

# **KAROON GAS AUSTRALIA LIMITED**

**ABN 53 107 001 338**

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## **NOTICE OF GENERAL MEETING**

**and**

## **EXPLANATORY STATEMENT**

**and**

## **PROXY FORM**

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Date of Meeting: 21 October 2005  
Time of Meeting: 11.00 am  
Place of Meeting: Collins Room, Le Meridien Hotel at Rialto,  
495 Collins Street, Melbourne, Victoria, 3000

*This Notice of General Meeting and Explanatory Statement 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 LIMITED

ABN 53 107 001 338

## NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of shareholders of Karoon Gas Australia Limited ABN 53 107 001 338 ("**Karoon**" or "**Company**") will be held at the Collins Room, Le Meridien Hotel at Rialto 495 Collins Street, Melbourne, Victoria commencing at 11.00 on 21 October 2005. The Explanatory Statement that accompanies and forms part of this Notice of General Meeting describes the various matters to be considered.

## AGENDA

### FINANCIAL REPORTS

To receive the financial statements, Directors' report and Auditor's report for the Company and its controlled entities for the period ended 30 June 2005.

### ORDINARY RESOLUTIONS

#### 1. Re-election of Director

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

*"That Mark Smith, who retires in accordance with Article 11.3 of Karoon's constitution and being eligible offers himself for re-election, be re-elected as a Director."*

#### 2. Re-election of Director

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

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

#### 3. Re-election of Director

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

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

#### **4. Ratification of Share Placements**

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

*"That for the purpose of ASX Listing Rule 7.4 and for all other purposes, the shareholders approve and ratify the previous issue of 7,750,000 ordinary fully paid shares in the capital of the Company to the shareholders as detailed in the Explanatory Memorandum which accompanies and forms part of this Notice."*

**Voting Exclusion Statement:** *The Company will disregard any votes cast on this resolution by any person who participated in the issue, and their associates.*

**However, the Company need not disregard a vote if:**

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

#### **5. Issue of Options to Director – Geoffrey Atkins**

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

*"That for the purposes of Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue 500,000 Options exercisable at \$1.35 each on or before 30 June 2007 to acquire ordinary fully paid shares in the capital of the Company to Geoffrey Atkins on the terms and conditions set out in the Explanatory Statement accompanying this notice."*

**Voting Exclusion Statement:** *The Company will disregard any votes cast on this resolution by a director of the Company and any of their respective associates.*

**However, the Company need not disregard a vote if:**

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

#### **6. Issue of Options to Director – Stephen Power**

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

*"That for the purposes of Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue, 500,000 Options exercisable at \$1.65 each on or before 30 June 2007 to acquire ordinary fully paid shares in the capital of the Company to Stephen Power on the terms and conditions set out in the Explanatory Statement accompanying this notice."*

***Voting Exclusion Statement:*** *The Company will disregard any votes cast on this resolution by a director of the Company and any of their respective associates.*

***However, the Company need not disregard a vote if:***

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

## **7. Issue of Options to Director – Mark Smith**

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

*“That for the purposes of Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue pursuant to an employment agreement the following Options:*

*Tranche 1 - 1,500,000 Options exercisable at \$1.75 each on or before 30 September 2008 to acquire ordinary fully paid shares in the capital of the Company;*

*Tranche 2 - 1,500,000 Options exercisable at \$2.00 each on or before 30 September 2008 to acquire ordinary fully paid shares in the capital of the Company;*

*Tranche 3 - 1,500,000 Options exercisable at \$2.35 each on or before 30 September 2008 to acquire ordinary fully paid shares in the capital of the Company;*

*To Mark Smith on the terms and conditions set out in the Explanatory Statement accompanying this notice.”*

***Voting Exclusion Statement:*** *The Company will disregard any votes cast on this resolution by a director of the Company and any of their respective associates.*

***However, the Company need not disregard a vote if:***

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

## **8. Issue of Options to Director – Robert Hosking**

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

*“That for the purposes of Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue pursuant to an employment agreement the following Options:*

*Tranche 1 - 1,500,000 Options exercisable at \$1.75 each on or before 30 September 2008 to acquire ordinary fully paid shares in the capital of the Company;*

*Tranche 2 - 1,500,000 Options exercisable at \$2.00 each on or before 30 September 2008 to acquire ordinary fully paid shares in the capital of the Company;*  
*Tranche 3 - 1,500,000 Options exercisable at \$2.35 each on or before 30 September 2008 to acquire ordinary fully paid shares in the capital of the Company;*

*To Robert Hosking on the terms and conditions set out in the Explanatory Statement accompanying this notice.”*

***Voting Exclusion Statement: The Company will disregard any votes cast on this resolution by a director of the Company and any of their respective associates.***

***However, the Company need not disregard a vote if:***

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

**BY ORDER OF THE BOARD**

Robert Hosking  
Chairman  
19 September 2005

# KAROON GAS AUSTRALIA LIMITED

ABN 53 107 001 338

## EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of shareholders of Karoon Gas Australia Limited ("**Karoon**" or "**Company**") in connection with the business to be conducted at the General Meeting of shareholders to be held at the Collins Room, Le Meridien Hotel at Rialto 495 Collins Street, Melbourne, Victoria on 21 October 2005 at 11.00 am.

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

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

### 1. RE-ELECTION OF DIRECTOR – MARK SMITH

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

### 2. RE-ELECTION OF DIRECTOR – GEOFF ATKINS

Geoff Atkins was appointed as a casual vacancy during the year and is required to retire under the provisions of Article 11.6 of the Company's constitution. Geoff Atkins, being eligible, has offered himself for re-election as a Director.

### 3. RE-ELECTION OF DIRECTOR – STEPHEN POWER

Stephen Power was appointed as a casual vacancy during the year and is required to retire under the provisions of Article 11.6 of the Company's constitution. Stephen Power, being eligible, has offered himself for re-election as a Director.

### 4. RATIFICATION OF SHARE PLACEMENTS

Since the last shareholders meeting the Company raised \$13,950,000 through the issue of 7,750,000 shares at a price of \$1.80 per share, detailed in the table below.

Name	Number of shares issued	Issue Price per share	Date of Allotment
CSFB Third Nominees Pty Ltd (SBABP A/C)	975,000	1.80	23 August 2005
Allen Geoffrey Stevens	265,000	1.80	23 August 2005
Brodie Cresswell & Walton Pty Ltd	10,000	1.80	23 August 2005
Fox Ventures Pty Ltd (Fox NO2 A/C)	20,000	1.80	23 August 2005
Neal Ashley Cooper	20,000	1.80	23 August 2005
Cheves Investments Pty Ltd	10,000	1.80	23 August 2005

Wenford Nominees Pty Ltd (No 3 Account)	120,000	1.80	23 August 2005
Droga Capital Pty Ltd	200,000	1.80	23 August 2005
DC Stock Pty Ltd (Fund – Long A/C)	200,000	1.80	23 August 2005
National Nominees Pty Limited	225,000	1.80	23 August 2005
Citicorp Nominees Limited	75,000	1.80	23 August 2005
Irrewarra Investments Pty Ltd (DS A/C)	70,000	1.80	23 August 2005
Equity Trustees Limited	75,000	1.80	23 August 2005
Fortis Clearing Nominees Pty Ltd	50,000	1.80	23 August 2005
Invia Custodian Pty Ltd	450,000	1.80	23 August 2005
HSBC Custody Nominees (Australia) Limited	225,000	1.80	23 August 2005
Westpac Custodians Nominees Limited	222,500	1.80	23 August 2005
Westpac Custodians Nominees Limited	377,500	1.80	23 August 2005
BBY Nominees Pty Ltd	125,000	1.80	23 August 2005
Westpac Custodians Nominees Limited	2,300,000	1.80	23 August 2005
Kale Capital Corporation Ltd	150,000	1.80	23 August 2005
Westpac Custodians Nominees Limited	375,000	1.80	23 August 2005
National Nominees Limited	65,000	1.80	23 August 2005
McNeil Nominees Pty Limited	100,000	1.80	23 August 2005
Pontu Consolidated Pty Ltd (Rodney George Invest A/C)	20,000	1.80	23 August 2005
Lifeclip Pty Ltd (Fayman Custodian Fund)	15,000	1.80	23 August 2005
Barton Pace Pty Limited	10,000	1.80	23 August 2005
Summerlea Nominees Pty Ltd	900,000	1.80	26 August 2005
Litowitz Investments LP	100,000	1.80	26 August 2005
Total	7,750,000		

The placements were arranged through a range of leading financial institutions and sophisticated investors and professional investors of the kind referred to in section 708 of the Corporations Act 2001.

Listing Rule 7.1 prohibits the issue, without shareholder approval, of securities by a company which exceeds 15% of the shares on issue during the 12 months prior to the date of the agreement to issue them. ASX Listing Rule 7.4 provides the issues of securities made without approval under Listing Rule 7.1 are treated as having been made with approval for the purpose of Listing Rule 7.1 if shareholders subsequently approve the issues.

The purpose of the funds raised by the placement will be required to consolidate the funding for the exploration work programmes in the Browse and Gippsland Basins.

The shares issued were ordinary fully paid shares and rank equally with the existing ordinary shares of the Company. If the shareholders pass this resolution and thus ratify the issue of the shares referred to below, then the effect of the ratification is retrospective to the date of the issue.

## **5. ISSUE OF OPTIONS TO A DIRECTOR – GEOFFREY ATKINS**

Resolution 5 seeks Shareholder approval for the Company to grant 500,000 Options to Mr Geoffrey Atkins a Director of the Company.

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

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

Mr Atkins was appointed to the Board in February 2005 to further strengthen the Board through the benefit of his substantial experience. In order to attract Mr Atkins to the Board he was offered 500,000 Options. The purpose of the proposal grant of Options is to honour that offer and to provide Mr Atkins with added incentive whilst enabling the Company to preserve its cash reserves for expenditure on its existing business. The number of Options proposed to be granted to Mr Atkins has been determined on the basis that it is reasonable relative to the number of Options proposed to be offered to other Directors of the Company. The Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the Options. A total of \$675,000 in additional Share capital would be raised if the options were exercised in full.

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

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



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

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

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

- being a Director Mr Atkins is a related party of the Company to whom the financial benefit would be given by virtue of Section 228(2)(a) of the Corporations Act;
- the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure "A" to this Explanatory Statement;
- those Directors who have no interest in the outcome of Resolution 5 (being all Directors other than Mr Atkins) recommend that Shareholders vote in favour of Resolution 5 on the basis that the Options to be granted provide Mr Atkins with an appropriate incentive in recognition of his great, knowledge and experience in relevant industries;
- Mr Atkins makes no recommendation in relation to Resolution 5 on the basis that he has an interest in the outcome of the resolution;
- the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements. The exercise price and exercise dates for the Options are set out in Annexure "A" to this Explanatory Statement. Based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 5 has a value of \$0.2264 (\$113,200 in aggregate) as at 25 February 2005.

This estimate is based on the following assumptions:

Exercise price	\$1.35
Market value of underlying Shares at time of setting exercise price	\$1.10
Time to expiration of Option	2 years
Volatility	39.7014 %
Risk free interest rate	4.97%
Annualised dividend yield	Nil

- over the last 12 months, the lowest recorded price of Shares in SEATS trading on ASX was \$0.19 on 13 September 2004 and the highest was \$1.76 on 12 August 2005. At the close of trading on 13 September 2005, the Share price was \$1.80.
- following the passing of Resolution 5 Mr Atkins will hold an interest in 152,500 Shares and 575,000 Options;
- Mr Atkins is entitled to receive Directors' fees of \$25,000 per annum. As a non-executive director Mr Atkins does not receive a salary.
- the Company has 62,263,612 Shares and 21,407,785 Options on issue. Assuming that Mr Atkins exercises all of the Options to be granted to him pursuant to Resolution 5, Mr Atkins' interest including the Shares and Options currently held will represent approximately 0.86 % of the Company's diluted capital; and

- (j) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 5.

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

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

## **6. ISSUE OF OPTIONS TO A DIRECTOR – STEPHEN POWER**

Resolution 6 seeks Shareholder approval for the Company to grant 500,000 Options to Mr Stephen Power a Director of the Company.

Shareholder approval for the grant of the Options the subject of Resolution 6 is sought for the purposes of:

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

Mr Power was appointed to the Board in June 2005 to further strengthen the Board through the benefit of his substantial experience. In order to attract Mr Power to the Board he was offered 500,000 Options. The purpose of the proposal grant of Options is to honour that offer and to provide Mr Power with added incentive whilst enabling the Company to preserve its cash reserves for expenditure on its existing business. The number of Options proposed to be granted to Mr Power has been determined on the basis that it is reasonable relative to the number of Options proposed to be offered to other Directors and employees of the Company, having regard to their respective levels of seniority in the Company. The Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the Options. A total of \$675,000 in additional Share capital would be raised if the options were exercised in full.

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

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

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

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

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

- (a) being a Director Mr Power is a related party of the Company to whom the financial benefit would be given by virtue of Section 228(2)(a) of the Corporations Act;
- (b) the nature of the financial benefit to be given is the grant of Options on the terms set out in this Explanatory Statement;
- (c) those Directors who have no interest in the outcome of Resolution 6 (being all Directors other than Mr Power) recommend that Shareholders vote in favour of Resolution 6 on the basis that the Options to be granted provide Mr Power with an appropriate incentive in recognition of his great, knowledge and experience in relevant industries;
- (d) Mr Power makes no recommendation in relation to Resolution 6 on the basis that he has an interest in the outcome of the resolution;
- (e) the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements. The exercise price and exercise dates for the Options are set out in Annexure "A" to this Explanatory Statement. Based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 6 has a value of \$0.3137 (\$156,850 in aggregate) as at 9 June 2005.

This estimate is based on the following assumptions:

Exercise price	\$1.65
Market value of underlying Shares at time of setting exercise price	\$1.40
Time to expiration of Option	2 years
Volatility	39.7014 %
Risk free interest rate	4.97%
Annualised dividend yield	Nil

- (f) over the lowest recorded price of Shares in SEATS trading on ASX was \$0.19 on 13 September 2004 and the highest was \$1.76 on 12 August 2005. At the close of trading on 13 September 2005, the Share price was \$1.80.
- (g) following the passing of Resolution 6 Mr Power will hold an interest in 10,000 Shares and 505,000 Options;
- (h) Mr Power is entitled to receive Directors' fees of \$25,000 per annum. As a non-executive director Mr Power does not receive a salary.
- (i) the Company has 62,263,612 Shares and 21,407,785 Options on issue. Assuming that Mr Power exercises all of the Options to be granted to him pursuant to Resolution 6, Mr Powers' interest including the Shares and Options currently held will represent approximately 0.61% of the Company's diluted capital; and
- (j) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 6.

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

- (a) The name of the person who will be issued Options is Mr Stephen Power.
- (b) Mr Stephen Power will be issued 500,000 Options.
- (c) The Options will be issued within one month of Shareholder approval.

- (d) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options.
- (e) The terms and conditions of the Options are set out in Annexure “A” to this Explanatory Memorandum.

## **7. ISSUE OF OPTIONS TO A DIRECTOR – MARK SMITH**

Resolution 7 seeks Shareholder approval for the Company to grant 4,500,000 Options to Mr Mark Smith a Director of the Company.

Shareholder approval for the grant of the Options the subject of Resolution 7 is sought for the purposes of:

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

In order to secure the continued services of Mark Smith he was offered 4.5 million options pursuant to an employment agreement. The purpose of the proposal grant of Options is to honour that agreement and to provide Mr Smith with added incentive whilst enabling the Company to preserve its cash its cash reserves for expenditure on its existing business and provide added incentive whilst enabling the Company to preserve its cash reserves for expenditure on its existing business. The number of Options proposed to be granted to Mr Smith has been determined on the basis that it is reasonable relative to the number of Options proposed to be offered to other Directors and employees of the Company, having regard to their respective levels of seniority in the Company. The Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the Options. A total of \$9,150,000 in additional Share capital would be raised if the options were exercised in full.

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

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 Smith involves the provision of a financial benefit to a related party of the Company and, therefore, requires prior Shareholder approval.

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

- (a) being a Director Mr Smith is a related party of the Company to whom the financial benefit would be given by virtue of Section 228(2)(a) of the Corporations Act;

- (b) the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure "A" to this Explanatory Statement;
- (c) those Directors who have no interest in the outcome of Resolution 7 (being all Directors other than Mr Smith) recommend that Shareholders vote in favour of Resolution 7 on the basis that the Options to be granted provide Mr Smith with an appropriate incentive in recognition of his great, knowledge and experience in relevant industries;
- (d) Mr Smith makes no recommendation in relation to Resolution 7 on the basis that he has an interest in the outcome of the resolution;
- (e) the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements. The exercise price and exercise dates for the Options are set out in Annexure "A" to this Explanatory Statement. Based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 7 has a value at 9 June 2005 detailed in the table below:

	Tranche 1	Tranche 2	Tranche 3
Value of each option	\$0.3653	\$0.3026	\$0.2345
This estimate is based on the following assumptions:			
Exercise Price	\$1.75	\$2.00	\$2.35
Market value of underlying Shares at time of setting exercise price	\$1.40	\$1.40	\$1.40
Time to expiration of Option	3 years	3 years	3 years
Volatility	39.7014	39.7014	39.7014
Risk free interest rate	4.97%	4.97%	4.97%
Annualised dividend yield	Nil	Nil	Nil
The aggregate value of the options is \$1,353,600			

- (f) over the lowest recorded price of Shares in SEATS trading on ASX was \$0.19 on 13 September 2004 and the highest was \$1.76 on 12 August 2005. At the close of trading on 13 September 2005, the Share price was \$1.80.
- (g) following the passing of Resolution 7 Mr Smith will hold an interest in 1,210,000 Shares and 5,605,000 Options;
- (h) Mr Smith receives a current base remuneration of \$250,000 per annum.
- (i) the Company has 62,263,612 Shares and 21,407,785 Options on issue. Assuming that Mr Smith exercises all of the Options to be granted to him pursuant to Resolution 7, Mr Smith' interest including the Shares and Options currently held will represent approximately 8.15% of the Company's diluted capital; and
- (j) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 7.

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

- (a) The name of the person who will be issued Options is Mr Mark Smith.

- (b) Mr Mark Smith will be issued 4,500,000 Options.
- (c) The Options will be issued within one months of Shareholder approval.
- (d) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options.
- (e) The terms and conditions of the Options are set out in Annexure "A" to this Explanatory Memorandum.

## **8. ISSUE OF OPTIONS TO A DIRECTOR – ROBERT HOSKING**

Resolution 8 seeks Shareholder approval for the Company to grant 4,500,000 Options to Mr Robert Hosking a Director of the Company.

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", e.g. directors of a company;
- Listing Rule 7.1 – which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without shareholder approval; and
- Listing Rule 10.14 – which requires the grant of securities to a director of a Company be approved by shareholders.

In order to secure the continued services of Robert Hosking he was offered 4.5 million options pursuant to an employment agreement. The purpose of the proposal grant of Options is to honour that agreement and to provide Mr Hosking with added incentive whilst enabling the Company to preserve its cash its cash reserves for expenditure on its existing business and provide added incentive whilst enabling the Company to preserve its cash reserves for expenditure on its existing business. The number of Options proposed to be granted to Mr Hosking has been determined on the basis that it is reasonable relative to the number of Options proposed to be offered to other Directors and employees of the Company, having regard to their respective levels of seniority in the Company. The Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the Options. A total of \$9,150,000 in additional Share capital would be raised if the options were exercised in full.

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

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

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

- (a) being a Director Mr Hosking is a related party of the Company to whom the financial benefit would be given by virtue of Section 228(2)(a) of the Corporations Act;
- (b) the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure "A" to this Explanatory Statement;
- (c) those Directors who have no interest in the outcome of Resolution 8 (being all Directors other than Mr Hosking) recommend that Shareholders vote in favour of Resolution 8 on the basis that the Options to be granted provide Mr Hosking with an appropriate incentive in recognition of his great, knowledge and experience in relevant industries;
- (d) Mr Hosking makes no recommendation in relation to Resolution 8 on the basis that he has an interest in the outcome of the resolution;
- (e) the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements. The exercise price and exercise dates for the Options are set out in Annexure "A" to this Explanatory Statement. Based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 7 has a value at 9 June 2005 detailed in the table below:

	Tranche 1	Tranche 2	Tranche 3
Value of each option	\$0.3653	\$0.3026	\$0.2345
This estimate is based on the following assumptions:			
Exercise Price	\$1.75	\$2.00	\$2.35
Market value of underlying Shares at time of setting exercise price	\$1.40	\$1.40	\$1.40
Time to expiration of Option	3 years	3 years	3 years
Volatility	39.7014	39.7014	39.7014
Risk free interest rate	4.97%	4.97%	4.97%
Annualised dividend yield	Nil	Nil	Nil
The aggregate value of the options is \$1,353,600			

- (f) over the lowest recorded price of Shares in SEATS trading on ASX was \$0.19 on 13 September 2004 and the highest was \$1.76 on 12 August 2005. At the close of trading on 13 September 2005, the Share price was \$1.80
- (g) following the passing of Resolution 8 Mr Hosking will hold an interest in 8,208,335 Shares and 9,103,752 Options:
- (h) Mr Hosking receives a current base remuneration of \$250,000 per annum.
- (i) the Company has 62,263,612 Shares and 21,407,785 Options on issue. Assuming that Mr Hosking exercises all of the Options to be granted to him pursuant to Resolution 8, Mr Hosking's interest including the Shares and Options currently held will represent approximately 20.7 % of the Company's diluted capital; and
- (j) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 8.

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

- (a) The name of the person who will be issued Options is Mr Robert Hosking.
- (b) Mr Robert Hosking will be issued 4,500,000 Options.
- (c) The Options will be issued within one month of Shareholder approval.
- (d) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options.

The terms and conditions of the Options are set out in Annexure “A” to this Explanatory Memorandum.

For resolutions 5, 6, 7 and 8 and pursuant to Listing Rule 7.2 Exception 14, if shareholder approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

## **Glossary**

<b>ASX</b>	Australian Stock Exchange Limited
<b>Board</b>	Board of Directors of Karoon Gas Australia Ltd
<b>Corporations act</b>	Corporations Act 2001 (Cth)
<b>Directors</b>	Directors of Karoon Gas Australia Ltd
<b>EST</b>	Eastern Standard Time, being the time in Melbourne, Victoria
<b>Professional and Sophisticated Investors</b>	An investor within the definition in section and 708(8) or 708(11) of the Corporations Act 2001 (Cth).
<b>Listing Rules</b>	Any rule of the ASX which are applicable while Karoon is admitted to the official list of the ASX.
<b>Options</b>	Options to subscribe for Shares.
<b>Shares</b>	Fully paid ordinary shares in the capital of Karoon Gas Australia Ltd
<b>Shareholders</b>	Holders of Shares



## ANNEXURE "A"

### Terms and Conditions of the Options:

- Each options entitles the holder to one share in the Company
- The options are exercisable by completing an Option exercise form and delivering it, together with payment for the number of Options exercised to the registered office of the Company.
- An Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Option can be exercised
- All shares options issued upon exercise of the Options will rank pari passu in all respects with the Company's issued shares.
- The Company will apply for official quotation by the ASX of all Shares issued upon exercise of the Options
- If at any time the issued capital of the company is reconstructed, all rights of an Option Holder are to be changed in a manner consistent with the ASX listing rules.
- There are no participating rights or entitlements inherent in the options and the holders will not be entitled to participate in new shares of capital offered to shareholders during the currency of the options. However, the Company will ensure, for the purposes of determining entitlements to any issue, that the record date will be at least 7 business days after the issue is announced. This will give option holders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issues.

## PROXY AND VOTING ENTITLEMENT INSTRUCTIONS

### PROXY INSTRUCTIONS

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

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be deposited at or sent by facsimile transmission to the registered office of Karoon, **34 Lochiel Avenue, Mt Martha, Victoria 3934, facsimile number +61 3 5974 1644**, not less than 48 hours before the time for holding the annual general meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

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

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

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

A proxy form is attached to this Notice.

### VOTING ENTITLEMENT

For the purposes of determining voting entitlements at the annual general meeting, shares will be taken to be held by the persons who are registered as holding the shares at 7.00pm on 19 October 2005. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

**KAROON GAS AUSTRALIA LIMITED**  
ABN 53 107 001 338

**PROXY FORM**

The Secretary  
Karooon Gas Australia Limited  
34 Lochiel Avenue  
Mt Martha Victoria 3934

AUSTRALIA

Fax Number: +61 3 5974 1644

I/We \_\_\_\_\_

of \_\_\_\_\_

being a shareholder/(s) of Karooon Gas Australia Limited ("**Karooon**") and entitled to

\_\_\_\_\_ shares in Karooon

hereby appoint \_\_\_\_\_

of \_\_\_\_\_

or failing him/her \_\_\_\_\_

of \_\_\_\_\_

or failing him/her the Chairman as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of Karooon to be held at Collins Room, Le Meridien Hotel at Rialto 495 Collins Street, Melbourne, Victoria on 21 October 2005 at 11.00 am, and at any adjournment thereof in respect of \_\_\_\_\_ of my/our shares or, failing any number being specified, **ALL** of my/our shares in Karooon.

If two proxies are appointed, the proportion of voting rights this proxy is authorised to exercise is [    ]%. (An additional proxy form will be supplied by Karooon on request.)

If you wish to indicate how your proxy is to vote, please tick the appropriate places below. If no indication is given on a resolution, the proxy may abstain or vote at his or her discretion.

I/we direct my/our proxy to vote as indicated below:

