

Notice of Extraordinary General Meeting

Island Sky Australia Limited ABN 73 122 948 805

Notice is hereby given that the Extraordinary General Meeting of the shareholders of Island Sky Australia Limited (**Company**) will be held at Minter Ellison, Level 10, 25 Grenfell Street, Adelaide SA 5000 on Thursday 21st November 2013, at 10.30 am, for the purpose of transacting the business referred to in this Notice of Extraordinary General Meeting.

The Explanatory Notes that accompany and form a part of this Notice of Extraordinary General Meeting describe the Special Business to be considered.

SPECIAL BUSINESS

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

1. ORDINARY RESOLUTION 1: APPROVAL OF PROPOSED TRANSACTION

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

'That, for the purposes of ASX Limited (ASX) Listing Rule 11.1.2, Listing Rule 11.2 and all other purposes, shareholders approve the agreements dated 6 September 2013, entered into between the Company and T.H. McElvain Oil & Gas LLLP (McElvain), under which the Company has secured certain rights to acquire an interest in each of:

- an emerging oil resource prospect located on the western edge of the Central Kansas Uplift in Ellis County, Kansas (The Tiger Prospect);*
- a prospect located nearby the Tiger Prospect in Trego County, Kansas (Pawnee Option); and*
- an option to explore for and develop entry level acreage leasing opportunities alongside McElvain, in an emerging oil play in SE Colorado (SE Colorado Prospect),*

(together the Proposed Transaction) and on such terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

The Company will disregard any votes cast on this ordinary resolution by any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) if Resolution 1 is passed (a **Participating Party**) and any associate of a Participating Party. However, the Company will not disregard a vote if:

(a) it is cast by a Participating Party or any associate of a Participating Party as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a Participating Party or any associate of a Participating Party who is 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.

2. SPECIAL RESOLUTION 2: APPROVAL OF CHANGE OF COMPANY NAME

To consider and, if thought fit, pass the following resolution as a special resolution:

'That, subject to Resolution 1 being passed, the name of the Company be changed from Island Sky Australia Limited to Pawnee Energy Limited.'

3. ORDINARY RESOLUTION 3: RATIFICATION OF PLACEMENT OF 42,855,250 SHARES

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

'That, for the purposes of ASX Limited (ASX) Listing Rule 7.4 and all other purposes, shareholders approve and ratify the issue of 42,855,250 fully paid ordinary shares in the capital of the Company, to certain professional and sophisticated investors, at an issue price of \$0.004 per share, which were issued on 6 September 2013, and on such terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

Voting exclusion: The Company will disregard any votes cast on this ordinary resolution by any person who participated in the issue (a **Participating Party**) and any associate of a Participating Party. However, the Company will not disregard a vote if:

(a) it is cast by a Participating Party as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a Participating Party who is chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

4. ORDINARY RESOLUTION 4: APPROVAL OF SHARE CONSOLIDATION

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

'That, subject to Resolution 1 being passed, with effect from 9 December 2013 (or such other subsequent date that is notified to the ASX by the Company), the share capital of the Company will be consolidated through the conversion of every 50 fully paid ordinary shares (and every 50 options on issue) in the Company into 1 fully paid ordinary share (and 1 option respectively) in the Company and that any resulting fractions of a share (and option) be rounded up to the next whole number of shares (and options) and that the exercise price of options on issue be amended in inverse proportion to that ratio in accordance with ASX Listing Rule 7.22.'

5. ORDINARY RESOLUTION 5: APPROVAL OF PLACEMENT OF SHARES TO ENTITY RELATED TO DIRECTOR

If Resolution 4 is passed, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That, for the purposes of ASX Limited (ASX) Listing Rule 10.11 and all other purposes, shareholders approve the proposed issue of 142,880 fully paid ordinary shares in the capital of the Company to Davan Nominees Pty Ltd, an entity related to Mr David Lindh, a director of the Company, in consideration for extinguishing certain debts of the Company and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

If Resolution 4 is not passed, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That, for the purposes of ASX Limited (ASX) Listing Rule 10.11 and all other purposes, shareholders approve the proposed issue of 7,143,962 fully paid ordinary shares in the capital of the Company to Davan Nominees Pty Ltd, an entity related to Mr David Lindh, a director of the Company, in consideration for extinguishing certain debts of the Company and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

If Resolution 5 is approved by shareholders of the Company for the purposes of Listing Rule 10.11, separate approval is not required under Listing Rule 7.1.

Voting exclusion: The Company will disregard any votes cast on this ordinary resolution by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) (a **Participating Party**) and any associate of a Participating Party. However, the Company will not disregard a vote if:

(a) it is cast by a Participating Party as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a Participating Party who is 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. ORDINARY RESOLUTION 6: APPROVAL OF PLACEMENT OF SHARES TO CHESSER NOMINEES PTY LTD

If Resolution 4 is passed, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That, for the purposes of ASX Limited (ASX) Listing Rule 10.11 and all other purposes, shareholders approve the proposed issue of 629,395 fully paid ordinary shares in the capital of the Company to Chesser

Nominees Pty Ltd, in consideration for extinguishing certain debts of the Company and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

If Resolution 4 is not passed, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That, for the purposes of ASX Limited (ASX) Listing Rule 10.11 and all other purposes, shareholders approve the proposed issue of 31,469,713 fully paid ordinary shares in the capital of the Company to Chesser Nominees Pty Ltd, in consideration for extinguishing certain debts of the Company and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

If Resolution 6 is approved by shareholders of the Company for the purposes of Listing Rule 10.11, separate approval is not required under Listing Rule 7.1.

While Chesser Nominees Pty Ltd is not a related party of Mr David Lindh, a director of the Company, Mr Lindh is also a director of that company's holding company. Refer to the Explanatory Notes accompanying this Notice of Meeting for more information. In these particular circumstances, as a matter of prudence the Company seeks shareholder approval for the proposed placement under Listing Rule 10.11.

Voting exclusion: The Company will disregard any votes cast on this ordinary resolution by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) (a **Participating Party**) and any associate of a Participating Party. However, the Company will not disregard a vote if:

(a) it is cast by a Participating Party as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a Participating Party who is 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. ORDINARY RESOLUTION 7: APPROVAL OF PLACEMENT OF SHARES TO DIRECTOR

If Resolution 4 is passed, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That, for the purposes of ASX Limited (ASX) Listing Rule 10.11 and all other purposes, shareholders approve the proposed issue of 84,832 fully paid ordinary shares in the capital of the Company to Mr Neville Martin, a director of the Company, in consideration for extinguishing certain debts of the Company and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

If Resolution 4 is not passed, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That, for the purposes of ASX Limited (ASX) Listing Rule 10.11 and all other purposes, shareholders approve the proposed issue of 4,241,575 fully paid ordinary shares in the capital of the Company to Mr Neville Martin, a director of the Company, in consideration for extinguishing certain debts of the Company and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

If Resolution 7 is approved by shareholders of the Company for the purposes of Listing Rule 10.11, separate approval is not required under Listing Rule 7.1.

Voting exclusion: The Company will disregard any votes cast on this ordinary resolution by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) (a **Participating Party**) and any associate of a Participating Party. However, the Company will not disregard a vote if:

(a) it is cast by a Participating Party as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a Participating Party who is 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. ORDINARY RESOLUTION 8: APPROVAL OF ISSUE OF OPTIONS

If Resolution 4 is passed, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That, for the purposes of ASX Limited (ASX) Listing Rule 7.1 and all other purposes, shareholders approve the proposed issue of 857,107 unlisted options in the capital of the Company, to certain professional and sophisticated investors, with an exercise price of \$0.25 per option (with no amount payable on grant) and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

If Resolution 4 is not passed, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That, for the purposes of ASX Limited (ASX) Listing Rule 7.1 and all other purposes, shareholders approve the proposed issue of 42,855,250 unlisted options in the capital of the Company, to certain professional and sophisticated investors, with an exercise price of \$0.005 per option (with no amount payable on grant) and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

Voting exclusion: The Company will disregard any votes cast on this ordinary resolution by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) (a **Participating Party**) and any associate of a Participating Party. However, the Company will not disregard a vote if:

(a) it is cast by a Participating Party as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a Participating Party who is 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.

9. ORDINARY RESOLUTION 9: APPROVAL OF OFFER OF UP TO 60 MILLION SHARES PURSUANT TO A PROSPECTUS

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

'That, for the purposes of ASX Limited (ASX) Listing Rule 7.1 and all other purposes, shareholders approve the issue of up to 60,000,000 fully paid ordinary shares in the capital of the Company, pursuant to the proposed general offer by the Company, for an issue price of \$0.20 per share and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

Voting exclusion: The Company will disregard any votes cast on this ordinary resolution by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) (a **Participating Party**) and any associate of a Participating Party. However, the Company will not disregard a vote if:

(a) it is cast by a Participating Party as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a Participating Party who is 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.

10. ORDINARY RESOLUTION 10: APPROVAL OF OFFER OF UP TO 875,000 SHARES PURSUANT TO A PROSPECTUS TO DIRECTORS AND ASSOCIATES AND PROPOSED DIRECTORS OF THE COMPANY

If Resolution 9 is passed, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That, for the purposes of ASX Limited (ASX) Listing Rule 10.11 and all other purposes, shareholders approve the issue of up to 875,000 ordinary shares in total, consisting of the issue of up to 125,000 ordinary shares to each director and proposed director of the Company (or related parties of the directors and proposed directors of the Company), pursuant to the proposed general offer by the Company, for an

issue price of \$0.20 per share and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

If Resolution 10 is approved by shareholders of the Company for the purposes of Listing Rule 10.11, separate approval is not required under Listing Rule 7.1.

Resolution 10 is necessary to enable directors, proposed directors and their related parties to participate in the proposed public offer, via a prospectus, on the same terms as other members of the public.

Voting exclusion: The Company will disregard any votes cast on this ordinary resolution by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) (a **Participating Party**) and any associate of a Participating Party. However, the Company will not disregard a vote if:

(a) it is cast by a Participating Party as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a Participating Party who is 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.

11. ORDINARY RESOLUTION 11: APPROVAL OF PLACEMENT OF 4,000,000 SHARES TO LATERAL ENERGY, LLC

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

'That, for the purposes of ASX Limited (ASX) Listing Rule 10.11 and all other purposes, shareholders approve the proposed issue of 4,000,000 fully paid ordinary shares in the capital of the Company to Lateral Energy, LLC, in consideration for services provided to the Company and on such other terms and conditions as set out in the Explanatory Notes accompanying this Notice of Meeting.'

If Resolution 11 is approved by shareholders of the Company for the purposes of Listing Rule 10.11, separate approval is not required under Listing Rule 7.1.

Voting exclusion: The Company will disregard any votes cast on this ordinary resolution by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) (a **Participating Party**) and any associate of a Participating Party. However, the Company will not disregard a vote if:

(a) it is cast by a Participating Party as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a Participating Party who is 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 deal with any other business that may legally be brought forward in accordance with the Constitution and the *Corporations Act 2001*.

EXPLANATORY NOTES

Explanatory Notes for this Notice appear on the following pages.

By order of the Board

A handwritten signature in black ink, appearing to read 'Rajita Alwis', with a horizontal line underneath.

Rajita Alwis
Company Secretary
17 October 2013

VOTING ENTITLEMENTS

The Company has determined that, in accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Company's shares quoted on ASX at 7.00 pm (Sydney Time) on Tuesday 19th November 2013 will be taken, for the purposes of the Extraordinary General Meeting, to be held by the persons who held them at that time. Accordingly, those persons are entitled to attend and vote at the meeting.

PROXIES

A shareholder who is entitled to attend and vote at the Extraordinary General Meeting may appoint up to two proxies to attend and vote on behalf of that shareholder. A proxy form is included with this Notice of Extraordinary General Meeting. If you require an additional proxy form, please contact the Company.

If a shareholder appoints two proxies, the appointment of the proxies may specify the proportion or the number of that shareholder's votes that each proxy may exercise. If the appointment does not so specify, each proxy may exercise half of the votes. Fractions of votes will be disregarded.

A proxy need not be a shareholder of the Company. Proxies given by corporate shareholders must be executed in accordance with their constitutions, or signed by a duly authorised officer or attorney.

To be effective, the Company must receive the completed proxy form and, if the form is signed by the shareholder's attorney or authorised officer, the authority under which the proxy form is signed (or a certified copy of the authority) by no later than 10.30 am (Adelaide time) on Tuesday 19th November 2013, by post or fax to:

To be effective, proxy forms (duly completed) must be received by the Company at Computershare Investor Services Pty Ltd, by mail at GPO Box 242, Melbourne, Victoria 3001 or be delivered in person at Level 5, 115 Grenfell Street, Adelaide SA 5000, no later than 48 hours before the time, in Adelaide, of the commencement of the meeting.

Proxy forms (duly completed) may be sent by facsimile to (within Australia) 1800 783 447 or (outside Australia) +61 3 9473 2555 and must be received no later than 48 hours before the time, in Adelaide, of the commencement of the meeting.

For Intermediary Online subscribers only (Custodians) please visit www.intermediaryonline.com to submit your voting intentions.

Resolutions 5, 7 and 10 – General voting exclusion statement

In accordance with section 250BD of the Corporations Act 2001, the Company is required to disregard any votes cast on Resolutions 5, 7 and 10 (cast as a proxy) by or on behalf of:

(a) a member of the Company's key management personnel (**KMP**), details of whose remuneration are included in the Company's remuneration report; or

(b) closely related party of such a member,

(together **Prohibited Persons**). Those resolutions are directly or indirectly related to the remuneration of a member of the Company's KMP, and the Corporations Act 2001 restricts members of the KMP, and their closely related parties, from voting in such circumstances. The Corporations Act 2001 defines 'closely related party', and this includes a spouse or dependent of a member of the KMP, and companies controlled by a member of the KMP.

However, a Prohibited Person may cast a vote on Resolutions 5, 7 and 10 as a proxy if either:

(a) the Prohibited Person does so as a proxy appointed in writing that specifies how the proxy is to vote on the applicable resolution; or

(b) the Prohibited Person is the Chair and the appointment of the Chair as proxy: (i) does not specify the way the proxy is to vote on the applicable resolution; and (ii) expressly authorises the Chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP of the Company or, if the Company is part of a consolidated entity, of the entity.

This express authority for Resolutions 5 and 10 is also subject to the box under "Important for Items 5 and 10" on the proxy form being ticked.

In addition to the above voting restrictions, the Company will disregard any votes cast on Resolutions 5, 7 and 10 by any associate of a Director, in accordance with the ASX Listing Rules, and any such person will also be a Prohibited Person for those purposes. In accordance with Listing Rule 14.11.1, each of the Directors, and their associates, are excluded from voting on those resolutions. In the case of a Director or associate who is not subject to the restrictions affecting members of the KMP noted above, in accordance with the Listing Rules the Company will not disregard a vote if:

(a) it is cast by the Prohibited Person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the Prohibited Person who is 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, and where the chair has received express authority to vote undirected proxies as the chair sees fit.

Appointment of company representative

A body corporate may elect to appoint a representative, rather than appoint a proxy, in accordance with the *Corporations Act 2001*. Where a body corporate appoints a representative, the Company requires written proof of the representative's appointment to be lodged with or presented to the Company before the meeting.

Voting by proxies

A proxy may decide whether to vote on any motion, except where the proxy is required by law or the constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with the direction. If a proxy is not directed how to vote on an item of business, the proxy may vote as he or she thinks fit. If a proxy abstains from voting and the directions on the proxy require that person to vote, the votes not exercised by the proxy will be given to the Chair to vote in accordance with the directions on the proxy form.

Where more than one proxy is appointed, neither proxy is entitled to vote on a show of hands.

Please read the directions on the proxy form carefully.

Extraordinary General Meeting – Explanatory Notes

Island Sky Australia Limited ABN 73 122 948 805

These Explanatory Notes have been prepared for the information of shareholders in connection with the Extraordinary General Meeting of shareholders to be held at Minter Ellison, Level 10, 25 Grenfell Street, Adelaide SA 5000 on Thursday 21st November 2013 at 10.30 am.

These Explanatory Notes should be read in conjunction with the accompanying Notice, and are a brief explanation of the agenda items in the Notice, and why the Company is seeking this shareholder approval. For your convenience key terms used in these Notes are defined in the Glossary below.

AGENDA ITEM 1

ORDINARY RESOLUTION 1: APPROVAL OF PROPOSED TRANSACTION

Background

On 6 September 2013 the Company announced that it had entered into agreements with T.H. McElvain Oil & Gas LLLP (**McElvain**) (**Oil and Gas Exploration Agreements**) to invest in the following oil and gas prospects:

- an emerging oil resource prospect located on the western edge of the Central Kansas Uplift in Ellis County, Kansas (The **Tiger Prospect**);
- a prospect located nearby the Tiger Prospect in Trego County, Kansas (**Pawnee Option**); and
- an option to explore for and develop entry level acreage leasing opportunities alongside McElvain, in an emerging oil play in SE Colorado (**SE Colorado Prospect**),

(together, the **Proposed Transaction**).

The entry into the Oil and Gas Exploration Agreements followed the sale of a 75% interest in the Company's air to water machine subsidiary in October 2012, since which time the Company has been seeking additional business opportunities. The Board has recently reviewed many new investment opportunities and has ultimately determined that entry into the oil and gas business in the USA is a highly attractive one for shareholders. The key factors behind this decision have included: the strong commodity price outlook for crude oil; the low sovereign risk of the USA; the attractive economics of tight oil plays; the low risks involved in such plays compared to more traditional exploration ventures; the contacts of existing Directors within this industry; and the ability to attract experienced new Directors to grow such a business.

Further details of the each of the Tiger Prospect, Pawnee Option and SE Colorado Prospect are set out in Schedule 1 to these Explanatory Notes.

The Oil and Gas Exploration Agreements are subject to (among other matters) the shareholders of the Company approving these agreements.

Neither the Directors nor the Company are associates of, or in any other way related to, McElvain.

Key Information

The key terms of the various Oil and Gas Exploration Agreements are summarised in Schedule 1 to these Explanatory Notes.

Completion of the Proposed Transaction is subject to the following conditions precedent:

- Island Sky receiving all regulatory and shareholder approvals or consents, including shareholder approval of the Transaction;
- Island Sky receiving approval from the ASX for re-listing in compliance with Chapters 1 and 2 of the ASX Listing Rules; and
- Island Sky raising requisite funds to settle on the Transaction in accordance with the timing required under the relevant agreements.

Subject to shareholder approval being obtained (and the other above conditions precedent being satisfied), completion of the Proposed Transaction is planned to occur on or about 10 December 2013.

If any of the conditions precedent are not satisfied, including shareholder approval for Resolution 1, then either party may terminate the Oil and Gas Exploration Agreements and the proposed acquisitions will not proceed.

As part of the Proposed Transaction, the Directors propose to appoint additional persons to the Board and a new CEO for the Company from completion of the Proposed Transaction. The profiles of the individuals that the Directors propose to appoint are set out in Schedule 2. It is the present intention that Mr Neville Martin and Mr Richard Groden will resign from the Board following the completion of the Proposed Transaction. It is currently intended that Mr David Lindh will remain as a Director.

The effect on the capital structure of the Company of implementing the Proposed Transaction and all of the other Resolutions contained within the accompanying Notice is as follows*:

Shares	Number
Current (assuming no Options are exercised or other Shares issued)	328,557,246
Consolidation 1:50 (Resolution 4)	6,571,145
Placement of Shares (Resolution 5)	857,107
Placement of Shares (Resolution 8)	4,000,000
<i>Sub-total (before taking the Capital Raising into account)</i>	<i>11,428,252</i>
Issue pursuant to Capital Raising (Resolution 7) – assuming the maximum number of shares are issued under the Prospectus, to raise \$12M before costs	60,000,000
NEW TOTAL	71,428,252
Options	
Current (assuming no Options are exercised or other Options issued)	5,300,000
Consolidation 1:50	106,000
Issue of Options (Resolution 6)	857,107
NEW TOTAL	963,107

**assuming all the Resolutions are approved and all the relevant shares or options the subject of those Resolutions are issued by the Company on a post-Consolidation basis, and that no options are exercised and no other shares, options or other securities are issued, and not taking into account any changes which arise due to rounding*

The financial effect of the transaction as reflected in a pro-forma Statement of Financial Position is set out below:

ISLAND SKY AUSTRALIA LIMITED
PRO-FORMA BALANCE SHEET

	30/06/2013	Changes*	Pro-Forma
	Audited		Balance Sheet
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	31,881	9,270,421	9,302,302
Trade and other receivables	641	-	641
TOTAL CURRENT ASSETS	32,522	9,270,421	9,302,943
NON-CURRENT ASSETS			
Trade and other receivables	986,423	-	986,423
Exploration & Evaluation Expenditure	-	1,651,000	1,651,000
TOTAL NON-CURRENT ASSETS	986,423	1,651,000	2,637,423
TOTAL ASSETS	1,018,945	10,921,421	11,940,366
CURRENT LIABILITIES			
Trade and other payables	378,262	(252,550)	125,712
TOTAL CURRENT LIABILITIES	378,262	(252,550)	125,712
TOTAL LIABILITIES	378,262	252,550	125,712
NET ASSETS/(LIABILITIES)	640,683	11,173,971	11,814,654
EQUITY			
Issued capital	12,315,716	11,173,971	23,489,687
Reserves	82,626	-	82,626
Retained losses	11,757,659	-	11,757,659
TOTAL EQUITY	640,683	11,173,971	11,814,654

***CHANGES**

Cash and cash equivalents

Resolution 1 (oil and gas leases)	-\$	1,651,000
Resolution 3	\$	171,421
Resolution 9 (includes \$1.25m costs of offer)	\$	10,750,000

Exploration & Evaluation Expenditure

Resolution 1 (oil and gas leases)	\$	1,651,000
-----------------------------------	----	-----------

Trade and other payables

Resolution 5,6 & 7	\$	252,550
--------------------	----	---------

Issue Capital

Resolution 3	\$	171,421
Resolution 9 (net \$1.25m costs of offer)	\$	10,750,000
Resolution 5,6 & 7	\$	252,550

Reasons for seeking shareholder approval

The ASX has determined that because of the magnitude of the change in the nature and scale of the Company's activities due to the Proposed Transaction, the Company is required to satisfy the provisions of Chapters 1 and 2 of the ASX Listing Rules as if re-applying for admission to the ASX. This includes the preparation and issue of a prospectus by the Company which complies with the relevant provisions of the Act (**Prospectus**).

If Resolution 1 is approved by shareholders, the Board intends to issue the Prospectus shortly after this meeting.

The Board considers that it is in the interests of the Company and shareholders to enter into and complete the Proposed Transaction. The Board believes that the Proposed Transaction, if completed, will provide shareholders with a significant opportunity to maximise shareholder value. The Company, since the sale of a 75% interest in the Company's air to water machine subsidiary in October 2012, has assessed a number of investment opportunities, and the Board believes that the Proposed Transaction provides shareholders with the best opportunity of those that have been considered by the Company.

Directors' Recommendation

The Directors unanimously recommend that members approve Resolution 1 approving the Oil and Gas Exploration Agreements.

AGENDA ITEM 2

SPECIAL RESOLUTION 2: APPROVAL OF CHANGE OF COMPANY NAME

The Board seeks shareholder approval to change the name of the Company from Island Sky Australia Limited to Pawnee Energy Limited. The Board considers that the proposed new company name better reflects the operations of the Company following completion of the Proposed Transaction.

Directors' Recommendation

The Directors unanimously recommend that members approve Resolution 2 approving the change of the Company's name.

AGENDA ITEM 3

ORDINARY RESOLUTION 3: RATIFICATION OF PLACEMENT OF 42,855,250 SHARES

Background

The Board seeks shareholder approval of the issue of 42,855,250 shares by a placement, on the terms set out in Resolution 3 of the Notice. The shares were issued to professional and sophisticated investors, at an issue price of \$0.004 per share, to raise an amount of \$171,421 before costs (**First Placement**). The shares were issued on 6 September 2013. Those shares were issued in accordance with ASX Listing Rule 7.1, and did not require shareholder approval.

Key Information

ASX Listing Rule 7.5 requires the following information about the Placement to be given to the Company's shareholders.

Issue: All of the shares were issued to investors who were able to satisfy the 'professional investor' or 'sophisticated investor' requirements under the Act, or who for other reasons did not require a disclosure document to be prepared, in order to take up shares in the Company. Accordingly the Company was able to make the First Placement, without needing to prepare a prospectus or other disclosure document.

Number issued: The number of shares allotted and issued under the First Placement was 42,855,250.

Issue price: The shares were issued at an issue price of \$0.004 per share (on a pre-consolidation basis).

Terms of issue: The securities issued were fully paid ordinary shares in the Company. The shares were issued on the same terms as the Company's other fully paid ordinary shares.

Use of funds raised: The funds are being used by the Company for general working capital requirements.

Reasons for seeking shareholder approval

The Board seeks subsequent shareholder approval for the recent issue of 42,855,250 shares, as discussed above.

Under the ASX Listing Rules, the Company may not issue shares or options over unissued shares, comprising more than 15% of its issued share capital, in any 12 month period without shareholder approval. This is subject to limited exceptions. In calculating the 15% threshold, any issue that has been given prior approval by shareholders under ASX Listing Rule 7.1 or is subsequently approved by shareholders under ASX Listing Rule 7.4 is not included in the 15% calculation.

For this reason, shareholder approval is sought for the previous issue of 42,855,250 shares in the Company to professional and sophisticated investors under the First Placement.

If Resolution 3 is approved by shareholders, the Company may exclude the issue of these shares under the First Placement when calculating whether a future issue of shares or options will fall within the 15% limit under the ASX Listing Rules. This will permit the Company to issue additional shares or options in the Company at a later date, by way of placement, without requiring shareholder approval for that placement, and raise funds quickly, if the Board considers that it is in the interests of the Company to do so.

The Board has not yet made any decision to raise more funds via a placement(s), if Resolution 3, Resolution 5, Resolution 6, Resolution 7, Resolution 8, Resolution 9 and Resolution 11 are approved by shareholders. Any decision would take into account a number of factors, including the implications for shareholders.

Directors' Recommendation

The Directors unanimously recommend that shareholders vote FOR Resolution 3 for the ratification and approval of the previous issue of shares under the First Placement.

AGENDA ITEM 4

ORDINARY RESOLUTION 4: APPROVAL OF SHARE CONSOLIDATION

Background

The Company proposes to consolidate its ordinary share capital through the conversion of every 50 ordinary shares in the Company into 1 ordinary share in the Company (**Consolidation**).

If the Consolidation is approved by shareholders, it is anticipated that trading in consolidated shares is expected to occur on 9 December 2013 (or such other subsequent date as notified by the Company to the ASX) once the Company has satisfied the provisions of Chapters 1 and 2 of the ASX Listing Rules. The Company will release a timetable in relation to the Consolidation and the Proposed Transaction, which will be announced to the ASX closer to 9 December 2013. As such, it is proposed that the securities issued by the Company pursuant to Resolution 3, Resolution 5, Resolution 6, Resolution 7, and Resolution 8 will be consolidated as part of the Consolidation.

Key Information

If the Consolidation is approved by shareholders, the number of the Company's shares on issue will be reduced from 328,557,246 to 6,571,145, subject to rounding.

As the Consolidation applies equally to all of the Company's shareholders, individual shareholdings will be reduced in the same ratio as the total number of the Company's shares (subject only to the rounding of fractions). Therefore, the Consolidation will have no material effect on the percentage interest of each individual shareholder in the Company. Similarly, the aggregate value of each shareholder's holding (and the Company's market capitalisation) should not materially change – other than minor changes as a result of rounding – as a result of the Consolidation alone (and assuming no other market movement or impacts occur). However, the trading price per share can be expected to increase to reflect the reduced number of shares on issue.

Where the consolidation of a shareholder's holding results in an entitlement to a fraction of a share, the fraction will be rounded up to the nearest whole number of shares. If the Company reasonably believes that a shareholder has been a party to the division of a shareholding in an attempt to obtain an advantage from this treatment of fractions, the Company may take appropriate action, having regard as appropriate to the terms of the Company's constitution and the ASX Listing Rules. In particular, the Company reserves the right to disregard the division of the shareholding for the purposes of dealing with fractions so as to round up any fraction to the nearest whole number of shares that would have been received but for the division.

Shareholders are encouraged to seek and rely only on their own professional advice in relation to their tax position. Neither the Company nor any of its officers, employees or advisors assumes any liability or responsibility for advising shareholders about the tax consequences for them from the Consolidation. The Consolidation will occur through the conversion of every 50 ordinary shares in the Company into 1 ordinary share in the Company. No capital gains tax (CGT) event is expected to occur as a result of the share consolidation and therefore there do not appear to be any taxation implications arising for the shareholders.

Having regard to the ASX Listing Rules, all share rights on issue at the date of the Consolidation (including the Options) will either be consolidated on the same basis as the Company's ordinary shares or the terms adjusted, so that the number of ordinary shares to be provided if the share rights vest will reflect the impact of share consolidation, with the necessary adjustments to be made to any applicable exercise price.

Reason for seeking shareholder approval

Under section 254H of the Corporations Act, a company may consolidate its shares if the consolidation is approved by an ordinary resolution of shareholders at a general meeting.

As noted above, the ASX has determined that the Company needs to satisfy the provisions of Chapters 1 and 2 of the ASX Listing Rules as if re-applying for admission to the ASX. A requirement of these provisions is that the Company has a share price no less than \$0.20 per share. The Consolidation is being conducted in order for the Company to comply with this requirement. As a result, the approval of Resolution 4 is required in order for the Company to conduct the transactions the subject of Resolution 1 and Resolution 9 and implement the Proposed Transaction.

Directors' Recommendation

The Directors unanimously recommend that shareholders vote FOR Resolution 4 for the approval of the Consolidation.

AGENDA ITEMS 5, 6 AND 7

ORDINARY RESOLUTIONS 5, 6 AND 7 : APPROVAL OF PLACEMENT OF SHARES

Background

The Board seeks shareholder approval of the proposed issue of 857,107* shares in total by a placement in 3 tranches (consisting of 142,880 shares to be issued to Davan Nominees Pty Ltd, 629,395 shares to be issued to Chesser Nominees Pty Ltd and 84,832 shares to be issued to Mr Neville Martin), on the terms set out in Resolutions 5, 6 and 7 of the Notice, respectively. The shares will be issued to the specific investors noted above, for consideration consisting of extinguishment of debt, with no cash payable to the Company (**Second Placement**).

The Company currently owes in aggregate approximately \$252,550 to Adelaide Equity Partners Limited for corporate advisory fees, and to Mr David Lindh and Mr Neville Martin for certain accrued director fees. The Company has entered into a deed of settlement with each of these parties, under which the Company will (subject to approval of these Resolutions 5, 6 and 7) issue shares to the relevant party as full settlement of all amounts owing.

Key Information

ASX Listing Rule 10.13 requires the following information about the Second Placement to be given to the Company's shareholders.

Issuees:	Mr Neville Martin – 84,832 shares Davan Nominees Pty Ltd – 142,880 shares Chesser Nominees Pty Ltd – 629,395 shares
Number of shares to be issued:	The total number of shares to be allotted and issued under the Second Placement is 857,107.
Issue price:	The shares will be issued in consideration for \$252,550 of the Company's debts being extinguished. The Company will not receive cash under the Second Placement. Each of these parties has agreed to the issue of the above shares in lieu of payment of amounts owing. The shares the subject of the Second Placement will be allotted and issued after completion of the Consolidation the subject of Resolution 4, and as such will not be consolidated into a smaller number of shares (nor have a change in the price of the shares due to the Consolidation). Given the amount of debt being extinguished due to the Second Placement, the notional issue price of the shares the subject of the Second Placement is \$0.295 per share.
Relationship with Company:	Davan Nominees Pty Ltd is an entity controlled by related parties of Mr David Lindh. Chesser Nominees Pty Ltd is a subsidiary of Adelaide Equity Partners Limited. Mr David Lindh is a non-executive director of Adelaide Equity Partners Limited and Davan Nominees Pty Ltd is a minority shareholder of Adelaide Equity Partners Limited.
Terms of issue:	The securities issued will be fully paid ordinary shares in the Company. The shares will be issued on the same terms as the Company's other fully paid ordinary shares.
Use of funds raised:	\$252,550 of the Company's debts will be extinguished on issue of the Second Placement. No cash will be raised pursuant to the Second Placement.
Issue date:	It is expected that the shares the subject of the Second Placement will be issued on 9 December 2013. In any event, these shares will be issued no later than 21 st December 2013.

Reasons for seeking shareholder approval

The Board seeks shareholder approval for the proposed issue of 857,107 shares, as discussed above.

Under the ASX Listing Rules, the Company may not issue shares or options over unissued shares, comprising more than 15% of its issued share capital, in any 12 month period, without shareholder approval. This is subject to limited exceptions. In calculating the 15% threshold, any issue that has been given prior approval by shareholders under ASX Listing Rule 7.1 or is subsequently approved by shareholders under ASX Listing Rule 7.4 is not included in the 15% calculation. Further under the ASX Listing Rules, the Company may not issue shares to any of the Directors or a related party of any Director without shareholder approval. This is subject to limited exceptions. (The Directors have determined that shareholder approval pursuant to the related party rules under the Act is not required for Resolutions 5, 6 and 7, as the Directors consider that the issue of shares to the relevant related parties is on terms no less favourable to the Company than arm's length terms.)

For these reasons, shareholder approval is sought for the proposed issue of 857,107 shares in the Company to Directors and to related parties of the Directors.

If Resolutions 5, 6 and 7 are approved by shareholders, the Company may exclude the issue of these shares under the Second Placement when calculating whether a future issue of shares or options will fall within the 15% limit under the ASX Listing Rules. This will permit the Company to issue additional shares or options in the Company at a later date, by way of placement, without requiring shareholder approval for that placement, and raise funds quickly, if the Board considers that it is in the interests of the Company to do so.

The Board has not yet made any decision to raise more funds via a placement(s), if Resolution 3, Resolution 5, Resolution 6, Resolution 7, Resolution 8, Resolution 9 and Resolution 11 are approved by shareholders. Any decision would take into account a number of factors, including the implications for shareholders.

Directors' Recommendation

Mr Neville Martin and Mr David Lindh make no recommendation in relation to Resolutions 5, 6 and 7 due to their involvement in the Second Placement.

Mr Richard Groden recommends that shareholders vote FOR Resolutions 5, 6 and 7 for the approval of the Second Placement.

**For convenience all references to shares in the above notes concerning Agenda Item 5 are references to post-consolidation shares. This assumes that the Consolidation is approved by shareholders – see the above discussion concerning Resolution 4. If the Consolidation is not approved, shareholders will be asked to instead approve the issue of a total of 42,855,250 fully paid ordinary shares, being the equivalent number of non-consolidated shares, under the alternatives to Resolutions 5, 6 and 7. If the alternatives to Resolutions 5, 6 and 7 are approved, the number of shares granted under the Second Placement will be adjusted accordingly. The other terms of the Second Placement will not change. Further details are available from the Company on request.*

AGENDA ITEM 8

ORDINARY RESOLUTION 8: APPROVAL OF GRANT OF UNLISTED OPTIONS

Background

The Board seeks shareholder approval of the proposed issue of 857,107* unlisted options (**Options**), on the terms set out in Resolution 8 of the Notice. It is proposed that one Option will be issued for every share in the Company issued under the First Placement (to those investors that subscribed under the First Placement).

Key Information

ASX Listing Rule 7.3 requires the following information about the Placement to be given to the Company's shareholders.

Issue:	All of the Options will be issued to the investors that participated in the First Placement.
Number of Options to be granted:	The number of Options to be granted is 857,107.
Issue price:	The Options will be issued for nil cash (\$0.00 per Option) and will have an exercise price of \$0.25 per Option. The Options are intended to be granted after completion of the Consolidation the subject of Resolution 4, and as such will not be consolidated into a smaller number of options (nor have a change in the price of the options due to the Consolidation).
Terms of issue:	The Options will be unlisted options to be issued ordinary shares in the Company. The key terms of the Options are set out in Schedule 2 to these Explanatory Notes
Use of funds raised:	The funds raised by the Company on exercise of the Options will be used by the Company for general working capital requirements.
Issue date:	It is intended that the Company will issue the Options on or before 9 December 2013. The Options will be able to be exercised by the holders of the Options on or before 5 September 2015.

Reasons for seeking shareholder approval

The Board seeks shareholder approval for the proposed grant of 857,107 Options.

Under the ASX Listing Rules, the Company may not issue shares or options over unissued shares (which include the Options), comprising more than 15% of its issued share capital, in any 12 month period without shareholder approval. This is subject to limited exceptions. In calculating the 15% threshold, any issue that has been given prior approval by

shareholders under ASX Listing Rule 7.1 or is subsequently approved by shareholders under ASX Listing Rule 7.4 is not included in the 15% calculation.

For this reason, shareholder approval is sought for the proposed grant of 857,107 Options to the professional and sophisticated investors that participated in the First Placement.

If Resolution 8 is approved by shareholders, the Company may exclude the grant of the Options when calculating whether a future issue of shares or options will fall within the 15% limit under the ASX Listing Rules. This will permit the Company to issue additional shares or options in the Company at a later date, by way of placement, without requiring shareholder approval for that placement, and raise funds quickly, if the Board considers that it is in the interests of the Company to do so.

The Board has not yet made any decision to raise more funds via a placement(s), if Resolution 3, Resolution 5, Resolution 6, Resolution 7, Resolution 8, Resolution 9 and Resolution 11 are approved by shareholders. Any decision would take into account a number of factors, including the implications for shareholders.

Directors' Recommendation

The Directors unanimously recommend that shareholders vote FOR Resolution 8 for the approval of the proposed grant of Options.

**For convenience all references to Options in the above notes concerning Agenda Item 6 are references to post-consolidation Options. This assumes that the Consolidation is approved by shareholders – see the above discussion concerning Resolution 4. If the Consolidation is not approved, shareholders will be asked to instead approve the issue of 42,855,250 Options with an exercise price of \$0.005 per Option, being the equivalent number of non-consolidated Options, under the alternative Resolution 6. If that alternative Resolution 6 is approved, the number of Options granted under the Placement will be adjusted accordingly. The other terms of the grant of the Options will not change. Further details are available from the Company on request.*

AGENDA ITEMS 9 AND 10

ORDINARY RESOLUTIONS 9 AND 10: APPROVAL OF OFFER OF 60 MILLION SHARES PURSUANT TO A PROSPECTUS (INCLUDING UP TO 125,000 SHARES TO EACH DIRECTOR)

Background

The Board seeks shareholder approval of the proposed issue of up to 60,000,000 fully paid ordinary shares under the offer proposed to be made by the Company under the Prospectus (including up to 125,000 shares to each Director and proposed Director, or related party of that Director). The Company proposes that the shares will be issued to persons in Australia, at an issue price of \$0.20 per share (on a post-Consolidation basis), to raise a maximum amount of \$12,000,000 before costs (**Prospectus Offer**).

Key Information

ASX Listing Rules 7.3 and 10.13 require the following information about the Prospectus Offer to be given to the Company's shareholders.

Issue:	Any person located in Australia may apply to participate in the Prospectus Offer. As part of the Prospectus Offer, the Company understands that the current Directors and the persons noted in Schedule 1 as proposed Directors (and their nominees and related parties) may participate in the Prospectus Offer on the same terms as any other person located in Australia.
Maximum number of shares to be issued:	The maximum number of shares to be allotted and issued under the Prospectus Offer is proposed to be 60,000,000. Each of the current Directors (being Mr Neville Martin, Mr David Lindh and Mr Richard Groden) and each of the proposed Directors (being Mr Glenn Davis, Mr Jayme McCoy, Mr Hector Gordon and Mr Oliver Foster), or their respective nominee or related party, may be issued up to 125,000 shares under the Prospectus Offer.

Issue price:	It is proposed that the shares will be issued at an issue price of \$0.20 per share. The shares the subject of the Prospectus Offer will be allotted and issued after completion of the Consolidation the subject of Resolution 4, and as such will not be consolidated into a smaller number of shares (nor have a change in the price of the shares due to the Consolidation).
Relationship with Company:	Each of the current and proposed Directors, being Mr Neville Martin, Mr David Lindh, Mr Richard Groden, Mr Glenn Davis, Mr Jayme McCoy, Mr Hector Gordon and Mr Oliver Foster or nominees of or related parties of including entities controlled by these persons, may subscribe for shares under the Prospectus Offer on the same terms as any other person, though subject to the limit of 125,000 shares noted above.
Terms of issue:	The securities issued will be fully paid ordinary shares in the Company. The shares will be issued on the same terms as the Company's other fully paid ordinary shares. The Board currently intends that priority will be given to current shareholders under the Prospectus Offer (at the discretion of the Board and subject to usual commercial considerations).
Use of funds raised:	The funds will be used by the Company for payment of costs on completion of the Proposed Transaction and for general working capital purposes.
Issue date:	It is expected that the shares the subject of the Prospectus Offer will be issued on 9 December 2013. In any event, these shares will be issued no later than 21 st December 2013.

Reasons for seeking shareholder approval

The Board seeks shareholder approval for the proposed issue of 60,000,000 shares under the Prospectus Offer.

Under the ASX Listing Rules, the Company may not issue shares or options over unissued shares, comprising more than 15% of its issued share capital, in any 12 month period without shareholder approval. This is subject to limited exceptions. In calculating the 15% threshold, any issue that has been given prior approval by shareholders under ASX Listing Rule 7.1 or is subsequently approved by shareholders under ASX Listing Rule 7.4 is not included in the 15% calculation.

Further under the ASX Listing Rules, the Company may not issue shares to any of the Directors or a related party of any Director without shareholder approval. This is subject to limited exceptions. (The Directors have determined that shareholder approval pursuant to the related party rules under the Corporations Act is not required for Resolution 109 as the Directors consider that the issue of shares to the relevant related parties is on terms no less favourable to the Company than arm's length terms, since those shares will simply be issued under the Prospectus Offer.)

For these reasons, shareholder approval is sought for the proposed issue of 60,000,000 shares in the Company to various investors (which may include current shareholders) and up to 125,000 shares to each of Mr Neville Martin, Mr David Lindh, Mr Richard Groden, Mr Glenn Davis, Mr Jayme McCoy, Mr Hector Gordon and Mr Oliver Foster (or nominees or entities controlled by these persons, with a limit of 125,00 shares which may be issued to any of these persons and his nominee or entity controlled by him) under the Prospectus Offer. If Resolution 9 is approved by shareholders, the Company may exclude the issue of these shares under the Prospectus Offer when calculating whether a future issue of shares or options will fall within the 15% limit under the ASX Listing Rules. This will permit the Company to issue additional shares or options in the Company at a later date, by way of placement, without requiring shareholder approval for that placement, and raise funds quickly, if the Board considers that it is in the interests of the Company to do so.

The Board has not yet made any decision to raise more funds via a placement(s), if Resolution 3, Resolution 5, Resolution 6, Resolution 7, Resolution 8, Resolution 9 and Resolution 11 are approved by shareholders. Any decision would take into account a number of factors, including the implications for shareholders.

Directors' Recommendation

Regardless of their potential interest in the Prospectus Offer (and the Listing Rule 10.11 approval), the Directors unanimously recommend that shareholders vote FOR Resolutions 9 and 10 for the approval of the proposed issue of shares under the Prospectus Offer, on the basis that if the issue of the shares under the Prospectus Offer does not occur, the Proposed Transaction cannot proceed.

AGENDA ITEM 11

ORDINARY RESOLUTION 11: APPROVAL OF PLACEMENT OF 4,000,000 SHARES TO LATERAL ENERGY, LLC

Background

The Board seeks shareholder approval of the proposed issue of 4,000,000 fully paid ordinary shares by a placement, on the terms set out in Resolution 11 of the Notice. The shares will be issued to Lateral Energy, LLC (pursuant to the terms of the facilitation agreement with Lateral Energy, LLC as summarised in Schedule 1 to these Explanatory notes) (**Lateral Placement**). The shares issued pursuant to the Lateral Placement will be issued for consideration consisting of services, with no cash payable to the Company.

Key Information

ASX Listing Rule 10.13 requires the following information about the Placement to be given to the Company's shareholders.

Issuee:	Lateral Energy, LLC
Number of shares to be issued:	The number of shares to be allotted and issued under the Lateral Placement will be 4,000,000. The shares the subject of the Lateral Placement will be allotted and issued after completion of the Consolidation the subject of Resolution 4, and as such will not be consolidated into a smaller number of shares (nor have a change in the price of the shares due to the Consolidation).
Issue price:	The shares will be issued in consideration for advisory services provided by Lateral Energy, LLC, and will be at an issue price of \$0.00 per share.
Relationship with Company:	Proposed incoming director Mr Jayme McCoy is a member of Lateral Energy, LLC.
Terms of issue:	The securities issued will be fully paid ordinary shares in the Company. The shares will be issued on the same terms as the Company's other fully paid ordinary shares.
Use of funds raised:	No cash will be raised pursuant to the Lateral Placement
Issue date:	It is expected that the shares the subject of the Prospectus Offer will be issued on 9 December 2013. In any event, these shares will be issued no later than 21 st December 2013.

Reasons for seeking shareholder approval

The Board seeks shareholder approval for the proposed issue of 4,000,000 shares to Lateral Energy, LLC.

Under the ASX Listing Rules, the Company may not issue shares or options over unissued shares, comprising more than 15% of its issued share capital, in any 12 month period without shareholder approval. This is subject to limited exceptions. In calculating the 15% threshold, any issue that has been given prior approval by shareholders under ASX Listing Rule 7.1 or is subsequently approved by shareholders under ASX Listing Rule 7.4 is not included in the 15% calculation.

Further under the ASX Listing Rules, the Company may not issue shares to any of the Directors or a related party of any Director without shareholder approval. This is subject to limited exceptions. (The Directors have determined that shareholder approval pursuant to the related party rules under the Corporations Act is not required for Resolution 11 as the Directors consider that the issue of shares to the relevant related parties is on terms no less favourable to the Company than arm's length terms.)

For these reasons, shareholder approval is sought for the proposed issue of 4,000,000 shares in the Company to Lateral Energy, LLC under the Lateral Placement. If Resolution 11 is approved by shareholders, the Company may exclude the issue of these shares under the Lateral Placement when calculating whether a future issue of shares or options will fall within the 15% limit under the ASX Listing Rules. This will permit the Company to issue additional shares or options in

the Company at a later date, by way of placement, without requiring shareholder approval for that placement, and raise funds quickly, if the Board considers that it is in the interests of the Company to do so.

The Board has not yet made any decision to raise more funds via a placement(s), if Resolution 3, Resolution 5, Resolution 6, Resolution 7, Resolution 8, Resolution 9 and Resolution 11 are approved by shareholders. Any decision would take into account a number of factors, including the implications for shareholders.

Directors' Recommendation

Mr Neville Martin and Mr Richard Groden recommend that shareholders vote FOR Resolution 11 for the approval of the proposed issue of shares under the Lateral Placement.

Mr David Lindh makes no recommendation in relation to Resolution 11, due to a family connection with a non-related party with a minority membership interest in Lateral LLC.

GLOSSARY

"**Act**" means Corporations Act 2001;

"**ASX**" means ASX Limited;

"**ASX Listing Rules**" means the Listing Rules of ASX;

"**Board**" means the board of directors of the Company;

"**Company**" or "**ISK**" means Island Sky Australia Limited ACN 122 948 805;

"**Consolidation**" means the proposed consolidation of the Company's ordinary share capital through the conversion of every 50 ordinary shares in the Company into 1 ordinary share in the Company and corresponding consolidation of options on issue;

"**Directors**" means the directors of the Company;

"**ISK**" or "**Company**" means Island Sky Australia Limited ACN 122 948 805;

"**McElvain**" means T.H. McElvain Oil & Gas LLLP, a private US company;

"**Notice**" means the notice of meeting which accompanies these Explanatory Notes;

"**Oil and Gas Exploration Agreements**" means the Oil and Gas Exploration Agreements between the Company and McElvain dated 6 September 2013 to invest in various US oil and gas prospects;

"**shares**" means fully paid ordinary shares in the Company, where the context permits; and

"**shareholder**" means a shareholder of the Company.

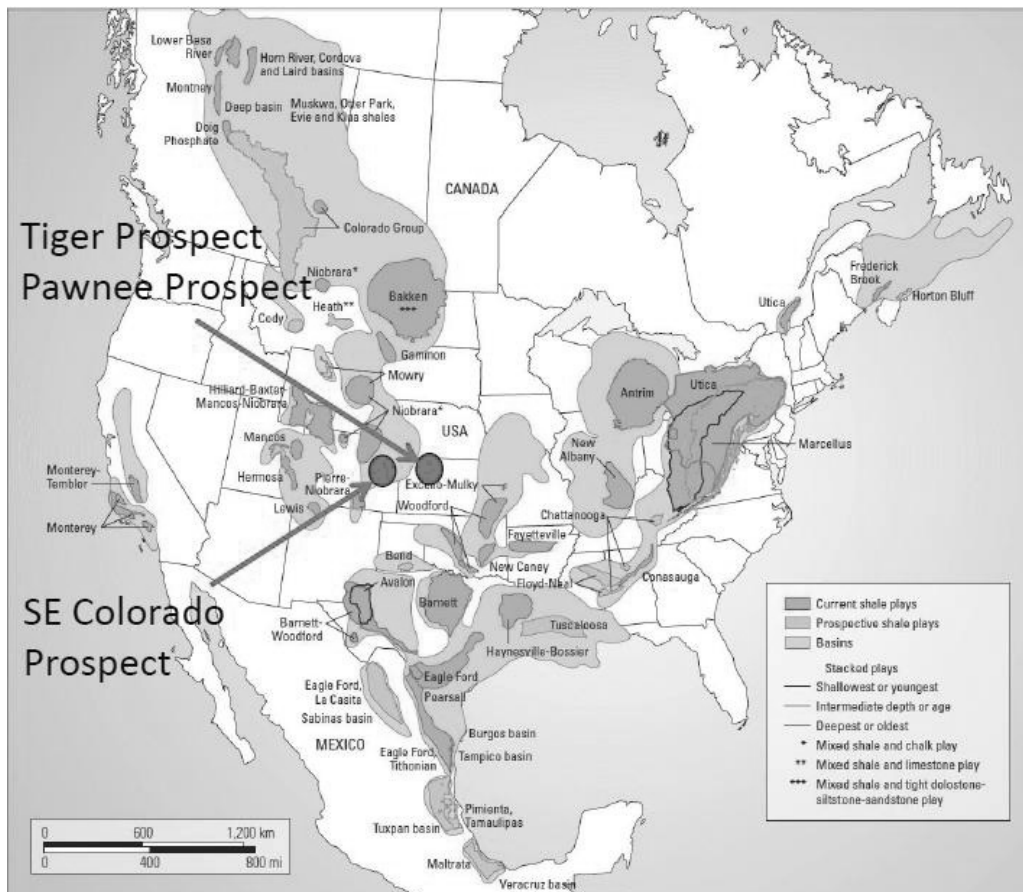
Schedule 1 – Oil and Gas Prospects

ISK, through its wholly owned subsidiary, ISK USA, LLC has recently entered into various Oil and Gas Exploration Agreements with US private company, McElvain, for exploration purposes. The key elements of the Oil and Gas Exploration Agreements are summarised in this Schedule - see below. McElvain has been operating in the oil and gas sector in the US since the 1920s and is currently active in a number of Rockies and Mid-continental States.

These Agreements provide for the Company to acquire working interests in over 100 leases currently held by McElvain with numerous private minerals interest holders. The general location of the leases is shown in Map 1 below, with the specific leases highlighted in yellow in the more detailed Maps 2 and 3 following. Map 4 outlines the Project Area which is the subject of the South East Colorado Exploration Agreement discussed below.

The leases are fairly standard in form for the US oil and gas industry, in that they provide for: a lease payment up-front; the minerals interest holder to receive a royalty from any production; an exploration term (typically of 3 to 5 years); an ability to hold the lease thereafter if or when production commences (for as long as production occurs); and other standard industry terms. The leases which are the subject of the Oil and Gas Exploration Agreements are currently not producing any oil or gas.

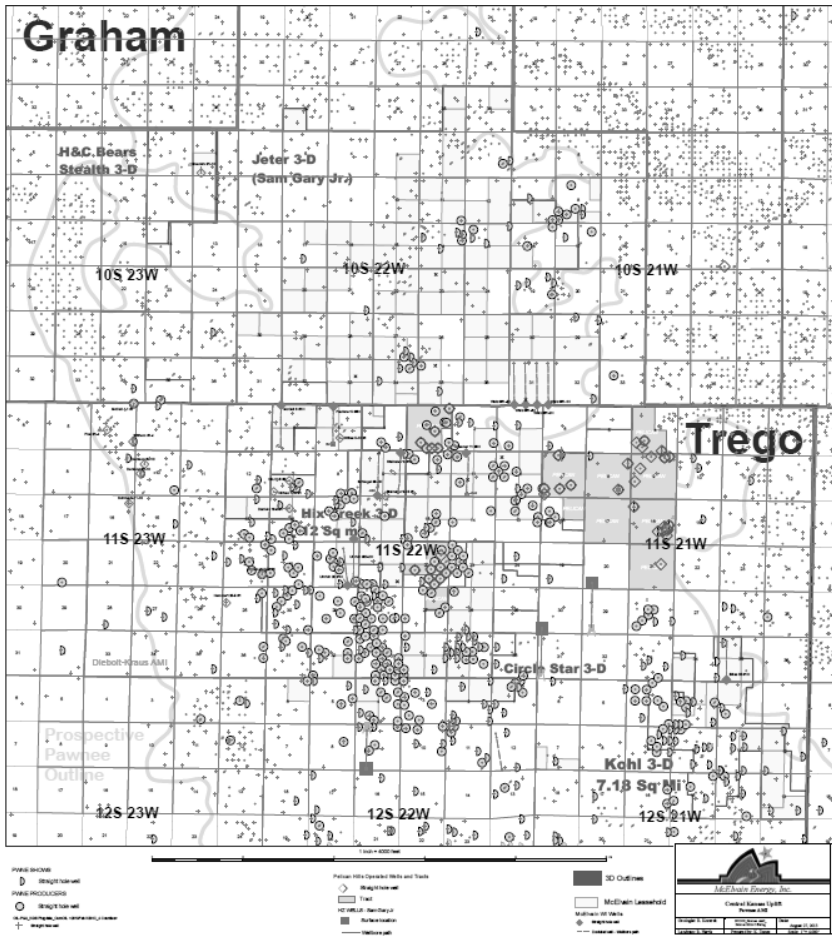
Map 1 – Lease Locations



Map 2 – Tiger Leases



Map 3 – Pawnee Option Leases



Map 4 – South East Colorado Project Area



The key elements of the Oil and Gas Exploration Agreements are summarised below.

Tiger Purchase Agreement

The Tiger Purchase Agreement provides for ISK to acquire a 25% working interest (with a 82% net revenue interest that is reduced to 78% by the Lateral Overriding Royalty discussed below) in:

- 7,525 gross acres held by McElvain in an emerging oil resource prospect located on the western edge of the Central Kansas Uplift in Ellis County, Kansas for US\$500/acre (**Tiger Leases**); and,
- any additional acreage leased by McElvain from the effective date of 3 September 2013 (**Effective Date**) and prior to closing of the transaction at the actual lease cost (**Additional Tiger Leases**). As at the date of this Notice of Meeting, no additional acreage has been leased by McElvain

ISK has paid a deposit to McElvain of US\$100,000 under the Tiger Purchase Agreement. This deposit will be applied to the amount due at completion of the Purchase Agreement but is non-refundable in the event that the transaction does not complete.

Following execution of the Tiger Purchase Agreement, ISK has reviewed the title to the Tiger Leases held by McElvain and no material issues have been identified in this due diligence exercise.

Completion of the Tiger Purchase Agreement is to occur on or before 90 days following the Effective Date (i.e. on or before 2 December 2013) but may be extended by a further 10 days if there are procedural delays that prevent closing occurring within this timeframe. If ISK does not complete, McElvain will have the discretion to terminate the Tiger Purchase Agreement and retain the deposit paid.

Upon completion of the Tiger Purchase Agreement, ISK will pay the purchase price and will be assigned a 25% interest in the Tiger Leases and any Additional Tiger Leases. Based on the Tiger Leases held by McElvain as at the date of this Notice of Meeting, ISK will be required to pay US\$940,625 less the US\$100,000 deposit already paid.

Upon completion, ISK and McElvain will proceed to execute a participation agreement that will formalise the direction and management of the future exploration and development of the Tiger Leases and Additional Tiger Leases (**Participation Agreement**). Under the Participation Agreement:

- McElvain will be the Operator of all operations on the Tiger Leases.
- The parties will bear their pro-rata share of all future geological and geophysical activities.
- Planned geological and geophysical activities for the short term include shooting up to 20 square miles of 3D seismic on or before March 31, 2014 and potentially further 3D seismic acquisitions thereafter.
- The parties will participate in a horizontal commitment well at a location selected by McElvain that is scheduled for drilling in mid 2014. If a party does not elect to participate in this well, the non-participating party will assign all of its interest in the Tiger Leases to the other party. This horizontal well will target the Pennsylvanian aged Pawnee formation, from which McElvain is currently producing oil in nearby leases.
- Either party may also propose vertical wells within the Tiger Prospect. It is currently envisaged that the first vertical well will be drilled in mid 2014. Vertical drilling activity will target Lansing/Kansas City formations, which have produced oil for many years in the area.
- If a Party elects to sell or otherwise convey an interest in the Tiger Prospect, the other party shall have the option to exercise rights and sell its interest alongside the selling party for the same terms and conditions, subject to the purchasing party desiring to purchase additional interest.
- An Area of Mutual Interest surrounding the Tiger Lease area is provided for in the Participation Agreement, allowing each party to participate in acquisitions made by the other on ground floor terms.
- A standard US oil and gas industry Model Form Operating Agreement (amended to better address horizontal drilling activities) will regulate joint venture activities.

Pawnee Prospect Option Agreement

The Pawnee Prospect area is located near the Tiger Leases in Trego County, Kansas and is also adjacent to leases within which McElvain is currently producing oil from the Pawnee formation. ISK executed an agreement on 6 September 2013 with McElvain which provided it with an option to acquire a 25% working interest (with a 79.25% net revenue interest that will be reduced to 76% by the Lateral Overriding Royalty discussed below) in approximately 5,000 gross acres at a purchase price of US\$500/acre (ISK's share being approximately US\$625,000) subject to:

- McElvain settling on the acquisition of the acreage from a third party; and,

- ISK electing to:
 - participate in the purchase of said acreage within 5 days of its offer,
 - finalising a purchase and sale agreement; and,
 - paying a nominal deposit of 10% of the purchase price (approximately US\$62,500) within 10 days of electing to participate.

As at the date of this Notice of Meeting McElvain expected closure of its purchase within around one month.

The acreage which is the subject of this Option Agreement is extensively covered by 3D seismic and it is envisaged that future drilling activity will primarily target the Pennsylvanian aged Pawnee formation with horizontal completions. First drilling activity is planned for mid 2014.

South East Colorado Exploration Agreement

ISK entered into an Exploration Agreement with McElvain on 6 September 2013. The Exploration Agreement (which expires on 31 May 2016 unless otherwise renewed) provides a framework for the parties to potentially work together on exploration and production prospects located in 21 counties in South East Colorado (**Project Area**).

Under this Agreement, the parties will utilise BK Consultants, LLC (an independent geological consulting firm that has been a long time adviser to McElvain) to identify geologic prospects that are prospective for oil and gas exploration within the Project Area. The parties will hold periodic meetings to discuss the results of this geologic evaluation and may chose to designate a prospect as being prospective and then jointly commence leasing activities in the relevant area. An Area of Mutual Interest will cover the lands in the agreed prospective area. If one party choses not to participate in a certain prospective area, then the Agreement has no further role to play with respect thereto, but otherwise the parties will continue to jointly evaluate further prospects.

McElvain is responsible for procuring and administering any leases, undertaking geological and geophysical work and operating any wells. The parties' participating interests in any leases procured in the Project Area will be 70% for McElvain and 30% for ISK.

Any jointly acquired acreage will be regulated by a Model Form Operating Agreement (with amendments addressing the regulation of horizontal drilling). McElvain will be the Operator.

Should acreage be leased under the terms of the Exploration Agreement, the parties will seek to acquire 3D seismic to identify drill targets primarily focusing upon Pennsylvanian and Mississippian aged formations. Both horizontal and vertical targets are anticipated.

As at the date of this Notice of Meeting, the parties have not entered into any leases in the Project Area. Discussions are currently underway with a number of potential lessors.

Lateral Energy, LLC Facilitation Agreement

In order to procure the execution of the various Agreements with McElvain noted above, the Company entered into an advisory agreement with Lateral Energy, LLC (Lateral) under which Lateral is entitled to:

- A prospect fee of US\$150,000 payable upon final completion of the various Agreements;
- A share fee comprising the issuance of 4 million fully paid ordinary ISK shares (following Consolidation) for nil consideration; and
- An overriding royalty interest over ISK's interests in the leases acquired under the Agreements (**Lateral Overriding Royalty**) which is calculated as:
 - the difference between 22% and any existing royalties, overriding royalties and other burdens on the Tiger Leases;
 - the difference between 23.5% and any existing royalties, overriding royalties and other burdens on any interests acquired under the Pawnee Option agreement; and
 - a 5% overriding royalty over and above any existing royalties, overriding royalties and other burdens on any interests acquired under the SE Colorado Exploration Agreement.

Mr Jayme McCoy, who as noted in Section below is proposed to become a Director of ISK post the completion of the above Agreements, has an ownership interest in Lateral Energy, LLC.

Schedule 2 – Proposed new Directors and CEO

The Board proposes to appoint the following persons as directors of the Company following completion of the Proposed Transaction:

Mr Glenn Stuart Davis, proposed Non-Executive Chairman

LLB, BEc

Mr Davis is currently the Non-Executive Chairman of Beach Energy Ltd (since 2012) and is also a director of ASX listed companies Monax Mining Ltd (since 2004) and Marmota Energy Ltd (since 2006).

Mr Davis is a solicitor and partner of DMAW Lawyers, a firm he founded. Mr Davis has significant expertise and experience in the execution of large legal and commercial transactions and corporate activity regulated by the Corporations Act and ASX Ltd, particularly with respect to the resources industry.

Mr Jayme Anthony McCoy, proposed Non-Executive Director

Mr McCoy has over 25 years experience in the oil and gas industry and previously served as the Managing Director of ASX listed Sundance Energy Australia Ltd (SEA). During his time as Managing Director of Sundance Energy Australia Ltd, Mr McCoy was instrumental in a number of successful transactions which took the market capitalisation of Sundance from \$16 million to \$166 million. He has also recently served as a Non-Executive Director of ASX listed Bass Strait Oil Company Ltd (from November 2011 until 31 August 2013).

Mr McCoy has a detailed understanding of oil and gas geology, particularly in resource plays in the continental USA and has extensive professional expertise with various private oil and gas companies Freedom Energy Inc, Farmoil Inc and Thomson Valley Gas Inc.

Mr Hector Mackenzie Gordon, proposed Non-Executive Director

B Sc. (Hons), F.A.I.C.D.

Mr Gordon is a geologist with over 35 years' experience in the petroleum industry. Mr Gordon is currently an Executive Director of ASX listed Cooper Energy Ltd and was previously Managing Director of Somerton Energy Ltd until it was acquired by Cooper Energy in 2012.

Previously he was an Executive Director with Beach Energy Ltd where he was employed for more than 16 years. In this time Beach Energy Ltd experienced significant growth and Mr Gordon held a number of roles including Exploration & Production Manager, Chief Operating Officer and, ultimately, Chief Executive Officer. Mr Gordon's previous employers also include Santos Ltd, AGL Petroleum, TMOC Resources, Esso Australia and Delhi Petroleum Pty Ltd. Mr Gordon is a member of the American Association of Petroleum Geologists and a member of the Society of Petroleum Engineers.

Mr Oliver John Foster, proposed Non-Executive Director

B Sc., GradDip.AppFin

Mr Foster is currently a private energy/finance consultant. He holds a Bachelor of Science in Geology, as well as a Graduate Diploma in Applied Finance and Investment from FINSIA.

Previously he was an Executive Director of Euroz Securities Ltd where he worked as a resource analyst specialising in the oil and gas sector. He has also previously worked offshore as a Petroleum Geologist in the North West of Australia and Asia.

The Board proposes to appoint the following person as the CEO of the Company following completion of the Proposed Transaction:

Mr Neil Young, proposed CEO

MA (Hons), ATII

Mr Young has nearly twenty years' experience in the energy sector in executive and business development roles in Australia and internationally.

He has worked for both large and small oil and gas companies, including Santos Ltd, AO Energy Ltd and Adelaide Energy Ltd. He has substantial experience in the field of unconventional petroleum.

Schedule 3 – Terms and Conditions of Options

The terms and conditions of the unlisted Options are as follows:

Entitlement

The Option shall entitle the Optionholder to subscribe for an ordinary share in the capital of the Company. A share issued on the exercise of the option will be a fully paid ordinary share and will rank equally in all respects with the then existing ordinary fully paid shares in the capital of the Company, from the date of issue.

Exercise Price

Each Option shall be exercisable at \$0.25.

Expiry Date

Each Option shall expire at 5:00pm (Adelaide time) on 5 September 2015.

Exercise Period

The Options may be exercised at any time prior to the Expiry Date.

Notice of Exercise

An Option may be exercised during the Exercise Period by notice of exercise in or to the effect of the form provided to the Optionholder by the Company at the time of grant of the Option or otherwise, accompanied by payment of the Exercise Price.

Reconstruction of capital

In the event of any reconstruction of the capital of the Company, the option shall be treated in the manner required by the Listing Rules in force as at the date of any such reconstruction, and as appropriate to the type of reconstruction proposed.

Participation in new issues

The option shall not entitle the holder to participate in new issues of ordinary shares to members of the Company during the currency of the Options without exercising the Option.

Change in Exercise Price

The Optionholder has no right to a change in the Exercise Price or to any change to the number of shares over which the option can be exercised (other than as noted above in relation to a reconstruction of capital).

Island Sky Australia Limited

ACN 122 948 805

Lodge your vote:



By Mail:

Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

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

For all enquiries call:

(within Australia) 1300 135 697
(outside Australia) +61 3 9415 4265

┌ 000001 000 ISK
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Proxy Form

For your vote to be effective it must be received by 10:30am (Adelaide time) Tuesday 19 November 2013

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

Turn over to complete the form →



View your securityholder information, 24 hours a day, 7 days a week:

www.investorcentre.com

- Review your securityholding
- Update your securityholding

Your secure access information is:

SRN/HIN: I9999999999



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
 FLAT 123
 123 SAMPLE STREET
 THE SAMPLE HILL
 SAMPLE ESTATE
 SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf XX

I/We being a member/s of Island Sky Australia Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Island Sky Australia Limited to be held at Minter Ellison, Level 10, 25 Grenfell Street, Adelaide SA 5000 on Thursday, 21 November 2013 at 10:30am (Adelaide time) and at any adjournment or postponement of that Meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Items 5, 7 and 10 (except where I/we have indicated a different voting intention below) even though Items 5, 7 and 10 are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

Important Note: For Items 5 and 10, this express authority is also subject to you marking the box in the section below. If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Items 5, 7 and 10 by marking the appropriate box in step 2 below.

Important for Items 5 and 10: If the Chairman of the Meeting is your proxy and you have not directed the Chairman how to vote on Items 5 and 10 below, please mark the box in this section. If you do not mark this box and you have not otherwise directed your proxy how to vote on Items 5 and 10, the Chairman of the Meeting will not cast your votes on Items 5 and 10 and your votes will not be counted in computing the required majority if a poll is called on this item. The Chairman of the Meeting intends to vote undirected proxies in favour of Items 5 and 10 of business.

I/We acknowledge that the Chairman of the Meeting may exercise my/our proxy even if the Chairman has an interest in the outcome of **Items 5 and 10** and that votes cast by the Chairman, other than as proxy holder, would be disregarded because of that interest.

STEP 2 Items of Business PLEASE NOTE: If you mark the Abstain box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain		For	Against	Abstain
1 Approval of Proposed Transaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7 Approval of placement of shares to Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Approval of change of Company name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8 Approval of issue of options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Ratification of placement of 42,855,250 shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9 Approval of offer of up to 60 million shares pursuant to a prospectus	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Approval of share consolidation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10 Approval of offer of up to 875,000 shares pursuant to a prospectus to directors and associates and proposed directors of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Approval of placement of shares to entity related to Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11 Approval of placement of 4,000,000 shares to Lateral Energy, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Approval of placement of shares to Chesser Nominees Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

The Chairman of the Meeting intends to vote all available proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____

Date / / _____