

# KAROON GAS AUSTRALIA LIMITED

ABN 53 107 001 338

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## NOTICE OF ANNUAL GENERAL MEETING

and

## EXPLANATORY STATEMENT

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Date of Meeting: Thursday, 27 November 2008

Time of Meeting: 11.00am

Place of Meeting: River 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.***



## KAROOON GAS AUSTRALIA LIMITED ABN 53 107 001 338

### Notice of Annual General Meeting

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Notice is hereby given that an Annual General Meeting of shareholders of Karoon Gas Australia Limited ABN 53 107 001 338 ("**Company**") will be held at 11.00am (EST) on Thursday, 27 November 2008 at River 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 Annual General Meeting. Shareholders should read the Explanatory Memorandum before deciding how to vote.

### AGENDA

#### 1. FINANCIAL REPORTS

To receive and consider the Annual Financial Statements and the Annual Report of the Company for the year ended 30 June 2008, together with the Directors' report and the Auditor's report in accordance with section 317 of the Corporations Act.

#### 2. RESOLUTION 1 – APPROVAL 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 financial year ended 30 June 2008 as contained within the Directors Report and forming part of the 2008 Annual Report be adopted.'*

#### **Note:**

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

#### 3. RESOLUTION 2 – APPROVAL OF RE-APPOINTMENT OF DIRECTOR

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

*"That, Mr Geoff Atkins, who retires by rotation in accordance with 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 – APPOINTMENT OF NEW AUDITOR

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

*"That, pursuant to section 327B of the Corporations Act, PricewaterhouseCoopers having consented to do so under section 328A of the Corporations Act, be appointed as auditors of the Company, subject to, and from the date of, the Australian Securities and Investments Commission granting its consent to the resignation of Mitchell Wilson and Partners as auditors of the Company."*

#### 5. RESOLUTION 4 – 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 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."*

**Note:**

This resolution is in the same terms as a resolution passed at the General Meeting of the Company held on 1 August 2008. Due to an administrative error, the options the subject of that resolution were not issued within one month of the passing of that resolution as required by Listing Rule 10.13.3. As such, the Company seeks the approval of Shareholders in the same terms to allow the issue of these options to Mr Hosking or his nominee.

**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.

**6. RESOLUTION 5 – APPROVAL OF ISSUE OF OPTIONS – MR SCOTT HOSKING**

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

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

- (a) 100,000 Options to acquire ordinary fully paid shares in the capital of the Company exercisable on or before 30 April 2010 at an exercise price of \$4.00 each;
- (b) 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 \$5.00 each;

*on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting.”*

**Note**

The options being issued to Mr Hosking under point (a) are proposed to be issued in recognition of his efforts in assisting the Company to secure its South American assets. Similar amounts of options were also issued to other employees who were involved in the acquisition of those assets. The Options issued to Mr Hosking under point (b) are part of the issue of options made to all employees for the purpose of promoting goal congruence between Company employees and the Company. Both option tranches were considered and approved by the Remuneration Committee and the Board in June 2008 and are proposed to be issued under the Company Employee Share Option Plan (“ESOP”).

**Voting Exclusion Statement**

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

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

**7. RESOLUTION 6 – 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 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,*

- (a) 100,000 Options to acquire ordinary fully paid shares in the capital of the Company exercisable on or before 30 April 2010 at an exercise price of \$4.00 each;
- (b) 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 \$5.00 each;

*on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting.”*

**Note**

The options being issued to Mr Hosking under point (a) are proposed to be issued in recognition of his efforts in assisting the Company to secure its South American assets. Similar amounts of options were also issued to other employees who were involved in the acquisition of those assets. The Options issued to Mr Hosking under point (b) are part of the issue of options to all employees for the purpose of promoting goal congruence between Company employees and the Company. Both option tranches were considered and approved by the Remuneration Committee and the Board in June 2008 and are proposed to be issued under the ESOP.

**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.

**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 and 6 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: 13 October 2008

**BY ORDER OF THE BOARD**A handwritten signature in black ink, appearing to read "S. Power". The signature is written in a cursive, flowing style.

Stephen Power  
Director

## PROXY AND VOTING ENTITLEMENT INSTRUCTIONS

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

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

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

In accordance with section 250BA of the Corporations Act, the Company specifies the following information for the purposes 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 Annual General Meeting (proxy forms can be lodged by facsimile).

In accordance with regulation 7.11.38 of the Corporations Regulations, the Company determines that ordinary shares held as at 7.00pm (AEDT) on 25 November, 2008 will be taken, for the purposes of the Annual General Meeting, to be held by the persons who held them at that time.

### Notes:

1. If a proxy form is signed or authenticated by an appointer's attorney, the power of attorney or a certified copy thereof (if any) under which it is signed must accompany the proxy form and be received by the Share 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 Annual General Meeting.
2. Proxy forms executed by a corporation must be in accordance with the requirements of the Corporations Act or under the hand of its attorney. In the case of a sole director/secretary company, please indicate "sole director" in the space provided.
3. Should you desire to direct your proxy on how to vote, place a cross in the appropriate box for each item, otherwise your proxy may vote as your proxy thinks fit or abstain from voting.
4. If two proxies are appointed, you may delete "all" and insert the relevant number or proportion of shares in respect of which each such appointment is made. A separate proxy must be completed for each proxy.
5. If you need any further information about this form or attendance at the Annual General Meeting please contact the Share 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 the annual general meeting of the Company to be held at 11.00am (EST) on Thursday, 27 November 2008 at River Rooms 2 & 3, Level One, Crown Towers, 8 Whiteman Street, Southbank, Melbourne, Victoria ("**Annual General Meeting**").

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

- (a) adopting the Remuneration Report;
- (b) approving the re-appointment of Mr Geoff Atkins as a director of the Company;
- (c) approving the appointment of PricewaterhouseCoopers as the auditors of the Company;
- (d) approving the issue of Options to Mr Robert Hosking or his nominee;
- (e) approving the issue of Options to Mr Scott Hosking or his nominee; and
- (f) approving 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. ANNUAL FINANCIAL REPORTS**

Section 317 of the Corporations Act requires the Company's financial statements and reports of the Directors and of the auditors for the year ended 30 June 2008 to be laid before the Annual General Meeting. The financial statements and the reports of the Directors and of the Company's auditors are contained in the Company's 2008 Annual Report, a copy of which has been sent to Shareholders with this Notice of Meeting and is available on request to the Company.

While no resolution is required in relation to this item, Shareholders should consider the documents and raise any matters of interest with the Directors when this item is being considered.

The Company's auditor will also be present at the Annual General Meeting and Shareholders will have an opportunity to ask the auditor questions in relation to the conduct of the audit, the auditor's report, the Company's accounting policies and the independence of the auditor.

**3. RESOLUTION 1: APPROVAL OF REMUNERATION REPORT**

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

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

The Remuneration Report may be found within the Directors' Report in the 2008 Annual Report.

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

**4. RESOLUTION 2: APPROVAL OF RE-APPOINTMENT OF MR GEOFF ATKINS AS A DIRECTOR**

Resolution 2 seeks Shareholder approval for the Company to re-appoint Mr Geoff Atkins 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 Geoff Atkins is required to retire and being eligible for re-election, offers himself for re-election. Mr Atkins is a civil engineer who has over 40 years experience in maritime engineering projects in various parts of the world, including container terminals, LNG jetties and other large infrastructure projects. The Board considers Mr Atkins' experience and input to be essential to the ongoing management and development of the Company and unanimously supports the re-election of Mr Atkins.

A brief CV on Mr Atkins can be found in the 2008 Annual Report of the Company.

**5. RESOLUTION 3: APPROVAL OF NEW AUDITOR**

Mitchell Wilson and Partners, the Company's existing auditors, have given notice of their resignation as auditors of the Company. Pursuant to section 329(5) of the Corporations Act, Mitchell Wilson and Partners has applied for the consent of the Australian Securities and Investment Commission to resign as auditor. Upon such approval being granted, the resignation will come into effect.

The Company has considered who should be appointed to replace the current auditors and has identified PricewaterhouseCoopers who have consented to act as auditors to the Company if this Resolution 3 is passed. Pursuant to section 328B(1) of the Corporations Act, a Shareholder has nominated PricewaterhouseCoopers as auditor of the Company. A copy of this letter is annexed to this Explanatory Memorandum as Annexure "C".

The change in auditor will be subject to the Australian Securities and Investment Commission granting its consent for Mitchell Wilson and Partners to resign as the auditors of the Company, which the Company expects to receive prior to the Annual General Meeting.

The Board recommends that Shareholders vote in favour of the appointment of PricewaterhouseCoopers as auditors of the Company.

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

Resolution 4 seeks Shareholder approval for the Company to grant a total of 2,250,000 Options to Mr Robert Hosking, the Executive Chairman of the Company, or his nominee.

The grant of Options the subject of Resolution 4 was approved by Shareholders at the general meeting of the Company on 1 August 2008. However, due to an administrative error, those Options were not issued within the time required by the Listing Rules following Shareholder approval. As such, Shareholder approval is again sought to the issue of the Options. It should be emphasised that no Options were issued to Mr Hosking as a result of the general meeting of the Company held on 1 August 2008.

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 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.

Section 208(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 4 (being all Directors of the Company other than Mr Robert Hosking) recommend that the Shareholders vote in favour of Resolution 4 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 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 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 4 has a value at 7 October 2008 detailed in the table below;

	Tranche 1	Tranche 2	Tranche 3
Value of each option	\$1.38	\$1.22	\$1.08
This estimate is based on the following assumptions			
Exercise Price	\$4.00	\$4.50	\$5.00
Volume Weighted Average Price for the 30 days ending 7 October 2008.	\$3.97	\$3.97	\$3.97
Time to expiration of Option	29 months	29 months	29 months
Volatility	50%	50%	50%
Risk free interest rate	6.13%	6.13%	6.13%
Annualised dividend yield	Nil	Nil	Nil
*The aggregate value of the Options is \$2,760,000			

\*Note: The aggregate value is the value as at the time of preparing this Explanatory Memorandum. At the date of the preparation of the notice of meeting for the general meeting of the Company on 1 August 2008, at which Shareholders approved the issue of these options, the Black & Scholes valuation of the Options was \$937,500. This represents the increased volatility of the Shares and their increased price during September.

In May 2008, when the Board approved the issue of these options, the Karoon 3 month Volume Weighted Average Share Price was \$2.40.

- (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 \$1.96 on 22 January 2008 and the highest was \$4.90 on 18 June 2008. At the close of trading on 7 October 2008 the Share price was \$3.35;
- (i) following the passing of Resolution 4, Mr Hosking will hold an interest in 12,381,087 Shares and 2,250,000 Options;
- (j) Mr Hosking receives a current base remuneration of \$400,000 per annum,;
- (k) the Company has 148,692,897 Shares and 4,405,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Scott Hosking, Mr Robert Hosking and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 4, 5 and 6, Mr Hosking's interest including all the Shares and Options currently held will represent approximately 9.4% 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 7.3 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.

## 7. RESOLUTION 5: APPROVAL OF ISSUE OF OPTIONS TO MR SCOTT HOSKING

Resolution 5 seeks Shareholder approval for the Company to grant 200,000 Options to Mr Scott Hosking, the Company Secretary, or his nominee pursuant to the ESOP. The grant of Options to Mr Scott Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Scott Hosking is the son of Mr Robert Hosking.

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 directors of a company;



- Listing Rule 7.1, which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without shareholder approval; and
- Listing Rule 10.11, which requires the grant of securities to a related party of a company to be approved by shareholders.

Mr Hosking is the Company Secretary of the Company. The number of Options being issued to Mr Hosking is considered reasonable in regard to his responsibilities and his achievements to date.

The options being issued to Mr Hosking under tranche 1 were issued to other employees who were involved in the acquisition of the South American assets. The Options issued to Mr Hosking under tranche 2 are part of the issue of options to all employees for the purpose of promoting goal congruence between Company employees and the Company. Both option tranches were considered and approved by the Remuneration Committee and the Board in June 2008 and were issued under the ESOP.

Section 208(1) of the Corporations Act prohibits the Company from giving a financial benefit to a related party (such as a director, or their parents or children) 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.

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 \$900,000 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:

- being the son of Mr Robert Hosking, a Director of the Company, Mr Scott Hosking is a related party of the Company to whom the financial benefit would be given by virtue of section 228(3) of the Corporations Act;
- the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure "B" to this Explanatory Memorandum;
- those Directors who have no interest in the outcome of Resolution 5 (being all Directors other than Mr Scott Hosking) recommend that the Shareholders vote in favour of Resolution 5 on the basis that the Options to be granted provide Mr Scott Hosking with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;
- Mr Robert Hosking makes no recommendation in relation to Resolution 5 on the basis that he is the father of Mr Scott Hosking;
- 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 dated for the Options are set out in Annexure "B" to this Explanatory Memorandum;
- Based on a Black & Scholes valuation method, the Company estimates that each Option the subject of Resolution 5 has a value at 7 October 2008 detailed in the table below;

	<b>Tranche 1</b>	<b>Tranche 2</b>
Value of each option	\$1.04	\$1.08
This estimate is based on the following assumptions:		
Exercise Price	\$4.00	\$5.00
*Volume Weighted Average Price for the 30 days ending 7 October 2008.	\$3.97	\$3.97
Time to expiration of Option	17 months	29 Months
Volatility	50%	50%
Risk free interest rate	6.13%	6.13%
Annualised dividend yield	Nil	Nil
The aggregate value of the Options is \$212,000		

\*Note: In June 2008, when the Board approved the issue of these options, the Karoon 3 month Volume Weighted Average Share Price was \$2.71.

- 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 \$1.96 on 22 January 2008 and the highest was \$4.90 on 18 June 2008. At the close of trading on 7 October 2008 the Share price was \$3.35;

- (i) following the passing of Resolution 5, Mr Scott Hosking will hold an interest in 156,901 Shares and 300,000 Options;
- (j) Mr Scott Hosking receives a current base remuneration of \$218,000 per annum;
- (k) the Company has 148,692,897 Shares and 4,405,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Scott Hosking, Mr Robert Hosking and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 4, 5 and 6, Mr Scott Hosking's interest including all the Shares and Options currently held will represent approximately 0.3% 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 7.3 and 10.13:

- (a) The name of the person who will be issued Options is Mr Scott Hosking or his nominee.
- (b) Mr Scott Hosking or his nominee will be issued 200,000 Options.
- (c) The Options will be issued within one month of Shareholder approval.
- (d) Mr Scott Hosking is the son of Mr Robert Hosking, a director of the Company.
- (e) The Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options.
- (f) The terms of the Options are set out in Annexure "B" to this Explanatory Memorandum.

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

Resolution 6 seeks Shareholder approval for the Company to grant 200,000 Options to Mr Timothy Hosking or his nominee pursuant to the ESOP. The grant of Options to Mr Timothy Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Timothy Hosking is the son of Mr Robert Hosking.

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 6 is sought for the purposes of:

- Division 3 of Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to "related parties", for example 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 10.11, which requires the grant of securities to a related party of a company to be approved by shareholders.

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

The options being issued to Mr Hosking under tranche 1 were issued to other employees who were involved in the acquisition of the South American assets. The Options issued to Mr Hosking under tranche 2 are part of the issue of options to all employees for the purpose of promoting goal congruence between Company employees and the Company. Both option tranches were considered and approved by the Remuneration Committee and the Board in June 2008 and were issued under the ESOP.

Section 208(1) of the Corporations Act prohibits the Company from giving a financial benefit to a related party (such as a director, or their parents or children) 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 Shareholder approval.

The Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the Options. A total of \$900,000 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 200,000 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 6 recommend that the Shareholders vote in favour of Resolution 6 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 6 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 6 has a value at 7 October 2008 detailed in the table below:

	Tranche 1	Tranche 2
Value of each option	\$1.04	\$1.08
This estimate is based on the following assumptions		
Exercise Price	\$4.00	\$5.00
Volume Weighted Average Price for the 30 days ending 7 October 2008.	\$3.97	\$3.97
Time to expiration of Option	17 Months	29 Months
Volatility	50%	50%
Risk free interest rate	6.13%	6.13%
Annualised dividend yield	Nil	Nil
The aggregate value of the Options is \$212,000		

\*Note: In June 2008, when the Board approved the issue of these options, the Karoon 3 month Volume Weighted Average Share Price was \$2.71.

- (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 \$1.96 on 22 January 2008 and the highest was \$4.90 on 18 June 2008. At the close of trading on 7 October 2008 the Share price was \$3.35;
- (i) following the passing of Resolution 6, Mr Timothy Hosking will hold an interest in 168,443 Shares and 300,000 Options;
- (j) Mr Timothy Hosking receives a current base remuneration of \$150,000 per annum;
- (k) the Company has 148,692,897 Shares and 4,405,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and Mr Scott Hosking, Mr Robert Hosking and Mr Timothy Hosking exercise all of the Options to be granted to them pursuant to Resolutions 4, 5 and 6, Mr Timothy Hosking's interest including all the Shares and Options currently held will represent approximately 0.3% of the Company's diluted capital; and
- (l) neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 6.

The following information is provided for the purposes of Listing Rules 7.3 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 200,000 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.

**9. 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 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.

**10. GLOSSARY**

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

<b>Annual General Meeting:</b>	Is defined in section 1 of this Explanatory Memorandum.
<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>ESOP:</b>	The Company's Employee Share Option Plan.
<b>EST:</b>	Eastern Standard Time, being the time in Melbourne, Victoria.
<b>Listing Rules:</b>	The Official Listing Rules of ASX, as amended from time to time.
<b>Notice of Meeting:</b>	The notice convening the Annual General Meeting which accompanies this Explanatory Memorandum.
<b>Options:</b>	Options to subscribe for Shares.
<b>Remuneration Committee:</b>	The remuneration committee of the Company.
<b>Remuneration Report:</b>	The Remuneration Report for the financial year ended 30 June 2008 as contained within the Directors Report and forming part of the 2008 Annual Report.
<b>Shareholders:</b>	Holders 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**

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 Shareholders. This will give the holders of Options the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
12. If from time to time on or prior to the Expiry Date the Company makes an issue of Shares to Shareholders by way of capitalisation of profits or reserves (a **bonus issue**), then upon exercise of Options the Optionholder will be entitled to have issued to him (in addition to the Shares which would otherwise be issued to him) the number of Shares to which he would have been entitled under the bonus issue had he exercised his Options immediately prior to the record date for the bonus issue, 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 the Optionholder will be changed to the extent necessary to comply with the applicable 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 AND MR SCOTT HOSKING (each, "Employee")**

1. The Exercise Price of the first tranche of Options is \$4.00 per Share, the second tranche of Options is \$5.00 per Share ("**Exercise Price**").
2. The first tranche of Options will expire on 30 April 2010, and the second tranche of Options expire on 30 April 2011 ("**Expiry Date**").
3. Option commences on the date of allotment and ends on the Expiry Date.
4. If the Employee ceases to be employed by the Company or any of its related bodies corporate (as that term is defined in the Corporations Act) for any reason, any unexercised Options will lapse on the day the Employee ceases to be employed.
5. If the Employee dies or becomes incapacitated, any unexercised Options will lapse unless exercised by the Employee's personal representative within 3 months of the Employee's death.
6. If a takeover offer is made for the Company the Employee will be afforded the opportunity to exercise all of the Employee's Options.
7. Generally, as set out in the rules of the ESOP which is available upon request.

**ANNEXURE "C"**

**NOMINATION OF AUDITOR**

Freyco Pty Ltd (ACN 114 599 601)

Level 2, 6 Kings Park Road  
West Perth WA 6005

13 October 2008

**By post**

Karoon Gas Australia Ltd  
PO Box 469  
Mt Martha VIC 3934

**Attention: Mr Scott Hosking, Company Secretary**

Dear Sirs

**NOMINATION OF AUDITOR**

For the purposes of Section 328B(1) of the Corporations Act (Cth) (2001), Freyco Pty Ltd, a member of Karoon Gas Australia Ltd (**Company**), hereby nominates PricewaterhouseCoopers of Freshwater Place, Level 19, 2 Southbank Boulevard, Southbank, Victoria for appointment as auditor of the Company at the Annual General Meeting of the Company to be held at 11am on Thursday, 27 November 2008 at River Rooms 2 & 3, Level One, Crown Towers, 8 Whiteman Street, Southbank, Victoria.

Yours faithfully



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STEPHEN POWER  
SOLE DIRECTOR  
FREYCO PTY LTD

