

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

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**NOTICE OF ANNUAL GENERAL MEETING**

**And**

**EXPLANATORY MEMORANDUM**

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Date of Meeting: 26 October 2011

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

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

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





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

**NOTICE OF ANNUAL GENERAL MEETING**

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Notice is hereby given that an Annual General Meeting of shareholders of Karoon Gas Australia Ltd ACN 107 001 338 ("**Company**") will be held at 11.00am EDT on 26 October 2011 at River Rooms 2 & 3 at Crown Towers, Level 1, 8 Whiteman Street, Southbank, VIC 3006.

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

**AGENDA**

**1. FINANCIAL REPORTS**

To receive and consider the annual financial statements of the Company for the year ended 30 June 2011, together with the Directors' Report and the external auditor's report in accordance with the Corporations Act.

**2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT**

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

*"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report for the year ended 30 June 2011, as contained within the Directors' Report, be adopted."*

**Note**

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

**Voting Exclusion Statement**

In accordance with Corporations Act Section 250R, the Company will disregard any votes cast on this resolution by any key management personnel (including any Director) or any closely related parties in relation to this Resolution 1. 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.

**3. RESOLUTION 2 – RE-ELECTION OF MR GEOFF ATKINS AS A 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 Listing Rule 14.4 and paragraph 11.3 of the Constitution of the Company, and who, being eligible, offers himself for re-election, be re-elected as a Director of the Company with immediate effect."*

**4. RESOLUTION 3 – RE-ELECTION OF MR JOSE COUTINHO BARBOSA AS A DIRECTOR**

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

*“That Mr Jose Coutinho Barbosa, who was appointed by the Board as a director of the Company on 31 August 2011 pursuant to paragraph 11.11 of the Constitution (allowing the addition of Directors in this way) and who, retires in accordance with Listing Rule 14.4 and paragraph 11.12 of the Constitution, is eligible for re-election as a Director of the Company at this AGM and who, being eligible, offers himself for election as a Director of the Company, be elected as a Director of the Company with immediate effect.”*

**5. RESOLUTION 4 - APPROVAL TO ISSUE OPTIONS TO AN EXECUTIVE DIRECTOR - MR ROBERT HOSKING**

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

*“That, for the purposes of Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to issue to Mr Robert Hosking, or his nominee, 600,000 Base Options and 1,800,000 Bonus Options (vesting of which is subject to the satisfaction of Key Performance Indicators and a Company Milestone) to acquire Shares, at exercise prices ranging from \$8.92 to \$10.98 each, on the terms and conditions set out in the Explanatory Memorandum.”*

***Voting Exclusion Statement***

The Company will disregard any votes cast on this resolution by any key management personnel (including any Director) or any closely related parties in relation to this Resolution 4. 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 TO ISSUE OPTIONS TO AN EXECUTIVE DIRECTOR - MR MARK SMITH**

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

*“That, for the purposes of Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to issue to Mr Mark Smith, or his nominee, 600,000 Base Options and 1,800,000 Bonus Options (vesting of which is subject to the satisfaction of Key Performance Indicators and a Company Milestone) to acquire Shares, at exercise prices ranging from \$8.92 to \$10.98 each, on the terms and conditions set out in the Explanatory Memorandum.”*

***Voting Exclusion Statement***

The Company will disregard any votes cast on this resolution by any key management personnel (including any Director) or any closely related parties in relation to this Resolution 5. However, the Company need not disregard a vote if:

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

**7. RESOLUTION 6 – APPROVAL TO ISSUE ESOP OPTIONS TO MR SCOTT HOSKING**

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

*“That for the purposes of Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to issue to Mr Scott Hosking or his nominee 150,000 ESOP Options to acquire Shares, at an exercise price of \$7.30 each, on the terms and conditions set out in the Explanatory Memorandum.”*

***Voting Exclusion Statement***

The Company will disregard any votes cast on this resolution by any key management personnel (including any Director) or any closely related parties in relation to this Resolution 6. However, the Company need not disregard a vote if:

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

**8. RESOLUTION 7 – APPROVAL TO ISSUE ESOP OPTIONS TO MR TIM HOSKING**

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

*“That for the purposes of Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the Company to issue to Mr Tim Hosking or his nominee 150,000 ESOP Options to acquire Shares, at an exercise price of \$7.30 each, on the terms and conditions set out in the Explanatory Memorandum.”*

***Voting Exclusion Statement***

The Company will disregard any votes cast on this resolution by any key management personnel (including any Director) or any closely related parties in relation to this Resolution 7. However, the Company need not disregard a vote if:

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

**OTHER BUSINESS**

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

**REQUIRED MAJORITIES**

Resolutions 1, 2, 3, 4, 5, 6 and 7, 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: 14 September 2011

**BY ORDER OF THE BOARD**



Scott Hosking  
Company Secretary

## 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.

At the end of this Explanatory Memorandum is a proxy form for use by Shareholders. 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.

The Company notes that, if the Chairman is appointed as proxy for any Shareholder, the Chairman will vote the proxy in the manner specified by the Shareholder in that proxy. If a Shareholder does not specify the manner in which the proxy should be voted this will be considered to be a direction to the Chairman to vote the proxy as the Chairman intends to vote on the resolution, even if the Chairman has an interest in the outcome of the resolutions. The Chairman intends to vote undirected proxies in favour of each resolution.

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

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

For Intermediary Online subscribers only (custodians) [www.intermediaryonline.com](http://www.intermediaryonline.com)

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

In accordance with regulation 7.11.38 of the Corporations Regulations, the Company determines that fully paid ordinary shares held as at 7.00pm (EDT) on 24 October 2011 will be taken, for the purposes of the Annual General Meeting, to be held by the persons who held them at that time.

### Notes:

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

5. If attending the Annual General Meeting please bring the proxy form to assist registration. If a representative of a corporate security holder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the information tab, Downloadable Forms.
6. If you need any further information about this form or attendance at the Annual General Meeting please contact the Share Registrar - Computershare Investors Services Pty Limited on (within Australia) 1300 850 505 (outside Australia) +61 3 9415 4000.

## KAROON GAS AUSTRALIA LTD

ACN 107 001 338

### EXPLANATORY MEMORANDUM TO SHAREHOLDERS

#### 1. INTRODUCTION

This Explanatory Memorandum has been prepared for the information of Shareholders of Karoon Gas Australia Ltd ("**Company**") in connection with the business to be transacted at the Annual General Meeting of the Company to be held at River Rooms 2 & 3 at Crown Towers, Level 1, 8 Whiteman Street, Southbank, VIC 3006 on 26 October 2011 at 11.00am EDT (registration from 10.00am EDT) ("**Annual General Meeting**").

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

1. adopting the Remuneration Report;
2. re-electing Mr Geoff Atkins as a Director of the Company;
3. re-electing Mr Jose Coutinho Barbosa as a Director of the Company;
4. approving the issue of Base Options and Bonus Options to executive Director Mr Robert Hosking or his nominee;
5. approving the issue of Base Options and Bonus Options to executive Director Mr Mark Smith or his nominee;
6. approving the issue of ESOP Options to Mr Scott Hosking or his nominee; and
7. approving the issue of ESOP Options for Mr Tim Hosking or his nominee.

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

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

#### 2. ACTION TO BE TAKEN BY SHAREHOLDERS

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

At the end of this Explanatory Memorandum is a proxy form for use by Shareholders. All Shareholders are invited and encouraged to attend the Annual General Meeting or, if they are unable to attend in person, to complete, sign and return the proxy form to the Company in accordance with the instructions contained in the proxy form and the Notice of Meeting. Lodgement of a proxy form will not preclude a Shareholder from attending and voting at the Annual General Meeting in person.

#### 3. ANNUAL FINANCIAL REPORTS

Section 317 of the Corporations Act requires the Company's financial statements and reports of the Directors and of the external auditor for the year ended 30 June 2011 to be laid before the Annual General Meeting. The financial statements and the reports of the Directors and of the Company's external auditor are contained in the Company's 2011 Annual Report, a copy of which has been sent to Shareholders with this Explanatory Memorandum and the accompanying Notice of Meeting, and is also available on request to the Company.



While no resolution is required in relation to this item, Shareholders should consider the documents and raise any matters of interest with the Directors of the Company when this item is being considered. In accordance with the Corporations Act, Shareholders will be given an opportunity to ask questions about and make comments on the management of the Company. The Company's external auditor will also be present at the meeting and Shareholders will have an opportunity to ask the external auditor questions in relation to the conduct of the audit, the auditor's report and the independence of the auditor. Shareholders may submit a written question to the auditor if the question is relevant to the content of the auditor's report or the audit of the annual financial report. If you wish to do so you must submit any such written question by 19 October 2011.

#### **4. RESOLUTION 1 - ADOPTION OF REMUNERATION REPORT**

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

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

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

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

The Remuneration Report may be found within the Directors' report in the 2011 Annual Report.

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

#### **5. RESOLUTION 2 - APPROVAL OF RE-ELECTION OF MR GEOFF ATKINS AS A DIRECTOR**

Resolution 2 seeks Shareholder approval for the Company to re-elect 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 Atkins was appointed to the Board on 22 February 2005. Geoff has over 40 years experience in investigation, planning, design, documentation and project management of numerous significant port, harbour and maritime projects, including container terminals, LNG jetties, heavy lift wharves, cement, coal, bauxite, iron ore and other bulk terminals and naval bases.

Geoff has gained substantial overseas experience completing marine projects in Indonesia, Malaysia, Thailand, Vietnam, Sri Lanka, India, South Africa, Namibia, New Zealand and the United Kingdom. LNG, oil, gas, bulk ports and other large maritime infrastructure projects that Geoff has been involved in have included the design of Woodside's LNG Jetty, tender design of ConocoPhillips Darwin LNG Jetty and concept designs for the Sunrise LNG Jetty. Geoff has also been involved in investigations of proposed LNG marine terminals in Taiwan, Iran and Israel for BHP Petroleum and the West Kingfish and Cobia oil drilling platforms for ESSO/BHP in Bass Strait.

The Board unanimously supports the re-election of Mr Atkins.

**6. RESOLUTION 3 – APPROVAL OF RE-ELECTION OF MR JOSE COUTINHO BARBOSA AS A DIRECTOR**

Resolution 3 seeks Shareholder approval for the Company to re-elect Mr Jose Coutinho Barbosa as a Director of the Company.

Mr Barbosa was appointed by the Board as a Director of the Company on 31 August 2011 pursuant to paragraph 11.11 of the Constitution (allowing additional Directors to be appointed to the Board in this way). In accordance with Listing Rule 14.4 and paragraph 11.12 of the Constitution, Mr Barbosa holds office until the annual general meeting following his appointment and is then eligible for re-election as a Director of the Company.

Mr Barbosa, being eligible for re-election, offers himself for election as a Director of the Company at the Annual General Meeting.

Jose Coutinho Barbosa graduated with a bachelors degree in Geology from the Ouro Preto School of Mines (State of Minas Gerais, Brazil) in 1964, and with a Master's Degree in Geophysics in 1967.

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

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

The Board unanimously supports the election of Mr Barbosa.

**7. RESOLUTION 4 - APPROVAL TO ISSUE BASE OPTIONS AND BONUS OPTIONS TO MR ROBERT HOSKING**

Resolution 4 seeks Shareholder approval for the Company to grant a total of 600,000 Base Options and 1,800,000 Bonus Options to Mr Robert Hosking, Director and Executive Chairman or his nominee.

**Director Remuneration**

The Company has carefully considered the issue of Director remuneration and considers that the issue of options is an essential part of Director remuneration because:

- the issue of options to Directors creates an alignment of interests between the Board and Shareholders generally at no financial cost to the Company;
- the Company is not yet in the production phase of activities and all expenses incurred are currently funded from the proceeds of equity issues. Any cash component of Directors' remuneration will, therefore, involve the issue of equity which has, in the past, been carried out at prices which are below the market price of the Company's Shares at the time;
- the Company has investigated market levels of remuneration and received independent advice on remuneration; and
- the Base Options will be issued in three tranches and the Bonus Options will be issued in four tranches. The exercise price of the Options in each Tranche will be calculated by adding a premium of either 30, 45 or 60% to the volume weighted average sale price ("VWAP") of the Company's shares traded on the ASX in the 3 month period preceding 1 May 2011 ("**Determination Date**") as described below. Pricing the options at a premium to the weighted average market price provides for a longer term incentive rather providing short term incentives as some other option schemes are structured.

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

- the market capitalisation of the Company and the scope and value of its activities;
- the Company's geographical footprint into international activities, including South America;
- the size and level of the day to day operations of the Company;
- the complexity and importance of the strategic decisions facing the Company; and
- the level of responsibility attaching to the office of a Director.

### **Robert Hosking**

Robert is the founding Director of the Company and has more than 30 years of commercial experience in the administration of several companies. Robert has been involved in the oil and gas industry for 15 years and was the founding Director/Shareholder of Nexus Energy Limited.

Robert also has a background of more than 17 years commercial experience in the steel industry. He jointly owned and managed businesses involved in the transglobal sourcing, shipping and distribution of steel-related products, with particular expertise gained in Europe and the Asia/Pacific Rim.

### **Base Options**

The Base Options for Mr Hosking will be issued in three tranches within one month of this meeting. The issue date, vesting date, exercise price and expiry date of the tranches is set out in Table 1.

Table 1 – Base Option Terms

<b>Base Options</b>				
<b>Tranche</b>	<b>Issue Date</b>	<b>Vesting Date</b>	<b>Expiry Date</b>	<b>Exercise price</b>
Tranche 1 – 200,000	within one month of this annual general meeting.	1 May 2012	1 May 2014	\$8.92
Tranche 2 – 200,000	within one month of this annual general meeting.	1 May 2013	1 May 2015	\$9.95
Tranche 3 – 200,000	within one month of this annual general meeting.	1 May 2014	1 May 2016	\$10.98

The exercise price of the Base Options was set following the investigation of market levels of remuneration and independent advice.

The exercise price of Tranche 1 of the Base Option was calculated by determining the VWAP of the Company's shares traded on the ASX in the 3 month period preceding the Determination Date. A premium of 30% of that VWAP amount was then added, giving a final exercise price of \$8.92.

The exercise price of Tranche 2 of the Base Option was calculated by determining the VWAP of the Company's shares traded on the ASX in the 3 month period preceding the Determination Date. A premium of 45% of that VWAP amount was then added, giving a final exercise price of \$9.95.

The exercise price of Tranche 3 of the Base Option was calculated by determining the VWAP of the Company's shares traded on the ASX in the 3 month period preceding the Determination Date. A premium of 60% of that VWAP amount was then added, giving a final exercise price of \$10.98.

The terms of each Tranche of the Base Options are set out in Annexure "A" to this Explanatory Memorandum. Subject to Shareholder approval, the Base Options will be granted on the terms and conditions set out in Annexure "A".

### Bonus Options

The Bonus Options for Mr Hosking will be issued in four tranches within one month of this meeting. The issue date, vesting date, exercise price and expiry date of the tranches is set out in Table 1.

**Table 2 – Bonus Option Terms**

<b>Bonus Options</b>				
<b>Tranche</b>	<b>Issue Date</b>	<b>Vesting Date</b>	<b>Expiry Date</b>	<b>Exercise price</b>
Tranche 1 – 300,000	within one month of this annual general meeting.	1 May 2012 subject to Key Performance Indicators being met	1 May 2014	\$8.92
Tranche 2 – 400,000	within one month of this annual general meeting.	1 May 2013 subject to Key Performance Indicators being met	1 May 2015	\$9.95
Tranche 3 – 600,000	within one month of this annual general meeting.	1 May 2014 subject to Key Performance Indicators being met	1 May 2016	\$10.98
Tranche 4 – 500,000	within one month of this annual general meeting.	1 May 2014 subject to Company Milestone being met	1 May 2016	\$10.98

The exercise price of the Bonus Options was set following the investigation of market levels of remuneration and independent advice.

The exercise price of Tranche 1 of the Bonus Option was calculated by determining the VWAP of the Company's shares traded on the ASX in the 3 month period preceding the Determination Date. A premium of 30% of that VWAP amount was then added, giving a final exercise price of \$8.92. Tranche 1 Bonus Options do not vest until Key Performance Indicators have been met.

The exercise price of Tranche 2 of the Bonus Option was calculated by determining the VWAP of the Company's shares traded on the ASX in the 3 month period preceding the Determination Date. A premium of 45% of that VWAP amount was then added, giving a final exercise price of \$9.95. Tranche 2 Bonus Options do not vest until Key Performance Indicators have been met.

The exercise price of Tranche 3 of the Bonus Option was calculated by determining the VWAP of the Company's shares traded on the ASX in the 3 month period preceding the Determination Date. A premium of 60% of that VWAP amount was then added, giving a final exercise price of \$10.98. Tranche 3 Bonus Options do not vest until Key Performance Indicators have been met.

The exercise price of Tranche 4 of the Bonus Option was calculated by determining the VWAP of the Company's shares traded on the ASX in the 3 month period preceding the Determination Date. A premium of 60% of that VWAP amount was then added, giving a final exercise price of \$10.98. Tranche 4 Bonus Options do not vest until the Company Milestone has been met.

In the case where a particular Key Performance Indicator was out of the control of the executive director and not met, the Company Remuneration Committee may nevertheless allow the Bonus Options to vest and be exercised. The terms of each Tranche of the Bonus Options are set out in Annexure "B" to this Explanatory Memorandum. Subject to Shareholder approval, the Bonus Options will be granted on the terms and conditions set out in Annexure "B".

### Appropriate remuneration

In light of the above, the Company believes that the issue of Base Options and Bonus Options, the subject of Resolution 4, to Mr Hosking enables the Company to reward Mr Hosking appropriately, whilst enabling the Company to preserve its cash reserves for expenditure on principal activities.

Shareholder approval for the grant of the Options, the subject of Resolution 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 10.11, which requires the grant of securities to a director of a company to be approved by shareholders.

The Options are being granted for no consideration. Consequently, no funds will be raised as a result of the grant of the Options. Table 3 shows the gross Share proceeds that would be raised in all Tranches of the Base and Bonus Options were exercised in full by Mr Hosking (assuming the achievement of all Key Performance Indicators and the Company Milestone).

**Table 3**

<b>Base Options</b>	<b>Exercise Price and amount</b>	<b>Share Proceeds</b>
Tranche 1	200,000 at \$8.92	\$1,784,000
Tranche 2	200,000 at \$9.95	\$1,990,000
Tranche 3	200,000 at \$10.98	\$2,196,000
<b>Total Base Option Share Proceeds</b>		<b>\$5,970,000</b>
<b>Bonus Options</b>	<b>Exercise Price and Amount</b>	<b>Share Proceeds</b>
Tranche 1	300,000 at \$8.92	\$2,676,000
Tranche 2	400,000 at \$9.95	\$3,980,000
Tranche 3	600,000 at \$10.98	\$6,588,000
Tranche 4	500,000 at \$10.98	\$5,490,000
<b>Total Bonus Option Share Proceeds</b>		<b>\$18,734,000</b>
<b>Total Share Proceeds</b>		<b>\$24,704,000</b>

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. The Company seeks Shareholders' approval for the grant.

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

1. being a Director of the Company, Mr 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;
2. the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure "A" and "B" to this Explanatory Memorandum;
3. the Directors of the Company make no recommendation in relation to Resolution 4 on the basis that the resolution relates to a Director's remuneration;
4. the Options are issued as remuneration. the Options will be issued for no consideration. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements;
5. the exercise price and exercise date for the Options are set out in Annexure "A" and "B" to this Explanatory Memorandum;
6. based on a Black & Scholes option pricing model, the Company estimates that each Tranche 1 Base Option and each Tranche 1 Bonus Option the subject of Resolution 4 and 5, has a value of \$0.62 as at 30 August 2011 as detailed in the table below:

This estimate is based on the following assumptions	
Exercise Price	\$8.92
VWAP for the 90 days ending 30 August 2011	\$4.75
Time to expiration of Option	32 months
Volatility	60.15%
Risk free interest rate	4.40 %
Annualised dividend yield	Nil
Total value for Tranche 1 Base proposed to be issued	\$124,000
Total value for Tranche 1 Bonus Options proposed to be issued	\$186,000

7. based on a Black & Scholes option pricing model, the Company estimates that each Tranche 2 Base Option and each Tranche 2 Bonus Option the subject of Resolution 4 and 5, has a value of \$0.77 as at 30 August 2011 as detailed in the table below:

This estimate is based on the following assumptions	
Exercise Price	\$9.95
VWAP for the 90 days ending 30 August 2011	\$4.75
Time to expiration of Option	44 months
Volatility	58.9%
Risk free interest rate	4.60 %
Annualised dividend yield	Nil
Total value for Tranche 2 Base proposed to be issued	\$154,000
Total value for Tranche 2 Bonus Options proposed to be issued	\$308,000

8. based on a Black & Scholes option pricing model, the Company estimates that each Tranche 3 Base Option, each Tranche 3 Bonus Option, and each Tranche 4 Bonus Option the subject of Resolution 4 and 5, has a value of \$0.89 as at 30 August 2011 as detailed in the table below:

This estimate is based on the following assumptions	
Exercise Price	\$10.98
VWAP for the 90 days ending 30 August 2011	\$4.75
Time to expiration of Option	56 months
Volatility	58.16%
Risk free interest rate	4.80 %
Annualised dividend yield	Nil
Total value for Tranche 3 Base proposed to be issued	\$178,000
Total value for Tranche 3 Bonus Options and Tranche 4 Bonus Options proposed to be issued	\$979,000

9. based on a Black & Scholes option pricing model, the Company estimates the value of all of the Base Options proposed to be issued to Mr Hosking to be \$456,000.
10. based on a Black & Scholes option pricing model, the Company estimates that the value of all of the Bonus Options proposed to be issued to Mr Hosking to be of \$1,473,000. The vesting of Tranches 1, 2 and 3 of the Bonus Options is subject to the achievement of Key Performance Indicators and the vesting of Tranche 4 of the Bonus Options is subject to the achievement of the Company Milestone.
11. based on a Black & Scholes option pricing model, the Company estimates the value of all of the Base and Bonus Options proposed to be issued to Mr Hosking to be \$1,929,000;
12. 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 \$3.05 on 9 August 2011 and the highest was \$11.00 on 25 October 2010. At the close of trading on 30 August 2011 the Share price was \$3.45;

13. following the passing of Resolution 4 and the issue of the Options the subject of that resolution, Mr Hosking will hold an interest in 12,354,463 Shares and 2,650,000 Options;
14. As a Director and Executive Chairman Mr Hosking will receive a base salary of \$500,000 in 2012.
15. the Company has 221,420,769 Shares and 6,275,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved, and each of the Key Performance Indicators and the Company Milestone are met and that Mr Hosking exercises all of the Options which are proposed to be granted to him pursuant to Resolution 4, Mr Hosking's interest including all the Shares and Options currently held will represent approximately 6.64% of the Company's diluted capital;
16. 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 names of the people who will be issued Options are:
  - (i) Mr Robert Hosking or his nominee;
- (b) Mr Hosking will be issued:
  - (i) Tranche 1 Base Options - 200,000 Base Options at an exercise price of \$8.92 each;
  - (ii) Tranche 2 Base Options – 200,000 Base Options at an exercise price of \$9.95 each;
  - (iii) Tranche 3 Base Options – 200,000 Base Options at an exercise price of \$10.98 each;
- (c) Mr Hosking will be issued:
  - (i) Tranche 1 Bonus Options – 300,000 Bonus Options vesting subject to achievement of Key Performance Indicators at an exercise price of \$8.92 each;
  - (ii) Tranche 2 Bonus Options – 400,000 Bonus Options vesting subject to achievement of Key Performance Indicators at an exercise price of \$9.95 each;
  - (iii) Tranche 3 Bonus Options – 600,000 Bonus Options vesting subject to achievement of Key Performance Indicators with an exercise price of \$10.98 each;
  - (iv) Tranche 4 Bonus Options – 500,000 Bonus Options vesting subject to achievement of the Company Milestone with an exercise price of \$10.98 each;
- (d) the Options will be issued within one month of Shareholder approval;
- (e) the Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options; and
- (f) the terms of the Base Options are set out in Annexure "A" to this Explanatory Memorandum and the terms of the Bonus Options are set out in Annexure "B" to this Explanatory Memorandum.

#### **8. RESOLUTION 5 - APPROVAL TO ISSUE BASE OPTIONS AND BONUS OPTIONS TO MR MARK SMITH**

Resolution 5 seeks Shareholder approval for the Company to grant a total of 600,000 Base Options and 1,800,000 Bonus Options to Mr Mark Smith, Director and Exploration Manager or his nominee.

We refer to the paragraphs relating to Director Remuneration in item 7 of this Explanatory Memorandum above.



## **Mark Smith**

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

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

## **Base Options**

The Base Options for Mr Smith will be issued in 3 tranches within one month of this meeting. The issue date, vesting date, exercise price and expiry date of the tranches is as set out in Table 1 in item 7 of this Explanatory Memorandum and the method of selecting the exercise price is as set out below Table 1.

## **Bonus Options**

The Bonus Options for Mr Smith will be issued in four tranches within one month of this meeting. The issue date, vesting date, exercise price and expiry date of the tranches is as set out in Table 2 in item 7 of this Explanatory Memorandum and the method of determining the exercise price of each Tranche of Bonus Options is as set out below Table 2.

## **Appropriate remuneration**

In light of the above, the Company believes that the issue of Base Options and Bonus Options, the subject of Resolution 5, to Mr Smith enables the Company to reward Mr Smith appropriately, whilst enabling the Company to preserve its cash reserves for expenditure on principal activities.

Shareholder approval for the grant of the Options, the subject of Resolution 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 director of a company to be approved by shareholders.

The Options are being granted for no consideration. Consequently, no funds will be raised as a result of the grant of the Options. Table 4 shows the gross Share proceeds that would be raised if all Tranches of the Base and Bonus Options were exercised in full by Mr Smith (assuming the achievement of all Key Performance Indicators and the Company Milestone).

**Table 4**

<b>Base Options</b>	<b>Exercise Price and amount</b>	<b>Share Proceeds</b>
Tranche 1	200,000 at \$8.92	\$1,784,000
Tranche 2	200,000 at \$9.95	\$1,990,000
Tranche 3	200,000 at \$10.98	\$2,196,000
<b>Total Base Option Share Proceeds</b>		<b>\$5,970,000</b>
<b>Bonus Options</b>	<b>Exercise Price and Amount</b>	<b>Share Proceeds</b>
Tranche 1	300,000 at \$8.92	\$2,676,000
Tranche 2	400,000 at \$9.95	\$3,980,000
Tranche 3	600,000 at \$10.98	\$6,588,000
Tranche 4	500,000 at \$10.98	\$5,490,000
<b>Total Bonus Option Share Proceeds</b>		<b>\$18,734,000</b>
<b>Total Share Proceeds</b>		<b>\$24,704,000</b>

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. The Company seeks Shareholders' approval for the grant.

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

1. being a Director of the Company, Mr 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;
2. the nature of the financial benefit to be given is the grant of Options on the terms set out in Annexure "A" and "B" to this Explanatory Memorandum;
3. the Directors of the Company make no recommendation in relation to Resolution 5 on the basis that the resolution relates to a Director's remuneration;
4. the Options will be issued for no consideration. Any funds raised from the exercise of the Options will be used for the Company's general working capital requirements;
5. the exercise price and exercise date for the Options are set out in Annexure "A" and "B" to this Explanatory Memorandum;
6. based on a Black & Scholes option pricing model, the Company estimates that each Tranche 1 Base Option and each Tranche 1 Bonus Option the subject of Resolution 5, has a value of \$0.62 as at 30 August 2011 as detailed in item 7 of this Explanatory Memorandum.
7. based on a Black & Scholes option pricing model, the Company estimates that each Tranche 2 Base Option and each Tranche 2 Bonus Option the subject of Resolution 5, has a value of \$0.77 as at 30 August 2011 as detailed in item 7 of this Explanatory Memorandum.

8. based on a Black & Scholes option pricing model, the Company estimates that each Tranche 3 Base Option, each Tranche 3 Bonus Option and each Tranche 4 Bonus Option the subject of Resolution 5, has a value of \$0.89 as at 30 August 2011 as detailed in item 7 of this Explanatory Memorandum.
9. based on a Black & Scholes option pricing model, the Company estimates the value of all of the Base Options proposed to be issued to Mr Smith to be \$456,000.
10. based on a Black & Scholes option pricing model, the Company estimates that the value of all of the Bonus Options proposed to be issued to Mr Smith to be of \$1,473,000. The vesting of Tranches 1, 2 and 3 of the Bonus Options is subject to the achievement of Key Performance Indicators and the vesting of Tranche 4 of the Bonus Options is subject to the achievement of the Company Milestone.
11. based on a Black & Scholes option pricing model, the Company estimates the value of all of the Base and Bonus Options proposed to be issued to Mr Smith to be \$1,929,000;
12. 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 \$3.05 on 9 August 2011 and the highest was \$11.00 on 25 October 2010. At the close of trading on 30 August 2011 the Share price was \$3.45;
13. following the passing of Resolution 5 and the issue of the Options the subject of that resolution, Mr Smith will hold an interest in 3,002,037 Shares and 2,400,000 Options;
14. as a Director and Exploration Manager Mr Smith will receive a base salary of \$500,000 in 2012;
15. the Company has 221,420,769 Shares and 6,275,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved, and each of the Key Performance Indicators and the Company Milestone are met and that Mr Smith exercises all of the Options which are proposed to be granted to him pursuant to Resolution 5, Mr Smith's interest including all the Shares and Options currently held will represent approximately 2.39% of the Company's diluted capital;
16. 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 names of the people who will be issued Options are:
  - (i) Mr Mark Smith or his nominee;
- (b) Mr Smith will be issued:
  - (i) Tranche 1 Base Options - 200,000 Base Options at an exercise price of \$8.92 each;
  - (ii) Tranche 2 Base Options – 200,000 Base Options at an exercise price of \$9.95 each; and
  - (iii) Tranche 3 Base Options – 200,000 Base Options at an exercise price of \$10.98 each;
- (c) Mr Smith will be issued:
  - (i) Tranche 1 Bonus Options – 300,000 Bonus Options vesting subject to achievement of Key Performance Indicators at an exercise price of \$8.92 each;
  - (ii) Tranche 2 Bonus Options – 400,000 Bonus Options vesting subject to achievement of Key Performance Indicators at an exercise price of \$9.95 each;

- (iii) Tranche 3 Bonus Options – 600,000 Bonus Options vesting subject to achievement of Key Performance Indicators with an exercise price of \$10.98 each; and
- (iv) Tranche 4 Bonus Options – 500,000 Bonus Options vesting subject to achievement of the Company Milestone with an exercise price of \$10.98 each;
- (d) the Options will be issued within one month of Shareholder approval;
- (e) the Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of Options; and
- (f) the terms of the Base Options are set out in Annexure “A” to this Explanatory Memorandum. The terms of the Bonus Options are set out in Annexure “B” to this Explanatory Memorandum.

## 9. RESOLUTION 6 - APPROVAL TO ISSUE ESOP OPTIONS TO MR SCOTT HOSKING

Resolution 6 seeks Shareholder approval for the Company to grant 150,000 ESOP Options to Mr Scott Hosking or his nominee pursuant to the ESOP. The grant of ESOP Options to Mr Scott Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Scott Hosking is the son of Mr Robert Hosking.

Mr Scott Hosking is being issued the ESOP Options in accordance with the normal operation of the Company’s ESOP and employee incentivisation programme. As part of the annual remuneration review of all employees, the exercise price was calculated by determining the VWAP of the Company’s shares traded on the ASX in the 90 days prior to 1 August 2011, being the date the exercise price was set. A premium of 30% of that VWAP amount was then added to reach a final exercise price of \$7.30.

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

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

- Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to “related parties”, for example children of directors of a company;
- 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 Scott Hosking is the Company’s Chief Financial Officer and Company Secretary. The number of ESOP Options being issued to Mr Scott Hosking is considered reasonable in regard to his responsibilities and his achievements to date.

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

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

The proposed grant of ESOP Options to Mr Scott Hosking involves the provision of a financial benefit to a related party of the Company. The Company seeks Shareholders' approval for the grant.

The ESOP Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the ESOP Options. A total of \$1,095,000 in gross Share proceeds would be raised if the ESOP 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 ESOP Options:

- (a) being a son of Mr Robert Hosking, a Director of the Company, Mr Scott Hosking is a related party of the Company to whom the financial benefit would be given by virtue of section 228(3) of the Corporations Act;
- (b) the nature of the financial benefit to be given is the grant of 150,000 ESOP Options on the terms set out in Annexure "C" to this Explanatory Memorandum;
- (c) the Directors of the Company make no recommendation in relation to Resolution 6 on the basis that the resolution relates to the remuneration of a related party of a Director;
- (d) the ESOP Options will be issued for no consideration. Any funds raised from the exercise of the ESOP Options will be used for the Company's general working capital requirements;
- (e) the exercise price and exercise date for the ESOP Options are set out in Annexure "C" to this Explanatory Memorandum;
- (f) based on a Black & Scholes option pricing model, the Company estimates that each Option the subject of Resolution 6, has a value of \$0.58 at 29 August 2011 as detailed in the table below:

ESOP OPTIONS	
This estimate is based on the following assumptions	
Exercise Price	\$7.30
VWAP for the 90 days ended 29 August 2011	\$5.61
Time to expiration of Option	48 Months
Volatility	44.5%
Risk free interest rate	4.45%
Annualised dividend yield	Nil
Total value for all ESOP Options to be issued to Scott Hosking	\$87,000

- (g) based on a Black & Scholes option pricing model, the Company estimates that the total value of all of the ESOP Options proposed to be issued to Mr Scott Hosking to be \$87,000;
- (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 \$3.05 on 9 August 2011 and the highest was \$11.00 on 25 October 2010. At the close of trading on 30 August the Share price was \$3.45;
- (i) following the passing of Resolution 6, Mr Scott Hosking will hold an interest in 280,459 Shares and 550,000 Options;
- (j) Mr Scott Hosking receives a current base salary of \$275,000 per annum;
- (k) the Company has 221,420,769 Shares and 6,275,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and each of Mr Robert Hosking, Mr Mark Smith, Mr Tim Hosking and Mr Scott Hosking exercises all of the Options proposed to be granted to him pursuant to these Resolutions, Mr Scott Hosking's interest including all the Shares and Options currently held will represent approximately 0.37% of the Company's diluted capital; and
- (l) neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 6.

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

- (a) the name of the person who will be issued ESOP Options is Mr Scott Hosking or his nominee;
- (b) Mr Scott Hosking or his nominee will be issued 150,000 ESOP Options at an exercise price of \$7.30 each;
- (c) the ESOP 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) Mr Scott Hosking and Mr Tim Hosking have received securities under the ESOP since the last approval. Mr Scott Hosking has received 300,000 options at an exercise price of \$14.07 and 100,000 options at an exercise price of \$9.77 each since the last shareholder approval of securities under the ESOP. Mr Tim Hosking has received 230,000 options at an exercise price of \$14.07 since the last shareholder approval of securities under the ESOP;
- (f) Mr Scott Hosking and Mr Tim Hosking are entitled to receive securities under the ESOP and are related parties of directors. No directors or other related parties of directors are entitled to receive securities under the ESOP;
- (g) there is no loan proposed in relation to the proposed award of securities to Mr Scott Hosking;
- (h) the ESOP Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of ESOP Options; and
- (i) the terms of the ESOP Options are set out in Annexure "C" to this Explanatory Memorandum.

#### **10. RESOLUTION 7 - APPROVAL TO ISSUE ESOP OPTIONS TO MR TIM HOSKING**

Resolution 7 seeks Shareholder approval for the Company to grant 150,000 ESOP Options to Mr Tim Hosking or his nominee pursuant to the ESOP. The grant of ESOP Options to Mr Tim Hosking is required to be approved by Shareholders because of his relationship with Mr Robert Hosking, the Executive Chairman of the Company. Mr Tim Hosking is the son of Mr Robert Hosking.

Mr Tim Hosking is being issued the ESOP Options in accordance with the normal operation of the Company's ESOP and employee incentivisation programme in common with all other employees of the Company. As part of the annual remuneration review of all employees, the exercise price was calculated by determining the VWAP of the Company's shares traded on the ASX in the 90 days prior to 1 August 2011, being the date the exercise price was set. This VWAP price was then increased by 30% to reach a final exercise price of \$7.30.

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

Shareholder approval for the grant of the ESOP Options the subject of Resolution 10 is sought for the purposes of:

- Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to "related parties", for example children of directors of a company;
- 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 Tim Hosking is the Chief Executive Officer, South America. The number of ESOP Options being issued to Mr Tim 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 ESOP Options to Mr Tim Hosking involves the provision of a financial benefit to a related party of the Company. The Company seeks Shareholders' approval for the grant..

The ESOP Options are being granted for no consideration. Consequently no funds will be raised as a result of the grant of the ESOP Options. A total of \$1,095,000 in gross Share proceeds would be raised if the ESOP 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 ESOP Options:

- being a son of Mr Robert Hosking, a Director of the Company, Mr Tim 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 150,000 ESOP Options on the terms set out in Annexure "C" to this Explanatory Memorandum;
- the Directors of the Company make no recommendation in relation to Resolution 7 on the basis that the resolution relates to the remuneration of a related party of a Director;
- the ESOP Options will be issued for no consideration. Any funds raised from the exercise of the ESOP Options will be used for the Company's general working capital requirements;
- the exercise price and exercise date for the ESOP Options are set out in Annexure "C" to this Explanatory Memorandum;
- based on a Black & Scholes option pricing model, the Company estimates that each Option the subject of Resolution 7, has a value of \$0.58 at 29 August 2011 detailed in the table below:

ESOP OPTIONS	
This estimate is based on the following assumptions	
Exercise Price	\$7.30
VWAP for the 90 days ended 29 August 2011	\$5.61
Time to expiration of Option	48 Months
Volatility	44.5%
Risk free interest rate	4.45%
Annualised dividend yield	Nil
Total value for all ESOP Options to be issued to Tim Hosking	\$87,000

- based on a Black & Scholes option pricing model, the Company estimates that the total value of all of the ESOP Options proposed to be issued to Mr Tim Hosking to be \$87,000;
- 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 \$3.05 on 9 August 2011 and the highest was \$11.00 on 25 October 2010. At the close of trading on 30 August the Share price was \$3.45;
- following the passing of Resolution 7, Mr Tim Hosking will hold an interest in 242,035 Shares and 230,000 Options;

- (j) Mr Tim Hosking receives a current base salary of \$407,800 per annum;
- (k) the Company has 221,420,769 Shares and 6,275,000 Options on issue. Assuming that each of the resolutions outlined in the Notice of Meeting are approved and each of Mr Robert Hosking, Mr Mark Smith, Mr Scott Hosking and Mr Tim Hosking exercises all of the Options proposed to be granted to him pursuant to these Resolutions, Mr Tim Hosking's interest including all the Shares and Options currently held will represent approximately 0.21% of the Company's diluted capital; and
- (l) neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 7.

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

- (a) the name of the person who will be issued ESOP Options is Mr Tim Hosking or his nominee;
- (b) Mr Tim Hosking or his nominee will be issued 150,000 ESOP Options at an exercise price of \$7.30 each;
- (c) the ESOP Options will be issued within one month of Shareholder approval;
- (d) Mr Tim Hosking is the son of Mr Robert Hosking, a Director of the Company;
- (e) Mr Scott Hosking and Mr Tim Hosking have received securities under the ESOP since the last approval. Mr Scott Hosking has received 300,000 shares/options at an exercise price of \$14.07 each and 100,000 shares/options at an exercise price of \$9.77 each since the last shareholder approval of securities under the ESOP. Mr Tim Hosking has received 230,000 shares/options at an exercise price of \$14.07 since the last shareholder approval of securities under the ESOP;
- (f) Mr Scott Hosking and Mr Tim Hosking are entitled to receive securities under the ESOP and are related parties of directors. No directors or other related parties of directors are entitled to receive securities under the ESOP;
- (g) there is no loan proposed in relation to the proposed award of securities to Mr Tim Hosking;
- (h) the ESOP Options are being issued for no consideration and therefore no funds will be raised pursuant to the issue of ESOP Options; and
- (i) the terms of the ESOP Options are set out in Annexure "C" to this Explanatory Memorandum.



## 11. 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>Base Options:</b>	Options to be issued to Executive Directors, the terms and conditions of which are set out in Annexure A to this Explanatory Memorandum.
<b>Bonus Options</b>	Options to be issued to Executive Directors that will be exercisable on the achievement of Key Performance Indicators and the Company Milestone, the terms and conditions of which are set out in Annexure B to this Explanatory Memorandum.
<b>Company:</b>	Karoon Gas Australia Ltd (ACN 107 001 338).
<b>Company Milestone:</b>	The achievements of the Company set out in Annexure B to this Explanatory Memorandum.
<b>Corporations Act:</b>	Corporations Act 2001 (Cth).
<b>Corporations Regulations:</b>	Corporations Regulations 2001 (Cth).
<b>EDT:</b>	Eastern Daylight Time, being the time in Melbourne, Victoria.
<b>ESOP:</b>	The Company's Employee Share Option Plan.
<b>ESOP Options:</b>	Options issued under the ESOP.
<b>Listing Rules:</b>	The Official Listing Rules of the ASX, as amended from time to time.
<b>Key Management Personnel:</b>	Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
<b>Key Performance Indicators</b>	The achievements and measurements set out in Annexure B to this Explanatory Memorandum
<b>Notice of Meeting:</b>	The notice convening the Annual General Meeting which accompanies this Explanatory Memorandum.
<b>Options:</b>	Base Options and Bonus Options.
<b>Remuneration Committee:</b>	The remuneration committee of the Company.
<b>Remuneration Report:</b>	The Remuneration Report for the year ended 30 June 2011 as contained within the Directors' report and forming part of the 2011 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 BASE OPTIONS PROPOSED TO BE GRANTED TO DIRECTORS UNDER RESOLUTIONS 4 and 5

1. Each Base Option entitles the holder to subscribe for and be allotted one fully paid ordinary share ("**Share**") in the Company.
2. The Base Options are being issued in three tranches.
3. Tranche 1 cannot be exercised until 1 May 2012, Tranche 2 cannot be exercised until 1 May 2013 and Tranche 3 cannot be exercised until 1 May 2014 (each, as relevant, the "**Exercise Date**") except in the circumstances set out in paragraph 7 below.
4. The exercise price of Tranche 1 is \$8.92 per Share, of Tranche 2 is \$9.95 and Tranche 3 is \$10.98 (each, as relevant, the "**Exercise Price**").
5. The Base Options will lapse at 5.00pm (Melbourne Time) 24 months from the relevant Exercise Date ("**Expiry Date**"). Any Base Options which have not been exercised on or before 5.00pm (Melbourne Time) on the Expiry Date lapse automatically.
6. The Base Options are transferable after the Exercise Date although no application will be made to the ASX for Official Quotation of the Options.
7. Base Options may be exercised or transferred prior to the Exercise Date in the event of a takeover bid for the Company being made pursuant to Chapter 6 of the Corporations Act or in the event of a scheme of arrangement under Part 5.1 of the Corporations Act being proposed by the Company.
8. Base 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 Base Options specified in the Exercise Notice; and
  - (b) the certificate for those Base 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 Base Options being exercised;
  - (c) if applicable, issue a new certificate for any remaining Base 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 Base 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 Base Options. However, the Company will send a notice to each holder of Base 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 option holders the opportunity to exercise their Base Options prior to the date for determining entitlements to participate in any such issue.

12. If from time to time on or prior to the Expiry Date the Company makes an issue of Shares to the Shareholders by way of capitalisation of profits or reserves (a **bonus issue**), then upon exercise of Base 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 Base Options and the Shares the subject of such exercise had been duly allotted and issued to him. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank pari passu in all respects with the other shares allotted under the bonus issue.
13. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of an optionholder will be changed to the extent necessary to comply with the applicable Listing Rules in force at the time of the reorganisation.

## ANNEXURE B

### TERMS AND CONDITIONS OF BONUS OPTIONS PROPOSED TO BE GRANTED TO DIRECTORS UNDER RESOLUTIONS 4 and 5

1. Each Bonus Option entitles the holder to subscribe for and be allotted one fully paid ordinary share ("**Share**") in the Company.
2. The Bonus Options are being issued in four tranches.
3. Tranches 1, 2 and 3 of the Bonus Options can only be exercised upon the achievement by the holder of the Bonus Option of the Key Performance Indicators set out below. Tranche 4 of the Bonus Options can only be exercised upon the achievement by the Company of the Company Milestone set out below.
4. In the case where a particular Key Performance Indicator was out of the control of the executive director and not met, the Company Remuneration Committee may nevertheless allow the Bonus Options to be exercised.
5. Tranche 1 cannot be exercised until 1 May 2012, Tranche 2 cannot be exercised until 1 May 2013 and Tranche 3 cannot be exercised until 1 May 2014 (each, as relevant, the '**Exercise Date**') except in the circumstances set out in paragraph 7 below.
6. The exercise price of Tranche 1 is \$8.92 per Share, of Tranche 2 is \$9.95 and Tranche 3 and 4 is \$10.98 (each, as relevant, the "**Exercise Price**").
7. The Bonus Options will lapse at 5.00pm (Melbourne Time) 24 months from the relevant Exercise Date ("**Expiry Date**"). Any Bonus Options which have not been exercised on or before 5.00pm (Melbourne Time) on the Expiry Date lapse automatically.
8. The Bonus Options are transferable after the Exercise Date although no application will be made to the ASX for Official Quotation of the Bonus Options.
9. Bonus Options may be exercised or transferred prior to the Exercise Date in the event of a takeover bid for the Company being made pursuant to Chapter 6 of the Corporations Act or in the event of a scheme of arrangement under Part 5.1 of the Corporations Act being proposed by the Company.
10. Bonus 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 Bonus Options specified in the Exercise Notice; and
  - (b) the certificate for those Bonus Options, for cancellation by the Company.
11. The Exercise Notice only becomes effective when the Company has received cleared funds for the full amount of the Exercise Price.
12. 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 Bonus Options being exercised;
  - (c) if applicable, issue a new certificate for any remaining Bonus 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.

13. There are no participating rights or entitlements inherent in the Bonus 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 Bonus Options. However, the Company will send a notice to each holder of Bonus 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 option holders the opportunity to exercise their Bonus Options prior to the date for determining entitlements to participate in any such issue.
14. If from time to time on or prior to the Expiry Date the Company makes an issue of Shares to the Shareholders by way of capitalisation of profits or reserves (a **bonus issue**), then upon exercise of Bonus 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 Bonus 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.
15. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of an optionholder will be changed to the extent necessary to comply with the applicable Listing Rules in force at the time of the reorganisation.

### Key Performance Indicators

#### Tranche 1:

Total Shareholder Return Expansion to outperform the ASX 200 Energy Index in the period beginning 1 May 2011 and ending 1 May 2012. (end share price-start share price/start share price)

Total Shareholder Return to exceed 10% in the period beginning 1 May 2011 and ending 30 April 2012.

Maintenance of zero incident safety record in the period beginning 1 May 2011 and ending 30 April 2012.

#### Tranche 2:

Total Shareholder Return Expansion to outperform the ASX 200 Energy Index in the period beginning 1 May 2011 and ending 1 May 2013. (end share price-start share price/start share price)

Total Shareholder Return to exceed 10% in the period beginning 1 May 2012 and ending 30 April 2013.

Maintenance of zero incident safety record in the period beginning 1 May 2012 and ending 30 April 2013.

#### Tranche 3:

Total Shareholder Return Expansion to outperform the ASX 200 Energy Index in the period beginning 1 May 2011 and ending 1 May 2014. (end share price-start share price/start share price)

Total Shareholder Return to exceed 10% in the period beginning 1 May 2013 and ending 30 April 2014.

Maintenance of zero incident safety record in the period beginning 1 May 2013 and ending 30 April 2014.

## Company Milestone

Tranche 4:

Total Shareholder Return Expansion to outperform the ASX 200 Energy Index in the period beginning 1 May 2011 and ending 1 May 2014 by 50% or more. (end share price-start share price/start share price).

## ANNEXURE "C"

### TERMS AND CONDITIONS OF THE ESOP OPTIONS

1. The exercise price of Options is \$7.30 per Share ("**Exercise Price**").
2. The Options cannot be exercised until the date which is 24 months after the date of issue.
3. The Options will lapse at 5.00pm (Melbourne Time) four years from the date the Options are granted ("**Expiry Date**"). If the Employee ceases to be employed by the Company or any of its related bodies corporate (as that term is defined in the Corporations Act) for any reason, any unexercised Options will lapse on the day the Employee ceases to be employed.
4. If the Employee dies or becomes incapacitated, any unexercised Options will lapse unless exercised by the Employee's personal representative within 3 months of the Employee's death.
5. If a Takeover Offer is made for the Company the Employee will be afforded the opportunity to exercise all of the Employee's Options.
6. Generally, as set out in the rules of the ESOP which is available upon request.

