantage to an Eligible Employee.

12.3 Pro rata issues

If the Company makes a pro-rata issue of Shares (except a bonus issue) to existing shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Share has been issued in respect of an Option before the record date for determining entitlements to the issue, the Exercise Price of the Option shall be reduced in accordance with the Listing Rules.

12.4 Reorganisations

If there is any reorganisation of capital of the Company (whether before or after the Performance Rights have vested) then the number of Options to which each Participant is entitled will be adjusted in a manner determined by the Board and in accordance with the Listing Rules, in order to minimise or eliminate any material advantage or disadvantage to an Eligible Employee.

12.5 Fractions

For the purposes of this rule 12, if Options are exercised simultaneously, then the Participant may aggregate the number of Shares or fractions of Shares for which the Participant is entitled to subscribe. Fractions in the aggregate number only will be disregarded in determining the total entitlements of a Participant.

12.6 New Options on same terms as existing Options

For the purposes of this rule 12, if any Options are granted to an Eligible Employee due to an adjustment, those Options will be subject to the same terms and conditions as the original Options, including without limitation, any Vesting Condition.

12.7 Participation in external opportunities

If, during the life of any Option, securities of any other corporation are offered or otherwise made available to the Company's shareholders generally, the Company will use its best endeavours to ensure that the Eligible Employee is given an opportunity to participate on the same basis as if he or she had then held the Shares the subject of the Options.

12.8 Board decisions final

Any calculations or adjustments which are required to be made under this rule 12 will be made by the Board and will, in the absence of manifest error, be final and conclusive and binding on the Company and the Participant.

13. Administration of the Plan

13.1 Administration

The Plan shall be administered by the Board which has the power to:

- 13.1.1 determine appropriate procedures and make regulations for the administration of the Plan which are consistent with these rules;
- 13.1.2 resolve conclusively all questions of fact or interpretation arising in connection with the Plan;
- 13.1.3 terminate or suspend the operation of the Plan at any time, provided this termination or suspension does not adversely affect the rights of Participants holding Options at that time;
- 13.1.4 delegate such functions and powers as it may consider appropriate for the efficient administration of the Plan to any person or persons capable of performing those functions and exercising those powers; and
- 13.1.5 take and rely upon independent professional or expert advice in or in relation to the exercise of any of their powers or discretions under these rules.

13.2 No contravention of the Corporations Act or the Listing Rules

Notwithstanding the terms of this Plan or the terms or conditions of any Offer or Option, no Option may be offered, granted or exercised if to do so would contravene the Corporations Act or the Listing Rules.

13.3 Board determinations

Where these rules provide for a determination, decision, approval or opinion of the Board, such determination, decision, approval or opinion may be made or given by the Board in its absolute discretion.

13.4 Rules for Eligible Employees outside of Australia

The Board may grant Options to Eligible Employees who are resident outside of Australia, and make rules, determine procedures and prepare documentation for the operation of the Plan which are not inconsistent with these rules to apply to Eligible Employees who are resident outside of Australia.

13.5 No fiduciary duties

Any power or discretion which is conferred on the Board by these rules may be exercised by the Board in the interests or for the benefit of the Company, and the Board is not, in exercising such power or discretion, under any fiduciary or other obligation to any other person.

13.6 Cost of administration

The Company shall pay all expenses, costs and charges incurred in its administration of the Plan.

14. Amendment to Rules

14.1 Amendment

Subject to the Listing Rules, the Board may at any time amend any of these rules or waive or modify the application of any of these rules in relation to any Participant.

14.2 Effect on outstanding Options

If the Board so determines, any amendment will apply to any outstanding Options as at the date on which the amendment has effect. No amendment will apply to any outstanding Options if such amendment would have a material adverse effect on the Participant (in respect of his or her outstanding Options) except where the purpose of the amendment is to ensure compliance with the Corporations Act or the Listing Rules.

15. Rights and obligations of participants

15.1 Other schemes

Participation in the Plan does not affect, and is not affected by, participation in any other scheme operated by a Group Company unless the terms of that other scheme provide otherwise.

15.2 Notice of changes

The Company must give to each Participant in accordance with the Listing Rules notice of any change to the terms of any Options held by the Participant, to the Exercise Price or to the number of Shares which the Participant is entitled to subscribe for on exercise of an Option.

15.3 No interest in Shares

A Participant shall have no interest in a Share the subject of an Option held by the Participant unless and until the Share is issued or transferred to that Participant under these rules. An Eligible Employee's rights under the Plan are purely personal and contractual.

15.4 Tax

A Participant is responsible for any Tax liability arising in relation to any aspect of the Plan or its rights under it. No Group Company shall have any responsibility for any Tax assessed on any Participant in relation to any aspect of the Plan or its rights under it.

16. Notices and service

Notices may be given by the Company to Participants in such manner as the Board may from time to time determine. Any notice required to be given to an Eligible Employee under these rules shall be deemed to have been given if served personally on the Eligible Employee or left at his or her last known place of residence.

17. Governing law and jurisdiction

These rules and the rights and obligations of Participants are governed by the laws of the State of Victoria. Each Participant irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of the State of Victoria and courts entitled to hear appeals from those courts.

18. Advice

Eligible Employees should obtain their own independent advice at their own expense on the financial, taxation and

other consequences to them of or relating to participation in the Plan.

19. Former plans

The Plan replaces the 2009 Employee Share Option Plan. The Plan does not vary the terms of any options issued under the 2006 Plan or 2009 Plan. Consequently,

19.1 an option issued under the 2006 Plan shall be interpreted according to the terms and conditions of the 2006 Plan; and

19.2 an option issued under the 2009 Plan shall be interpreted according to the terms and conditions of the 2009 Plan.

20. Definitions and Interpretation

20.1 Definitions

In this document unless expressed or implied to the contrary:

2006 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.

2009 Plan means the 2009 Karoon Gas Australia Employee Share Option Plan which was approved by the Shareholders in a general meeting of shareholders on 12 November 2009.

Associate has the meaning given in Section 318 of the Income Tax Assessment Act 1936 (Cth).

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691).

Board means all or some of the directors of the Company acting as a board or, where appropriate, a committee of the Board.

Certificate means the Options Certificate issued pursuant to rule 5.2 in the form approved by the Board from time to time or, if the Board has determined that Options will be uncertificated, then the statement issued to the Participant which discloses the number of Options entered in the register of rights holders in respect of the Participant.

Company means Karoon Gas Australia Ltd ACN 107 001 338.

Constitution means the constitution of the Company.

Control has the meaning given in section 50AA of the Corporations Act.

Corporations Act means the Corporations Act 2001 (Cth).

Disposal Restrictions means, in relation to an Offer, a term that restricts a Participant from disposing of Shares issued or transferred to the Participant as a result of an exercise of Options the subject of the Offer for a period of time, as determined by the Board in its absolute discretion and as specified in the Offer.

Eligible Employee means:

(a) a full-time or part-time employee of a Group Company; or

(b) a director of a Group Company.

Expiry Date means the date set out in the Offer on which an Option lapses (if it has not otherwise lapsed in accordance with the Plan).

Exercise Notice means a duly completed and executed notice of exercise of an Option by a Participant, in the form approved by the Board from time to time.

Exercise Price means, subject to rule 3.6, the amount payable by the holder on the exercise of an Option which amount shall, subject to the Listing Rules, be determined at the discretion of the Board.

Grant Date means the date on which the Board grants the Option to the Eligible Employee.

Group means the Company, its Subsidiaries and any other entity declared by the Board to be a member of the group for the purposes of the Plan and **Group Company** means any one of them.

Holding Lock has the meaning given to that term in Chapter 19 of the Listing Rules.

Legal Personal Representative means the executor of the will or an administrator of the estate of a deceased person, the trustee of the estate of a person under a legal disability or a person who holds an enduring power of attorney granted by a person.

Listing Rules means the official listing rules of the ASX as they apply to the Company from time to time.

Minimum Price means, in respect of an Option:

$$WP \times 1.00$$

where WP is the weighted average of the prices at which Shares were traded on the ASX during the period of 5 days up to and including the day upon which the Exercise Price for that Option is to be determined.

Offer means an offer of Options to an Eligible Employee by the Company.

Option means an option granted to a Participant under the Plan to subscribe for a share subject to satisfaction of any Performance Conditions and the corresponding obligation of the Company to provide the Share, pursuant to a binding contract made by the Company and an Eligible Employee in the manner set out in these rules.

Participant means a person who holds Options granted under this Plan.

Performance Conditions means one or more conditions which must be satisfied or waived before the Option vests in the holder, as determined by the Board.

Plan means the plan established and operated by these rules and known as the Karoon Gas Australia Employee Share Option Plan 2012, subject to any amendments or additions made under rule 14.

Redundancy means termination of the employment of an Eligible Employee by a Group Company due to economic, technological, structural or other organisational change where through no act or default of the Eligible Employee:

(a) the Group Company no longer requires the duties and responsibilities carried out by the Participant to be carried out by anyone; or

(b) the Group Company no longer requires the position held by the Participant to be held by anyone.

Retirement means, in relation to a Participant, the termination of the Participant's employment or directorship with any Group Company by reason of the attainment of such age as the Group Company may from time to time specify as the age for retirement for the Participant or such earlier age as the Group Company may in its absolute discretion approve.

Retrenchment means, in relation to a Participant, the termination of employment or directorship of the Participant as a result of a reconstruction or sale of part or all of the business of the Group in circumstances where the Board is satisfied that there is no continuing employment or directorship role for the Participant.

Security Interest means a mortgage, charge, pledge, lien, encumbrance or other third party interest of any nature.

Shares means fully paid ordinary shares in the capital of the Company.

Subsidiary means a body corporate of which the Company is a holding company within the meaning given in the Corporations Act.

Takeover Bid has the meaning given in section 9 of the Corporations Act.

Tax includes any tax, levy, impost, deduction, charge, rate, contribution, duty or withholding which is assessed (or deemed to be assessed), levied, imposed or made by any government or any governmental, semi-governmental or judicial entity or authority together with any interest, penalty, fine, charge, fee or other amount assessed (or deemed to be assessed), levied, imposed or made on or in respect of any or all of the foregoing.

Trading Halt means any period in which the ASX applies a period during which no trading may take place in the Company's securities.

Total and Permanent Disablement means the termination or cessation of a Participant's employment with a Group Company as a result of total and permanent disablement as determined by the Board.

20.2 Interpretation

In these rules, unless a contrary intention appears:

20.2.1 headings are for convenience only and do not affect the interpretation of the Plan unless the context requires otherwise;

20.2.2 any reference in these rules to any enactment or the Listing Rules includes a reference to that enactment or those Listing Rules as from time to time amended, consolidated, re-enacted or replaced and to all regulations or instruments issued under it;

20.2.3 any words denoting the singular include the plural and words denoting the plural include the singular;

20.2.4 any words denoting one gender include the other gender;

20.2.5 where any word or phrase is given a definite meaning in these rules, any part of speech or other grammatical form of that word or phrase has a corresponding meaning;

20.2.6 a reference to a power, right or discretion being exercisable by the Board is taken to be a reference to that power, right or discretion being exercisable by a delegate of the Board; and

20.2.7 a reference to a person includes the legal representatives, successors and assigns of that person.

20.3 Primary Instruments

These rules are to be interpreted subject to the Constitution, the Listing Rules, the Corporations Act and any other applicable laws.

Dated: _____

By Order of the Board

ANNEXURE "C"

SUMMARY OF THE TERMS OF THE 2012 PRP PROPOSED TO BE APPROVED UNDER RESOLUTION 5

Offers

- A. The Company may from time to time during the operation of the 2012 PRP make an offer in writing to any Eligible Employee specifying:
- the number of Performance Rights for which the Eligible Employee may subscribe;
 - the period during which the offer may be accepted;
 - any conditions that will apply before any Performance Rights issued will vest in the Eligible Employee;
 - the period (if any) that an Eligible Employee must wait before any ordinary shares acquired on the exercise of any Right may be disposed of;
 - the date on which the Eligible Employee's right to subscribe for and be issued or transferred ordinary shares will lapse;
 - circumstances in which the Eligible Employee's right to subscribe for and be issued or transferred ordinary shares will lapse; and
 - any other matters required to be specified by the Corporations Act or the ASX Listing Rules.

Eligible Employees

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

Grant of Performance Rights

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

Exercise price

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

Participant

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

Vesting conditions

- F. Unless otherwise determined by the Board, Performance Rights granted under the 2012 PRP will vest on the first anniversary of the grant date, subject to all other vesting conditions being met.
- G. If a participant dies, becomes permanently disabled, is retrenched, reaches the age of retirement or is given a bona fide redundancy, or if the Company is in the process of a winding-up, and at that time the participant holds Performance Rights which are subject to the satisfaction of any relevant vesting condition, the Board may resolve that all or a specified number of the participant's Performance Rights vest immediately.

Cessation of employment

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

Death, permanent disability, retirement, retrenchment or redundancy

- I. If a participant dies, becomes permanently disabled, is retrenched, reaches the age of retirement or is given a bona fide redundancy, and at that time the participant holds a right to subscribe for ordinary shares (whether or not subject to satisfaction of any relevant vesting condition), the participant, or in the event of death or legal incapacity, the participant's legal personal representative, retains the Performance Rights subject to lapsing for any other reason under the 2012 PRP.

Adjustments and reorganisations

- J. A participant has no right to any variation in the offer price or the number of securities to be granted in an offer of shares upon the occurrence of a new issue of shares or other securities to holders of shares, unless the participant has validly exercised their Performance Rights in accordance with the 2012 PRP prior to the record date for the new issue.
- K. In respect of a participant who has accepted an offer of Performance Rights, if there is a bonus issue to the Company's shareholders prior to the time at which the Right has been exercised, that participant will be entitled, upon later issue of the relevant ordinary shares, to receive an issue of so many additional shares as would have been issued to a shareholder who, on the record date for determining entitlements under the bonus issue, held ordinary shares equal in number to the shares comprised in the offer of Performance Rights.
- L. In the event of any reorganisation of the issued capital of the Company other than a bonus issue, the rights of each participant will be changed to the extent necessary to comply with the ASX Listing Rules (where relevant) applying to a reorganisation of capital of a body corporate.

Takeover

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

Termination or suspension

- N. Subject to the Listing Rules, the 2012 PRP may be amended at any time by a resolution of the Board.

ANNEXURE "D"

2012 PRP

Karoon Gas Australia Ltd ACN 107 001 338

Performance Rights Plan 2012 Rules

Dated / /

Background

- A. The directors of the Company seek to reward past contributions of Eligible Employees and provide an incentive for future performance.
- B. The Plan provides a mechanism for the Company to issue Performance Rights to Eligible Employees entitling them to be issued Shares and incentivising them to advance the interests of the Company and its shareholders.

1. Purpose of the Plan

The purpose of the Plan is to:

- 1.1 attract and retain quality Eligible Employees;
- 1.2 motivate Eligible Employees by enabling them to share in any growth in the value of the Company and encouraging them to achieve personal and business targets, improve the performance of the Company and its returns to shareholders;
- 1.3 advance the interests of all shareholders by motivating the Eligible Employees and encouraging growth; and
- 1.4 provide a mechanism for Eligible Employees to share the rewards of the success of the Company through the issuance of Performance Rights.

2. Commencement and operation of the plan

2.1 Commencement

The Plan will commence operation on the date determined by the Board.

3. Offer of Performance Rights

3.1 Board discretion

Subject to these rules, the Board may in its absolute discretion from time to time make Offers to any Eligible Employee on the terms set out in this Plan and subject to any Performance Conditions and any additional conditions the Board determines.

3.2 Form of Offer

The Board will make an Offer on terms which the Board may, in its discretion from time to time, determine. Any Offer will state:

- 3.2.1 the maximum number of Performance Rights offered;
- 3.2.2 the period for acceptance of the Offer;
- 3.2.3 any Performance Conditions and any other specific terms and conditions applicable to each Performance Right and to the Offer;

3.2.4 the Expiry Date; and

3.2.5 any Disposal Restrictions that apply to any Shares that are acquired as a result of the exercise of each Performance Right.

3.3 Accompanying documents

The Offer must be accompanied by these rules and any other documents and information or undertakings required by ASIC or under the Corporations Act.

3.4 Number of Performance Rights

The number of Performance Rights offered to an Eligible Employee shall be determined by the Board.

3.5 Offers personal

Subject to rule 3.6, an Offer is personal to the Eligible Employee to whom it is made and, accordingly, Performance Rights may be granted only to the Eligible Employee to whom the Offer is made.

3.6 Nominee

3.6.1 Upon receipt of an Offer, an Eligible Employee may, by notice in writing to the Board, nominate an Associate of the Eligible Employee (**Nominee**) in whose favour the Eligible Employee wishes to renounce the Offer.

3.6.2 Where an Eligible Employee provides a nomination in accordance with rule 3.8.1, the Board may decide, in its absolute discretion, whether or not to accept that renunciation in favour of a Nominee.

3.6.3 Where the Board accepts a nomination provided in accordance with rule 3.8.1, the Eligible Employee remains bound by these rules and must procure that the Nominee agrees to be bound by these rules, with all references to an Eligible Employee or Participant (as the case may require) to be read as a reference to the Nominee.

4. Acceptance of offer

4.1 Form of acceptance

An Eligible Employee who receives an Offer may accept it by delivering written notice of acceptance of the Offer to the Company (**Applicant**). An Offer may be accepted in whole or in part. An Offer not accepted by the Eligible Employee will lapse unless the Board determines otherwise.

4.2 When Offer may not be accepted

An Offer cannot be accepted, and no Performance Rights will be issued, if at the date the Offer would otherwise be accepted:

- 4.2.1 the Applicant is no longer an Eligible Employee;

- 4.2.2 the Applicant has given notice of his or her resignation as an Eligible Employee; or
- 4.2.3 the Applicant has been given notice of dismissal from employment by a Group Company.

4.3 Continue eligibility

No Performance Rights will be issued by the Company if, after acceptance of the Offer but prior to the grant of Performance Rights, any of the matters in clause 4.2 are applicable at any time to the Applicant.

4.4 Participant bound by rules

On delivery to the Company of written notice of acceptance of the Offer and acceptance of the application by the Company an Applicant becomes a Participant and is bound by these rules.

5. Grant of Performance Rights

5.1 Grant of Performance Rights

Subject to rule 4.2, the Company shall, within five business days, after receiving a written notice of acceptance from an Applicant, grant to the Applicant the Performance Rights the subject of the acceptance.

5.2 Certificates

The Company may issue to a Participant one or more certificates evidencing the Performance Rights granted to the Participant and setting out:

- 5.2.1 the number of Performance Rights granted;
- 5.2.2 the date of the grant;
- 5.2.3 any Performance Conditions;
- 5.2.4 the Expiry Date; and
- 5.2.5 any other relevant conditions to be attached to the Performance Rights or the Shares.

5.3 No consideration

Subject to the Board's discretion to require payment of nominal consideration for the grant of a Performance Right, no consideration will be payable on the grant of a Performance Right.

6. Nature of Performance Rights

6.1 One Share per Performance Right

Each Performance Right entitles the Participant who is the holder to subscribe for and be issued or transferred one Share.

6.2 Nature of Performance Rights

Except as otherwise provided for in the Plan, nothing in the Plan:

- 6.2.1 confers on any Employee the right to receive an Offer;
- 6.2.2 confers on any Participant the right to continue as an Employee;
- 6.2.3 affects any rights which a Group Company may have to terminate the employment of any Participant;
- 6.2.4 may be used to increase damages in any action brought against a Group Company in respect of a termination of any Participant's employment; or

- 6.2.5 gives an Eligible Employee a legal or beneficial interest in any Share, other security or other property by virtue of acquiring or holding a Performance Right.

6.3 Performance Rights not quoted

The Company will not seek official quotation of any Performance Rights.

7. Vesting of Performance Rights

7.1 Vesting

7.1.1 A Performance Right (which has not otherwise lapsed in accordance with rule 8) will vest in a Participant:

- (a) on any date after the first anniversary of the Grant Date, provided that the Performance Conditions notified to the Participant by the Board pursuant to rule 3.1 and 3.2.3 are satisfied or waived by the Board; or
- (b) where the Performance Right vests in accordance with rule 7.2 or 7.3.

7.1.2 The Board will notify a Participant within a reasonable time after a Performance Right has vested and the date that vesting occurred.

7.1.3 A Participant may only exercise a vested Performance Right (that has not otherwise lapsed in accordance with rule 8) within 2 years of the date that the Performance Right vests as notified by the Board.

7.2 Accelerated Vesting

7.2.1 The Board may, in its absolute discretion, determine that all or a specified number of a Participant's unvested Performance Rights vest where:

- (a) the Participant dies;
- (b) the Participant ceases to be employed by a Group Company, by reason of Redundancy, Retirement, Retrenchment or Total and Permanent Disability; or
- (c) the Company passes a resolution for voluntary winding up or an order is made for the compulsory winding up of the Company.

7.2.2 If within 30 days of an event occurring under rule 7.2.1 the Board determines that any Performance Right does not vest, or where no determination is made, the Performance Right will lapse, unless the Board determines otherwise.

7.3 Takeover Bid and change of Control events

If the Board determines that:

- 7.3.1 there has been a change of Control of the Company;
- 7.3.2 the replacement of a majority of the Board is imminent; or
- 7.3.3 a bidder who did not have a Relevant Interest in more than 50% of the Company's issued Shares has acquired (or become entitled to acquire) a Relevant Interest in more than 50% of the Company's issued Shares, whether by Takeover Bid or otherwise,

7.3.4 then, unless otherwise determined by the Board, the Company may notify each Participant in writing that a percentage amount of his or her unvested Performance Rights have vested on the basis of the pro-rata achievement of the Performance Conditions and, upon receipt of that notice, the Participant may exercise all or any of his or her Performance Rights up

to the amount of Performance Rights specified in the notice and in accordance with rule 10.

8. Lapse of Performance Rights

8.1 Unvested Performance Rights

A Performance Right that has not vested will lapse upon the earliest of:

- 8.1.1 a failure to meet the Performance Conditions by the dates or times specified in those conditions;
- 8.1.2 the Expiry Date;
- 8.1.3 the Performance Right lapsing in accordance with rule 9.2 due to an authorised dealing with the Performance Right;
- 8.1.4 the date the Board determines that the Performance Right will lapse because the Participant (in the Board's opinion):
 - (a) has breached a material obligation under the Plan;
 - (b) has committed an act of fraud or serious misconduct in relation to the affairs of a Group Company (whether or not charged with an offence) or gross dereliction of duty;
 - (c) has become insolvent, declared himself or herself or become bankrupt or entered into administration or does something or has something done which prevents the Participant from or may result in the Participant being unable to properly perform his duties; or
 - (d) has done any act which brings or could bring a Group Company into disrepute; and
- 8.1.5 the Participant ceasing to be an Employee of a Group Company (unless the Participant ceases to be employed by a Group Company, by reason of the Participant's death, Redundancy, Retirement, Retrenchment or Total and Permanent Disability); and
- 8.1.6 the fifth anniversary of the Grant Date.

8.2 Vested Performance Rights

A Performance Right that has vested but not been validly exercised will lapse upon the earlier to occur of:

- 8.2.1 the Expiry Date;
- 8.2.2 the Participant ceasing to be an Employee (unless the Participant ceases to be employed by a Group Company, by reason of the Participant's death, Redundancy, Retirement, Retrenchment or Total and Permanent Disability);
- 8.2.3 the Performance Right lapsing in accordance with rule 9.2 due to an unauthorised dealing with the Performance Right;
- 8.2.4 the date the Board determines that the Performance Right will lapse because the Participant (in the Board's opinion):
 - (a) has breached a material obligation under the Plan;
 - (b) has committed an act of fraud or serious misconduct in relation to the affairs of a Group Company (whether or not charged with an offence) or gross dereliction of duty;

- (c) has become insolvent, declared himself or become bankrupt or entered into administration or does something or has something done which prevents the Participant from or may result in the Participant being unable to properly perform his duties; or

- (d) has done any act which brings a Group Company into disrepute; and

8.2.5 the fifth anniversary of the Grant Date.

8.3 Cessation of rights

On a Performance Right lapsing, all rights of a Participant in respect of the Performance Right shall cease.

9. Dealings with Performance Rights

9.1 No dealing in Performance Rights

A Participant must not, without the prior approval of the Board, dispose of, grant any Security Interest over or otherwise deal with any Performance Rights or any interest in any Performance Rights, and any such Security Interest or disposal or dealing will not be recognised by the Company.

9.2 Performance Rights lapse on unauthorised dealings

Where the Participant purports to deal in a Performance Right other than in accordance with rule 9.1 the Performance Right immediately lapses.

10. Exercise of Performance Rights

10.1 Form of exercise

A Performance Right which has vested and has not lapsed may be exercised by the Participant delivering to the Company Secretary an Exercise Notice signed by the Participant and the Certificate or Certificates (if any).

10.2 Multiples

A Participant must exercise Performance Rights in multiples of 1,000 or such other multiple as the Board determines and notifies to the Participant unless the Participant exercises all Performance Rights to be exercised by him or her at the time.

10.3 Multiple exercise

The exercise by a Participant of only some of the Performance Rights held by the Participant shall not affect the Participant's right to exercise its other Performance Rights at a later date.

10.4 Death or incapacity

If a Participant dies or becomes legally incapacitated before the Performance Rights granted to that Participant lapse, the Participant's Legal Personal Representative may exercise the Participant's rights under the Plan and shall be deemed to be a Participant for the purposes of these rules, subject to the prior production to the Company of such evidence as would be required to permit the Legal Personal Representative to become registered as a shareholder in respect of Shares held by the Eligible Employee.

10.5 Certificates

Where a Participant submits an Exercise Notice in respect of the Performance Rights covered by a Certificate, the Company shall cancel that Certificate and, if any Performance Rights which have not lapsed remain unexercised, may issue a Certificate which evidences the remaining number of Performance Rights held by the Participant.

10.6 Issue of Shares

Subject to these rules and the Listing Rules, the Company must issue or transfer a Share on exercise of a Performance Right within a reasonable time after a Participant validly exercises a Performance Right in accordance with these rules.

10.7 Shares rank equally

Shares issued or transferred to the Participant on the exercise of Performance Rights will rank equally with all existing Shares on and from the date of issue in respect of all rights issues, bonus share issues and dividends which have a record date for determining entitlements on or after the date of issue of those Shares.

10.8 Quotation of Shares

The Company shall apply to ASX for quotation of Shares issued on exercise of Performance Rights if other Shares of the Company are officially quoted at that time, but quotation of such Shares cannot be guaranteed.

11. Restriction on disposal of shares

11.1 Restriction period

The Board may impose conditions on the sale, transfer, disposal or other dealings with any Share acquired through the exercise of a Performance Right.

11.2 Enforcement of Restriction Period

The Company may implement any procedure it considers appropriate or desirable for the purpose of preventing a contravention of rule 11.1. Without limiting the generality of the foregoing, the Company may refuse to register a transfer of Shares acquired by a Participant under the Plan that would involve a contravention of rule 11.1 and may instruct its share registry to apply a Holding Lock to the Shares while the Shares are subject to the restriction on disposal under rule 11.1.

11.3 No disposal during Trading Halt

If the shares of the Company are subject to a Trading Halt applied by ASX, the Participant must not sell, transfer, dispose of or otherwise deal with any Share acquired as a result of the exercise of that Performance Right until the end of the Trading Halt.

11.4 Enforcement of Trading Halt

The Company may implement any procedure it considers appropriate or desirable for the purpose of preventing a contravention of rule 11.3. Without limiting the generality of the foregoing, the Company may refuse to register a transfer of Shares acquired by a Participant under the Plan that would involve a contravention of rule 11.3 and may instruct its share registry to apply the Holding Lock to the Shares for the duration of the Trading Halt.

12. New issues, reconstructions of capital and external opportunities

12.1 Participation in new issues

12.1.1 Participants will not be entitled to participate in any new issue of securities in the Company unless:

- (a) their Performance Rights have vested under the Plan; and
- (b) they have exercised their Performance Rights in accordance with rule 11.1 prior to the record date for the determination of entitlements to the new issue and participate as a result of being holders of Shares.

12.1.2 The Company must give to Participants in accordance with the Listing Rules, notice of any issue of securities before the record date for determining entitlements to the issue.

12.2 Bonus issues

If the Company makes (whether before or after the Performance Rights have vested) a pro-rata or bonus issue of Shares or other securities to existing shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Share has been acquired in respect of a Performance Right before the record date for determining entitlements to the bonus issue, then the number of Shares the subject of the Performance Right shall be:

12.2.1 increased by the number of Shares which the Participant would have received if the Participant had exercised the Performance Right prior to such record date; or

12.2.2 adjusted in a manner determined by the Board and in accordance with the Listing Rules, in order to minimise or eliminate any material advantage or disadvantage to an Eligible Employee.

12.3 Reorganisations

If there is any reorganisation of capital of the Company (whether before or after the Performance Rights have vested) then the number of Performance Rights to which each Participant is entitled will be adjusted in a manner determined by the Board and in accordance with the Listing Rules, in order to minimise or eliminate any material advantage or disadvantage to an Eligible Employee.

12.4 Fractions

For the purposes of this rule 12, if Performance Rights are exercised simultaneously, then the Participant may aggregate the number of Shares or fractions of Shares for which the Participant is entitled to subscribe. Fractions in the aggregate number only will be disregarded in determining the total entitlements of a Participant.

12.5 New Performance Rights on same terms as existing Performance Rights

For the purposes of this rule 12, if any Performance Rights are granted to an Eligible Employee due to an adjustment, those Performance Rights will be subject to the same terms and conditions as the original Performance Rights, including without limitation, any Vesting Condition.

12.6 Participation in external opportunities

If, during the life of any Performance Right, securities of any other corporation are offered or otherwise made available to the Company's shareholders generally, the Company will use its best endeavours to ensure that the Eligible Employee is given an opportunity to participate on the same basis as if he or she had then held the Shares the subject of the Performance Rights.

12.7 Board decisions final

Any calculations or adjustments which are required to be made under this rule 12 will be made by the Board and will, in the absence of manifest error, be final and conclusive and binding on the Company and the Participant.

13. Administration of the Plan

13.1 Administration

The Plan shall be administered by the Board which has the power to:

- 13.1.1 determine appropriate procedures and make regulations for the administration of the Plan which are consistent with these rules;
- 13.1.2 resolve conclusively all questions of fact or interpretation arising in connection with the Plan;
- 13.1.3 terminate or suspend the operation of the Plan at any time, provided this termination or suspension does not adversely affect the rights of Participants holding Performance Rights at that time;
- 13.1.4 delegate such functions and powers as it may consider appropriate for the efficient administration of the Plan to any person or persons capable of performing those functions and exercising those powers; and
- 13.1.5 take and rely upon independent professional or expert advice in or in relation to the exercise of any of their powers or discretions under these rules.

13.2 No contravention of the Corporations Act or the Listing Rules

Notwithstanding the terms of this Plan or the terms or conditions of any Offer or Performance Right, no Performance Right may be offered, granted or exercised if to do so would contravene the Corporations Act or the Listing Rules.

13.3 Board determinations

Where these rules provide for a determination, decision, approval or opinion of the Board, such determination, decision, approval or opinion may be made or given by the Board in its absolute discretion.

13.4 Rules for Eligible Employees outside of Australia

The Board may grant Performance Rights to Eligible Employees who are resident outside of Australia, and make rules, determine procedures and prepare documentation for the operation of the Plan which are not inconsistent with these rules to apply to Eligible Employees who are resident outside of Australia.

13.5 No fiduciary duties

Any power or discretion which is conferred on the Board by these rules may be exercised by the Board in the interests or for the benefit of the Company, and the Board is not, in exercising such power or discretion, under any fiduciary or other obligation to any other person.

13.6 Cost of administration

The Company shall pay all expenses, costs and charges incurred in its administration of the Plan.

14. Amendment to Rules

14.1 Amendment

Subject to the Listing Rules, the Board may at any time amend any of these rules or waive or modify the application of any of these rules in relation to any Participant.

14.2 Effect on outstanding Performance Rights

If the Board so determines, any amendment will apply to any outstanding Performance Rights as at the date on which the amendment has effect. No amendment will apply to any outstanding Performance Rights if such amendment would have a material adverse effect on the Participant (in respect of his or her outstanding Performance Rights) except where the purpose of the amendment is to ensure compliance with the Corporations Act or the Listing Rules.

15. Rights and obligations of participants

15.1 Other schemes

Participation in the Plan does not affect, and is not affected by, participation in any other scheme operated by a Group Company unless the terms of that other scheme provide otherwise.

15.2 Notice of changes

The Company must give to each Participant in accordance with the Listing Rules notice of any change to the terms of any Performance Rights held by the Participant or to the number of Shares which the Participant is entitled to subscribe for on exercise of a Performance Right.

15.3 No interest in Shares

A Participant shall have no interest in a Share the subject of a Performance Right held by the Participant unless and until the Share is issued or transferred to that Participant under these rules. An Eligible Employee's rights under the Plan are purely personal and contractual.

15.4 Tax

A Participant is responsible for any Tax liability arising in relation to any aspect of the Plan or its rights under it. No Group Company shall have any responsibility for any Tax assessed on any Participant in relation to any aspect of the Plan or its rights under it.

16. Notices and service

Notices may be given by the Company to Participants in such manner as the Board may from time to time determine. Any notice required to be given to an Eligible Employee under these rules shall be deemed to have been given if served personally on the Eligible Employee or left at his or her last known place of residence.

17. Governing law and jurisdiction

These rules and the rights and obligations of Participants are governed by the laws of the State of Victoria. Each Participant irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of the State of Victoria and courts entitled to hear appeals from those courts.

18. Advice

Eligible Employees should obtain their own independent advice at their own expense on the financial, taxation and other consequences to them of or relating to participation in the Plan.

19. Definitions and Interpretation

19.1 Definitions

In this document unless expressed or implied to the contrary:

2006 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.

2009 Plan means the 2009 Karoon Gas Australia Employee Share Option Plan which was approved by the Shareholders in a general meeting of shareholders on 12 November 2009.

Associate has the meaning given in Section 318 of the Income Tax Assessment Act 1936 (Cth).

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691).

Board means all or some of the directors of the Company acting as a board or, where appropriate, a committee of the Board.

Certificate means the Performance Rights Certificate issued pursuant to rule 5.2 in the form approved by the Board from time to time or, if the Board has determined that Performance Rights will be uncertificated, then the statement issued to the Participant which discloses the number of Performance Rights entered in the register of rights holders in respect of the Participant.

Company means Karoon Gas Australia Ltd ACN 107 001 338.

Constitution means the constitution of the Company.

Control has the meaning given in section 50AA of the Corporations Act.

Corporations Act means the Corporations Act 2001 (Cth).

Disposal Restrictions means, in relation to an Offer, a term that restricts a Participant from disposing of Shares issued or transferred to the Participant as a result of an exercise of Performance Rights the subject of the Offer for a period of time, as determined by the Board in its absolute discretion and as specified in the Offer.

Eligible Employee means:

- (a) a full-time or part-time employee of a Group Company; or
- (b) a director of a Group Company.

Expiry Date means the date set out in the Offer on which a Performance Right lapses (if it has not otherwise lapsed in accordance with the Plan).

Exercise Notice means a duly completed and executed notice of exercise of a Performance Right by a Participant, in the form approved by the Board from time to time.

Grant Date means the date on which the Board grants the Performance Right to the Eligible Employee.

Group means the Company, its Subsidiaries and any other entity declared by the Board to be a member of the group for the purposes of the Plan and **Group Company** means any one of them.

Holding Lock has the meaning given to that term in Chapter 19 of the Listing Rules.

Legal Personal Representative means the executor of the will or an administrator of the estate of a deceased person, the trustee of the estate of a person under a legal disability or a person who holds an enduring power of attorney granted by a person.

Listing Rules means the official listing rules of the ASX as they apply to the Company from time to time.

Offer means an offer of Performance Rights to an Eligible Employee by the Company.

Participant means a person who holds Performance Rights granted under this Plan.

Performance Conditions means one or more conditions which must be satisfied or waived before the Performance Right vests in the holder, as determined by the Board.

Performance Right means an entitlement to a Share subject to satisfaction of any Performance Conditions and the corresponding obligation of the Company to provide the Share, pursuant to a binding contract made by the Company and an Eligible Employee in the manner set out in these rules.

Plan means the plan established and operated by these rules and known as the Karoon Gas Australia Performance Rights Plan 2012, subject to any amendments or additions made under rule 14.

Redundancy means termination of the employment of an Eligible Employee by a Group Company due to economic, technological, structural or other organisational change where through no act or default of the Eligible Employee:

- (a) the Group Company no longer requires the duties and responsibilities carried out by the Participant to be carried out by anyone; or
- (b) the Group Company no longer requires the position held by the Participant to be held by anyone.

Retirement means, in relation to a Participant, the termination of the Participant's employment or directorship with any Group Company by reason of the attainment of such age as the Group Company may from time to time specify as the age for retirement for the Participant or such earlier age as the Group Company may in its absolute discretion approve.

Retrenchment means, in relation to a Participant, the termination of employment or directorship of the Participant as a result of a reconstruction or sale of part or all of the business of the Group in circumstances where the Board is satisfied that there is no continuing employment or directorship role for the Participant.

Security Interest means a mortgage, charge, pledge, lien, encumbrance or other third party interest of any nature.

Shares means fully paid ordinary shares in the capital of the Company.

Subsidiary means a body corporate of which the Company is a holding company within the meaning given in the Corporations Act.

Takeover Bid has the meaning given in section 9 of the Corporations Act.

Tax includes any tax, levy, impost, deduction, charge, rate, contribution, duty or withholding which is assessed (or deemed to be assessed), levied, imposed or made by any government or any governmental, semi-governmental or judicial entity or authority together with any interest, penalty, fine, charge, fee or other amount assessed (or deemed to be assessed), levied, imposed or made on or in respect of any or all of the foregoing.

Trading Halt means any period in which the ASX applies a period during which no trading may take place in the Company's securities.

Total and Permanent Disablement means the termination or cessation of a Participant's employment with a Group Company as a result of total and permanent disablement as determined by the Board.

19.2 Interpretation

In these rules, unless a contrary intention appears:

19.2.1 headings are for convenience only and do not affect the interpretation of the Plan unless the context requires otherwise;

19.2.2 any reference in these rules to any enactment or the Listing Rules includes a reference to that enactment or those Listing Rules as from time to time amended, consolidated, re-enacted or replaced and to all regulations or instruments issued under it;

19.2.3 any words denoting the singular include the plural and words denoting the plural include the singular;

19.2.4 any words denoting one gender include the other gender;

19.2.5 where any word or phrase is given a definite meaning in these rules, any part of speech or other grammatical form of that word or phrase has a corresponding meaning;

19.2.6 a reference to a power, right or discretion being exercisable by the Board is taken to be a reference to that power, right or discretion being exercisable by a delegate of the Board; and

19.2.7 a reference to a person includes the legal representatives, successors and assigns of that person.

19.3 Primary Instruments

These rules are to be interpreted subject to the Constitution, the Listing Rules, the Corporations Act and any other applicable laws.

Dated: _____

By Order of the Board

ANNEXURE "E"

TERMS AND CONDITIONS OF THE OPTIONS PROPOSED TO BE GRANTED UNDER RESOLUTION 8

AND

THE 2012 ESOP OPTIONS PROPOSED TO BE GRANTED UNDER RESOLUTIONS 9 and 10

1. Subject to satisfaction of the Company wide performance condition in paragraph 14 below, each Option and each 2012 ESOP Option entitles the holder to acquire one fully paid ordinary share (**Share**) in the Company.
2. Neither the Options nor the 2012 ESOP Options can be exercised until 26 October 2015 (**Exercise Date**) except in the circumstances set out in paragraph 6 below.
3. The exercise price of each Option and each 2012 ESOP Options is \$6.85 (**Exercise Price**).
4. The Options and the 2012 ESOP Options will lapse at 5.00pm (Melbourne Time) 12 months from the relevant Exercise Date (**Expiry Date**). Any Options or 2012 ESOP Options which have not been exercised on or before 5.00pm (Melbourne Time) on the Expiry Date lapse automatically.
5. The Options and 2012 ESOP Options are transferable after the Exercise Date although no application will be made to the ASX for Official Quotation of the Options or the 2012 ESOP Options.
6. Options and ESOP 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.
7. Options and 2012 ESOP Options may only be exercised by notice in writing (**Exercise Notice**) delivered to the registered office of the Company. The Exercise Notice must specify the number of options being exercised and must be accompanied by:
 - (a) the Exercise Price for the number of Options or 2012 ESOP Options specified in the Exercise Notice; and
 - (b) the certificate for those Options or 2012 ESOP Options, for cancellation by the Company.
8. The Exercise Notice only becomes effective when the Company has received cleared funds for the full amount of the Exercise Price.
9. Within 10 Business Days after the Exercise Notice becomes effective, the Board must:
 - (a) allot and issue or transfer the number of Shares specified in the Exercise Notice to the Option holder or 2012 ESOP Option holder;
 - (b) cancel the certificate for the Options or 2012 ESOP Options being exercised;
 - (c) if applicable, issue a new certificate for any remaining Options or 2012 ESOP Options covered by the certificate accompanying the Exercise Notice; and
 - (d) apply for Official Quotation by the ASX of all Shares issued in accordance with the Exercise Notice.
10. There are no participating rights or entitlements inherent in the Options and 2012 ESOP Options and holders will not be entitled to participate in new issues of capital offered to the Company's Shareholders during the currency of the Options and 2012 ESOP Options. However, the Company will send a notice to each holder of either Options or 2012 ESOP Options at least nine business days before the record date of any new issues of capital offered to the Company's Shareholders. This will give optionholders the opportunity to exercise their Options or 2012 ESOP Options prior to the date for determining entitlements to participate in any such issue.
11. If from time to time on or prior to the Expiry Date the Company makes an issue of Shares to the Shareholders by way of capitalisation of profits or reserves (a **bonus issue**), then upon exercise of either Options or 2012 ESOP Options an optionholder will be entitled to have issued to him (in addition to the Shares which would otherwise be issued to him under that bonus issue (**bonus shares**) if on the record date for the bonus issue the optionholder has been registered as the holder of the number of Shares of which he would have been

registered as holder if, immediately prior to that date, he had duly exercised his Options or 2012 ESOP Options and the Shares the subject of such exercise had been duly allotted and issued or transferred to him. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank pari passu in all respects with the other shares allotted under the bonus issue.

12. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of an optionholder will be changed to the extent necessary to comply with the applicable Listing Rules in force at the time of the reorganisation.
13. Generally, as set out in the rules of the 2012 ESOP which is attached as Annexure "B".
14. It is intended that vesting of any Options or 2012 ESOP Options will be subject to the Company's TSR exceeding the relative TSR of companies in the S&P ASX 200 Energy Index over a three year period. Vesting will occur in proportion to the Company's performance measures as follows:

Total Shareholder Return:

TSR Rank	Proportion of Unlisted Options to Vest
Less than 50 th percentile	0%
At 50 th percentile	50%
Between 50 th and 75 th percentile	50% plus 2% for each additional percentile ranking above 50 th percentile
At or above 75 th percentile	100%

ANNEXURE "F"

TERMS AND CONDITIONS OF THE PERFORMANCE RIGHTS PROPOSED TO BE GRANTED UNDER RESOLUTIONS 9 and 10

1. Subject to satisfaction of the Company wide performance condition in paragraph 13 below, each Right entitles the holder to subscribe for and be allotted one fully paid ordinary share (**Share**) in the Company.
2. The Performance Rights cannot be exercised until 26 October 2014 (**Exercise Date**) except in the circumstances set out in paragraph 6 below.
3. There is no exercise price to be paid on exercise of the Performance Rights.
4. The Performance Rights will lapse at 5.00pm (Melbourne Time) 12 months from the relevant Exercise Date (**Expiry Date**). Any Performance Rights which have not been exercised on or before 5.00pm (Melbourne Time) on the Expiry Date lapse automatically.
5. The Performance Rights are transferable after the Exercise Date although no application will be made to the ASX for Official Quotation of the Options.
6. Performance Rights 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.
7. Performance Rights may only be exercised by notice in writing (**Exercise Notice**) delivered to the registered office of the Company. The Exercise Notice must specify the number of Performance Rights being exercised and must be accompanied by the certificate for those Performance Rights, for cancellation by the Company.
8. Within 10 Business Days after the Exercise Notice becomes effective, the Board must:
 - (a) allot and issue the number of Shares specified in the Exercise Notice to the Option Holder;
 - (b) cancel the certificate for the Performance Rights being exercised;
 - (c) if applicable, issue a new certificate for any remaining Performance Rights covered by the certificate accompanying the Exercise Notice; and
 - (d) apply for Official Quotation by the ASX of all Shares issued in accordance with the Exercise Notice.
9. There are no participating rights or entitlements inherent in the Performance Rights and holders will not be entitled to participate in new issues of capital offered to the Company's Shareholders during the currency of the Performance Rights. However, the Company will send a notice to each holder of Performance Rights at least nine business days before the record date of any new issues of capital offered to the Company's Shareholders. This will give rightsholders the opportunity to exercise their Performance Rights prior to the date for determining entitlements to participate in any such issue.
10. If from time to time on or prior to the Expiry Date the Company makes an issue of Shares to the Shareholders by way of capitalisation of profits or reserves (a **bonus issue**), then upon exercise of Performance Rights a rightsholder will be entitled to have issued to him (in addition to the Shares which would otherwise be issued to him under that bonus issue (**bonus shares**) if on the record date for the bonus issue the rightsholder has been registered as the holder of the number of Shares of which he would have been registered as holder if, immediately prior to that date, he had duly exercised his Performance Rights and the Shares the subject of such exercise had been duly allotted and issued to him. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank pari passu in all respects with the other shares allotted under the bonus issue.
11. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of a rightsholder will be changed to the extent necessary to comply with the applicable Listing Rules in force at the time of the reorganisation.
12. Generally, as set out in the rules of the 2012 PRP which is attached as Annexure "D".

13. It is intended that vesting of any Performance Rights will be subject to the following vesting conditions over the relevant one year performance period followed by a retention period of one year:
- personal performance as assessed during the annual performance review period. The Group conducts annual performance reviews, measured against an individual's job description and role within the Group as assessed by senior management and the Remuneration Committee where appropriate (weighting 50% p.a.); and
 - Company-wide operational objectives, as reviewed annually by the Remuneration Committee by reviewing the Company's operational work plans for the upcoming financial year and assessing the relevant individual's involvement. (weighting 50% p.a.).