



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

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**NOTICE OF MEETING**

and

**EXPLANATORY STATEMENT**

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Date of Meeting: Friday, 1<sup>st</sup> August 2008  
Time of Meeting: 11.00am  
Place of Meeting: Garden Rooms 2 & 3  
Level One, Crown Towers, 8 Whiteman Street,  
Southbank, Melbourne, Victoria

***This Notice of 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 ("**Company**") will be held at 11.00am (EST) on Friday 1 August 2008 at Garden Rooms 2 & 3, Level One, Crown Towers, 8 Whiteman Street, Southbank, Melbourne, Victoria.

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

## AGENDA

### 1. RESOLUTION 1 – RATIFICATION OF PLACEMENT OF SHARES

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

*“That for the purposes of Listing Rule 7.4 of ASX Limited and for all other purposes, this meeting approves and ratifies the previous allotment and issue of 14,800,000 fully paid ordinary shares in the capital of the Company as detailed in the Explanatory Memorandum which accompanies and forms part of this Notice of Meeting.”*

#### **Voting Exclusion Statement**

The Company will disregard any votes cast on a resolution by a person who participated in the issue and any associate of that person. 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 a direction on the proxy form; or
- It is cast by the person chairing the meeting as proxy for the person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### 2. RESOLUTION 2 – APPROVAL OF PLACEMENT OF SHARES

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

*“That for the purposes of Listing Rule 7.1 of ASX Limited and for all other purposes, the Directors be authorised to allot and issue 14,000,000 ordinary shares in the capital of the Company at an issue price of \$3.50 per share to those persons and on the terms as detailed in the Explanatory Memorandum which accompanies and forms part of this Notice of Meeting.”*

#### **Voting Exclusion Statement**

The Company will disregard any votes cast on a resolution by a person who may participate in the proposed issue and any associate of that person. 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 a direction on the proxy form; or
- It is cast by the person chairing the meeting as proxy for the person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**3. RESOLUTION 3 – APPROVAL OF ISSUE OF OPTIONS TO DIRECTOR – MR ROBERT HOSKING**

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

*“That for the purposes of Listing Rules 7.1 and 10.11 of ASX Limited and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue to Mr Robert Hosking or his nominee:*

- (a) 750,000 Options to acquire ordinary fully paid shares in the capital of the Company exercisable on or before 30 April 2011 at an exercise price of \$4.00 each;*
- (b) 750,000 Options to acquire ordinary fully paid shares in the capital of the Company exercisable during the period 1 May 2009 to 30 April 2011 at an exercise price of \$4.50 each;*
- (c) 750,000 Options to acquire ordinary fully paid shares in the capital of the Company exercisable during the period 1 May 2010 to 30 April 2011 at an exercise price of \$5.00 each;*

*on the terms and conditions set out in the Explanatory Memorandum which accompanies and forms part of this Notice of Meeting.”*

**Voting Exclusion Statement**

The Company will disregard any votes cast on a resolution by Mr Robert Hosking or his nominee and any of his associates or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities. However, the Company need not disregard a vote if:

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

**4. RESOLUTION 4 – APPROVAL OF ISSUE OF OPTIONS TO DIRECTOR – MR MARK SMITH**

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

*“That for the purposes of Listing Rules 7.1 and 10.11 of ASX Limited and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue to Mr Mark Smith or his nominee:*

- (a) 750,000 Options to acquire ordinary fully paid shares in the capital of the Company exercisable on or before 30 April 2011 at an exercise price of \$4.00 each;*
- (b) 750,000 Options to acquire ordinary fully paid shares in the capital of the Company exercisable during the period 1 May 2009 to 30 April 2011 at an exercise price of \$4.50 each;*
- (c) 750,000 Options to acquire ordinary fully paid shares in the capital of the Company exercisable during the period 1 May 2010 to 30 April 2011 at an exercise price of \$5.00 each;*

*on the terms and conditions set out in the Explanatory Memorandum which accompanies and forms part of this Notice of Meeting.”*

**Voting Exclusion Statement**

The Company will disregard any votes cast on a resolution by Mr Mark Smith or his nominee and any of his associates or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities. However, the Company need not disregard a vote if:

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

**5. RESOLUTION 5 – APPROVAL OF ISSUE OF OPTIONS TO MR TIMOTHY HOSKING**

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

*“That for the purposes of Listing Rules 7.1 and 10.11 of ASX Limited and Chapter 2E of the Corporations Act and for all other purposes, approval be given for the Company to allot and issue to Mr Timothy Hosking or his nominee, 100,000 Options to acquire ordinary fully paid Shares in the capital of the Company, exercisable on or before 30 April 2011 at an exercise price of \$4.00 each, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting.”*

***Voting Exclusion Statement***

The Company will disregard any votes cast on a resolution by Mr Timothy Hosking or his nominee, and any of his associates or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities. However, the Company need not disregard a vote if:

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

**REQUIRED MAJORITIES**

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

DATED: 16<sup>th</sup> June 2008

**BY ORDER OF THE BOARD**



Scott Hosking  
Company Secretary

## PROXY AND VOTING ENTITLEMENT INSTRUCTIONS

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

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

A shareholder who appoints a proxy may specify the way in which the proxy is to vote on each resolution or may allow the proxy to vote at his or her discretion.

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

Share Registry:           Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street, Abbotsford Vic 3067 Australia

Postal Address:         PO Box 242  
Melbourne Vic 3001 Australia

Facsimile Number:     61 3 9473 2555

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 General Meeting (proxy forms can be lodged by facsimile).

In accordance with regulation 7.11.38 of the Corporations Regulations, the Company determines that ordinary shares held as at 7.00pm (EST) on Wednesday 30 July 2008 will be taken, for the purposes of the General Meeting, to be held by the persons who held them at that time.

### Notes:

1. If a proxy form is signed or authenticated by an appointer's attorney, the power of attorney or a certified copy thereof (if any) under which it is signed must accompany the proxy form and be received by the Share Registry – Computershare Investors Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, Vic 3067, not later than 48 hours before the appointed time of the General Meeting.
2. Proxy forms executed by a corporation must be in accordance with the requirements of the Corporations Act 2001 or under the hand of its attorney. In the case of a sole director/secretary company, please indicate "sole director" in the space provided.
3. Should you desire to direct your proxy on how to vote, place a cross in the appropriate box for each item, otherwise your proxy may vote as your proxy thinks fit or abstain from voting.
4. If two proxies are appointed, you may delete "all" and insert the relevant number or proportion of shares in respect of which each such appointment is made. A separate proxy must be completed for each proxy.
5. If you need any further information about this form or attendance at the General Meeting please contact the Share Registry - Computershare Investors Services Pty Limited on (within Australia) 1300 850 505 (outside Australia) 61 3 9415 4000.

# KAROON GAS AUSTRALIA LIMITED

ACN 107 001 338

## EXPLANATORY MEMORANDUM TO SHAREHOLDERS

### 1. INTRODUCTION

This Explanatory Memorandum has been prepared for the information of shareholders of Karoon Gas Australia Limited (“**Company**”) in connection with the business to be transacted at a general meeting of the Company to be held on Friday, 1 August 2008 (“**General Meeting**”).

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

- (a) ratifying the previous issue of 14,800,000 Shares;
- (b) authorising the future issue of 14,000,000 Shares at an issue price of \$3.50 per Share to Professional and Sophisticated Investors;
- (c) authorising the issue of Options to Mr Robert Hosking or his nominee;
- (d) authorising the issue of Options to Mr Mark Smith or his nominee; and
- (e) authorising the issue of Options to Mr Timothy 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 Shareholders. The Explanatory Memorandum should be read in conjunction with the accompanying Notice of Meeting.

## 2. RESOLUTION 1: RATIFICATION OF PLACEMENT OF SHARES

Listing Rule 7.1 requires that a listed company obtain Shareholder approval prior to an issue of securities representing more than 15% of the issued capital of that company in any 12 month period. Listing Rule 7.4 enables a company to restore its ability to issue securities within the 15% annual limit by obtaining shareholder ratification of an issue previously made within that limit.

Shareholder ratification pursuant to Listing Rule 7.4 is sought in respect of an issue of Shares made between 13<sup>th</sup> November 2007 to 26<sup>th</sup> November 2008 to Professional and Sophisticated Investors. The resolution will restore the Company's ability to issue securities within the 15% annual limit.

Since the last shareholders meeting the Company has raised \$51.05 million through the issue of 14,800,000 Shares at a price of \$3.45 per Share,

The allottees of the Shares were Professional and Sophisticated Investors who were identified by, and are clients, of:

- (i) Southern Cross Equities Limited;
- (ii) E.L. & C. Baillieu Stockbroking Ltd;
- (iii) BBY Limited; and
- (iv) Intersuisse Corporate Pty Ltd
- (v) Bell Potter Securities Ltd

The funds raised by the placement of the Shares were used by the Company to fund the ongoing exploration of its oil and gas exploration assets and for general working capital purposes.

The Shares issued were 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 above, then the effect of the ratification is retrospective to the date of the issue.

If the resolution is passed, the Company will, pursuant to Listing Rule 7.1, be able to issue up to 15% of its issued Share capital without the requirement to seek the approval of its Shareholders. The Directors believe this will be beneficial to the Company as it will allow it to capitalise on business opportunities, if, and when, they become available.

### 3. RESOLUTION 2: APPROVAL OF PLACEMENT OF SHARES

Listing Rule 7.1 requires that a listed company obtain Shareholder approval prior to an issue of securities representing more than 15% of the issued capital of that company in any 12 month period.

The Company has entered into Placement Agreements with:

- (a) Southern Cross Equities Limited;
- (b) E.L. & C. Baillieu Stockbroking Ltd;
- (c) BBY Limited; and
- (d) Intersuisse Corporate Pty Ltd
- (e) Bell Potter Securities Ltd

to apply for the placement shares and procure the application for the placement shares by Professional and Sophisticated Investors.

Shareholder approval is now sought pursuant to Listing Rule 7.1 to enable the Company to issue up to 14,000,000 Shares at an issue price of \$3.50 representing 9.58% of the issued capital of the Company on a fully diluted basis (assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Smith, Mr Robert Hosking and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 3, 4 and 5).

Outlined below is the information required to be provided to Shareholders pursuant to Listing Rule 7.3 for the purpose of obtaining Shareholder approval under Listing Rule 7.1 for the proposed placement:

- (a) the maximum number of Shares to be issued is 14,000,000 Shares;
- (b) the Shares will be issued and allotted within 3 months of the date of the General Meeting;
- (c) the Shares will be issued at an issue price of \$3.50 per Share;
- (d) the allottees of the Shares will be Professional and Sophisticated Investors who are identified by, and are clients of:
  - (i) Southern Cross Equities Limited;
  - (ii) BBY Limited;
  - (iii) E.L. & C. Baillieu Stockbroking Ltd; and
  - (iv) Intersuisse Corporate Pty Ltd
  - (v) Bell Potter Securities
- (e) the Shares will rank pari passu with existing Shares on issue; and
- (f) funds raised by the issue of Shares will be used by the Company to fund the ongoing exploration of its oil and gas exploration assets and for general working capital purposes



#### 4. **RESOLUTION 3: APPROVAL OF ISSUE OF OPTIONS TO MR ROBERT HOSKING**

Resolution 3 seeks Shareholder approval for the Company to grant 2,250,000 Options to Mr Robert Hosking, a Director of the Company, or his nominee.

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

- Division 3 of Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to “related parties”, for example directors of a company;
- Listing Rule 7.1, which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without shareholder approval; and
- Listing Rule 10.14, which requires the grant of securities to a director of a company to be approved by shareholders.

In order to secure the continued services of Mr Hosking, he was offered 2,250,000 Options pursuant to an employment agreement. The purpose of the proposal of the grant of Options is to honour that agreement and provide Mr Hosking with added incentive whilst enabling the Company to preserve its cash reserves for expenditure on its existing business.

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 \$10,125,000 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 Memorandum.

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

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

The proposed grant of Options to Mr Hosking or his nominee involves the provision of a financial benefit to a related party of the Company, and therefore, requires Shareholders approval.

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

- (a) being a Director, Mr Hosking is a related party of the Company to whom the financial benefit would be given by virtue of section 228(2) of the Corporations Act;
- (b) the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure “A” to this Explanatory Memorandum;
- (c) those Directors who have no interest in the outcome of Resolution 3 (being all Directors of the Company other than Mr Hosking) recommend that the Shareholders vote in favour of Resolution 3 on the basis that the Options to be granted provide Mr Hosking with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;
- (d) Mr Hosking makes no recommendation in relation to Resolution 3 on the basis that he has an interest in the outcome of the resolution;
- (e) the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company’s general working capital requirements;

- (f) The exercise price and exercise date for the Options are set out in Annexure "A" to this Explanatory Memorandum;
- (g) Based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 3 has a value at 30<sup>th</sup> April 2008 detailed in the table below;

	Tranche 1	Tranche 2	Tranche 3
Value of each option	\$0.51	\$0.42	\$0.32
This estimate is based on the following assumptions			
Exercise Price	\$4.00	\$4.50	\$5.00
Market value of underlying Shares at time of setting exercise price	\$3.00	\$3.00	\$3.00
Time to expiration of Option	3 years	3 years	3 years
Volatility	45%	45%	45%
Risk free interest rate	7.5%	7.5%	7.5%
Annualised dividend yield	Nil	Nil	Nil
The aggregate value of the Options is \$937,500			

- (h) over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$1.95 on 5<sup>th</sup> May 2007 and the highest was \$4.01 on 11<sup>th</sup> October 2007. At the close of trading on 5<sup>th</sup> June the Share price was \$3.70;
- (i) following the passing of Resolution 3, Mr Hosking will hold an interest in 12,256,087 Shares and 3,375,000 Options;
- (j) Mr Hosking receives a current base remuneration of \$400,000 per annum;
- (k) the Company has 132,187,879 Shares and 4,560,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Smith, Mr Robert Hosking and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 3, 4 and 5, Mr Hosking's interest including all the Shares and Options currently held will represent approximately 10.69% of the Company's diluted capital; and
- (l) neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 3.

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

- (a) The name of the person who will be issued Options is Mr Robert Hosking or his nominee.
- (b) Mr Hosking will be issued 2,250,000 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 of the Options are set out in Annexure "A" to this Explanatory Memorandum.

## 5. **RESOLUTION 4: APPROVAL OF ISSUE OF OPTIONS TO MR MARK SMITH**

Resolution 4 seeks Shareholder approval for the Company to grant 2,250,000 Options to Mr Mark Smith, a Director of the Company or his nominee.

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

- Division 3 of Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to “related parties”, for example directors of a company;
- Listing Rule 7.1, which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without shareholder approval; and
- Listing Rule 10.14, which requires the grant of securities to a director of a company to be approved by shareholders.

In order to secure the continued services of Mr Smith, he was offered 2,250,000 Options pursuant to an employment agreement. The purpose of the proposal of the grant of Options is to honour that agreement and provide Mr Smith with added incentive whilst enabling the Company to preserve its cash reserves for expenditure on its existing business.

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 \$10,125,000 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 Memorandum.

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

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

The proposed grant of Options to Mr Smith or his nominee involves the provision of a financial benefit to a related party of the Company, and therefore, requires Shareholders approval.

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

- (a) being a Director, Mr Smith is a related party of the Company to whom the financial benefit would be given by virtue of section 228(2) of the Corporations Act;
- (b) the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure “A” to this Explanatory Memorandum;
- (c) those Directors who have no interest in the outcome of Resolution 4 (being all Directors other than Mr Smith) recommend that the Shareholders vote in favour of Resolution 4 on the basis that the Options to be granted provide Mr Smith with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;
- (d) Mr Smith makes no recommendation in relation to Resolution 4 on the basis that he has an interest in the outcome of the resolution;
- (e) the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company’s general working capital requirements;

- (f) The exercise price and exercise dated for the Options are set out in Annexure "A" to this Explanatory Memorandum;
- (g) Based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 4 has a value at 30<sup>th</sup> April 2008 detailed in the table below;

	Tranche 1	Tranche 2	Tranche 3
Value of each option	\$0.51	\$0.42	\$0.32
This estimate is based on the following assumptions			
Exercise Price	\$4.00	\$4.50	\$5.00
Market value of underlying Shares at time of setting exercise price	\$3.00	\$3.00	\$3.00
Time to expiration of Option	3 years	3 years	3 years
Volatility	45%	45%	45%
Risk free interest rate	7.5%	7.5%	7.5%
Annualised dividend yield	Nil	Nil	Nil
The aggregate value of the Options is \$937,500			

- (h) over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$1.95 on 5<sup>th</sup> May 2007 and the highest was \$4.01 on 11<sup>th</sup> October 2007. At the close of trading on 5<sup>th</sup> June the Share price was \$3.70;
- (i) following the passing of Resolution 4, Mr Smith will hold an interest in 2,280,000 Shares and 3,375,000 Options;
- (j) Mr Smith receives a current base remuneration of \$400,000 per annum;
- (k) the Company has 132,187,897 Shares and 4,560,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Smith, Mr Robert Hosking and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 3, 4 and 5, Mr Smith's interest including all the Shares and Options currently held will represent approximately 3.87% of the Company's diluted capital; and
- (l) neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 4.

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

- (a) The name of the person who will be issued Options is Mr Mark Smith or his nominee.
- (b) Mr Smith or his nominee will be issued 2,250,000 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 of the Options are set out in Annexure "A" to this Explanatory Memorandum.

## 6. RESOLUTION 5: APPROVAL OF ISSUE OF OPTIONS TO MR TIMOTHY HOSKING

Resolution 5 seeks Shareholder approval for the Company to grant 100,000 Options to Mr Timothy Hosking or his nominee pursuant to the Karoon Gas Australia Ltd Employee Share Option Scheme ("ESOP").

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

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

- Division 3 of Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to "related parties", for example children of directors of a company;
- Listing Rule 7.1, which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without shareholder approval; and
- Listing Rule 10.14, which requires the grant of securities to a related party of a company to be approved by shareholders.

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

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

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

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

The Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the Options. A total of \$400,000 in additional Share capital would be raised if the Options were exercised in full.

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

- (a) Being a son of Mr Robert Hosking, a director of the Company, Mr Timothy Hosking is a related party of the Company to whom the financial benefit would be given by virtue of section 228(3) of the Corporations Act;
- (b) the nature of the financial benefit to be given is the grant of 100,000 Options on the terms set out in Annexure "B" to this Explanatory Memorandum;
- (c) those Directors who have no interest in the outcome of Resolution 5 recommend that the Shareholders vote in favour of Resolution 5 on the basis that the Options to be granted provide Mr Timothy Hosking with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;
- (d) Mr Robert Hosking makes no recommendation in relation to Resolution 5 on the basis that he is the father of Mr Timothy Hosking;
- (e) the Options will be issued free of charge. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements;

- (f) The exercise price and exercise date for the Options are set out in Annexure "B" to this Explanatory Memorandum;
- (g) Based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 5 has a value at 30<sup>th</sup> April 2008 detailed in the table below;

Value of each option	\$0.51
This estimate is based on the following assumptions	
Exercise Price	\$4.00
Market value of underlying Shares at time of setting exercise price	\$3.00
Time to expiration of Option	3 years
Volatility	
Risk free interest rate	7.5%
Annualised dividend yield	Nil
The aggregate value of the Options is \$51,000	

- (h) over the last 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares in SEATS trading on ASX was \$1.95 on 5<sup>th</sup> May 2007 and the highest was \$4.01 on 11<sup>th</sup> October 2007. At the close of trading on 5<sup>th</sup> June the Share price was \$3.70;
- (i) following the passing of Resolution 5, Mr Timothy Hosking will hold an interest in 178,443 Shares;
- (j) Mr Timothy Hosking receives a current base remuneration of \$150,000 per annum;
- (k) the Company has 132,187,897 Shares and 4,560,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Smith, Mr Robert Hosking and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 3, 4 and 5, Mr Timothy Hosking's interest including all the Shares and Options currently held will represent approximately 0.02% of the Company's diluted capital; and
- (l) neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 5.

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

- (a) The name of the person who will be issued Options is Mr Timothy Hosking or his nominee.
- (b) Mr Timothy Hosking or his nominee will be issued 100,000 Options.
- (c) The Options will be issued within one month of Shareholder approval.
- (d) Mr Timothy Hosking is the son of Mr Robert Hosking, a director of the Company.
- (e) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options.
- (f) The terms of the Options are set out in Annexure "B" to this Explanatory Memorandum.

## **7. 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.

Attached to the Notice of Meeting is a proxy form for use by Shareholders. All Shareholders are invited and encouraged to attend the 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 General Meeting in person.

## 8. GLOSSARY

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

<b>ASX:</b>	ASX Limited (ACN 008 624 691).
<b>Board:</b>	The board of directors of the Company
<b>Company:</b>	Karoon Gas Australia Limited (ACN 107 001 338).
<b>Corporations Act:</b>	Corporations Act 2001 (Cth).
<b>Corporations Regulations:</b>	Corporations Regulations 2001 (Cth).
<b>Director:</b>	A member of the Board.
<b>EST:</b>	Eastern Standard Time, being the time in Melbourne, Victoria.
<b>General Meeting:</b>	Is defined in section 1 of this Explanatory Memorandum.
<b>Listing Rules:</b>	The Official Listing Rules of the ASX, as amended from time to time.
<b>Notice of Meeting:</b>	The notice convening the General meeting which accompanies this Explanatory Memorandum.
<b>Options:</b>	Options to subscribe for Shares
<b>Professional and Sophisticated Investors:</b>	An investor within the definition of section 708(8) or 708(11) of the Corporations Act.
<b>Shareholders:</b>	Holder of Shares.
<b>Shares:</b>	Fully paid ordinary shares in the capital of the Company.



## ANNEXURE "A"

### TERMS AND CONDITIONS OF THE OPTIONS PROPOSED TO BE GRANTED TO MR ROBERT HOSKING AND MR MARK SMITH

1. Each Option entitles the holder to subscribe for and be allotted one fully paid ordinary share ("**Share**") in the Company.
2. The exercise price of the first tranche of Options is \$4.00 per Share, the second tranche of Options is \$4.50 per Share, and the third tranche of Options is \$5.00 per Share. ("**Exercise Price**").
3. The Options will lapse at 5.00pm (Australian Eastern Standard Time) on 30 April 2011. ("**Expiry Date**").
4. Any Options which have not been exercised on or before 5.00pm (Australian Eastern Standard Time) on the Expiry Date lapse automatically.
5. The Options are not transferable without the prior written consent of the Board.
6. No application will be made to the ASX for Official Quotation of the Options.
7. All Shares allotted upon the exercise of Options will rank pari passu in all respects with other fully paid ordinary shares in the Company then on issue.
8. Options may only be exercised by notice in writing ("**Exercise Notice**") delivered to the registered office of the Company. The Exercise Notice must specify the number of options being exercised and must be accompanied by:
  - (a) the Exercise Price for the number of Options specified in the Exercise Notice; and
  - (b) the certificate for those Options, for cancellation by the Company.
9. The Exercise Notice only becomes effective when the Company has received cleared funds for the full amount of the Exercise Price.
10. Within 10 Business Days after the Exercise Notice becomes effective, the Board must:
  - (a) allot and issue the number of Shares specified in the Exercise Notice to the Option Holder;
  - (b) cancel the certificate for the Options being exercised;
  - (c) If applicable, issue a new certificate for any remaining Options covered by the certificate accompanying the Exercise Notice; and
  - (d) apply for Official Quotation by the ASX of all Shares issued in accordance with the Exercise Notice.

11. There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to the Company's shareholders during the currency of the Options. However, the Company will send a notice to each holder of Options at least nine business days before the record date of any new issues of capital offered to the Company's shareholders. This will give optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
12. If from time to time on or prior to the Expiry Date the Company makes an issue of share to the holders of ordinary shares in the Company by way of capitalisation of profits or reserves (a **bonus issue**), then upon exercise of Options an optionholder will be entitled to have issued to him (in addition to the Shares which would otherwise be issued to him under that bonus issue (**bonus shares**) if on the record date for the bonus issue the optionholder has been registered as the holder of the number of Shares of which he would have been registered as holder if, immediately prior to that date, he had duly exercised his Options and the Shares the subject of such exercise had been duly allotted and issued to him. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank pari passu in all respects with the other shares allotted under the bonus issue.
13. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of an optionholder will be changed to the extent necessary to comply with the applicable ASX Listing Rules in force at the time of the reorganisation.

## **ANNEXURE “B”**

### **TERMS AND CONDITIONS OF THE OPTIONS TO BE GRANTED TO MR TIMOTHY HOSKING**

1. The Exercise Price of each Option is \$4.00.
2. The Options will expire on 30 April 2011.
3. Option commences on the Date of Allotment and ends on the Expiry Date.
4. If you cease to be employed by Karoon Gas Australia Limited or an Associated Company for any reason, any unexercised Options will lapse on the day you cease to be employed.
5. If you die or become incapacitated, any unexercised Options will lapse unless exercised by your personal representative within 3 months of your death.
6. If a Takeover Offer is made for Karoon Gas Australia Limited you will be afforded the opportunity to exercise all of your Options.
7. Generally, as set out in the Rules of the Employee Share Option Plan which is available upon request.

