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17 October 2005

The Listing Manager
Australian Stock Exchange
Exchange Centre
Level 6
20 Bridge Street
SYDNEY NSW 200

Dear Sir/Madam

RE: NOTICE OF ANNUAL GENERAL MEETING

Please find attached a copy of the Notice of Annual General Meeting for Mermaid Marine Australia Limited which was mailed to shareholders on Friday, 14 October 2005. Included with the Notice of Annual General Meeting was a copy of the 2005 Annual Report for the Company.

By order of the Board
MERMAID MARINE AUSTRALIA LIMITED

PETER RAYNOR
Company Secretary

MERMAID MARINE AUSTRALIA LIMITED

ABN: 21 083 185 693

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Shareholders of Mermaid Marine Australia Limited ABN: 21 083 185 693 ("Company") will be held at The University Club of Western Australia, Hackett Entrance 1, Hackett Drive, Crawley 6009, Western Australia, on Tuesday 15 November 2005, at 10.30 am (W.S.T) ("AGM").

The Explanatory Memorandum to this Notice of Meeting provides additional information on matters to be considered at the AGM. The Explanatory Memorandum and the Proxy Form comprise part of this Notice of Annual General Meeting.

If you are unable to attend the meeting, you are encouraged to complete and return the enclosed proxy form. The completed proxy form should be returned in the reply paid envelope provided or faxed to our share registry on 61 8 9323 2033 so that it is received by 10.30 am on the 13 November 2005.

AGENDA

1. Annual Report

To receive the Financial Statements of the Company for the year ended 30 June 2005 together with the Directors' Declaration and Report in relation to that year and the Independent Audit Report on those Financial Statements. During the consideration of this item Shareholders are invited to ask questions or make comments on:

- The Financial Statements of the Company for the year ended 30 June 2005;
- The Directors' Declaration and Report in relation to that year; and
- The Independent Audit Report on those Financial Statements.

2. Election of Directors

To consider and if thought fit, to pass respectively as separate and independent ordinary resolutions, with or without amendment, each of the following:

Resolution 1:

"That Mr Alan Birchmore, who retires by rotation in accordance with Article 72.1 of the Company's Constitution and, who offers himself for re-election, and being eligible for re-election, be re-elected as a Director".

Resolution 2:

"That Mr James Carver, who retires by rotation in accordance with Article 72.1 of the Company's Constitution and, who offers himself for re-election, and being eligible for re-election, be re-elected as a Director".

3. Ratification of Placement:

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

Resolution 3:

"That, in accordance with ASX Listing Rule 7.4.2, the Shareholders ratify the allotment and issue on 16 November 2004 of 14,705,883 Shares at \$0.34 each to raise \$5,000,000 ("Placement") on the terms and conditions contained in the Explanatory Memorandum".

Voting Exclusion

The Company will disregard any votes cast on this resolution by any of the persons who have participated in the Placement or an associate of any of those persons. However, the Company will not disregard a vote if:

- (a) it is cast by the person as a proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form to vote as the proxy decides.

4. Approval of issue of Options under Managing Director Incentive Option Plan

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

Resolution 4:

"That the Shareholders approve the issue of options under the Managing Director Incentive Option Plan (the terms and conditions of which are set out in Annexure A to the Explanatory Memorandum accompanying this Notice of Meeting) as an exception to ASX Listing Rule 7.1 for the purposes of Exception 9 in ASX Listing Rule 7.2 and for all other purposes."

Voting Exclusion

The Company will disregard any votes cast on this resolution by Mr Jeffrey Weber and any of his associates. However, the Company will not disregard a vote if:

- (a) it is cast by the person as a proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form to vote as the proxy decides.

5. Issue of Options to the Managing Director

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

Resolution 5:

"That for the purposes of ASX Listing Rule 10.14, the Shareholders approve and authorise the Directors to grant a maximum of 600,000 options to the Company's Managing Director, Mr Jeffrey Weber (or an eligible nominee of Mr Weber), pursuant to and in accordance with the Managing Director Incentive Option Plan (the terms and conditions of which are set out in Annexure A to the Explanatory Memorandum accompanying this Notice of Meeting)."

Voting Exclusion

The Company will disregard any votes cast on this resolution by Mr Jeffrey Weber and any of his associates. However, the Company will not disregard a vote if:

- (a) it is cast by the person as a proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form to vote as the proxy decides.

6. Adoption of Remuneration Report

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

Resolution 6:

"That the remuneration report for the period ended 30 June 2005 be adopted."

7. Other Business

In compliance with Section 250S(1) of the Corporations Act, the members are invited to ask questions about or make comments on the management of the Company, and to raise any other business which may lawfully be brought before the meeting.

By order of the Board



Peter Raynor
Company Secretary

Fremantle, Western Australia
14 October 2005

EXPLANATORY NOTES

1. Voting and required majority

- (a) In accordance with the Corporations Act for the resolutions to be effective:
 - (i) the resolutions must be passed at a meeting of which not less than 28 days written notice specifying the intention to propose the resolutions has been given (satisfied by this Notice of Meeting); and
 - (ii) in the case of ordinary resolutions must be passed by more than 50% of all the votes cast by Shareholders present and entitled to vote on the resolutions (whether in person or by proxy, attorney or representative); and
 - (iii) in the case of special resolutions must be passed by not less than 75% of all the votes cast by Shareholders present and entitled to vote on the resolutions (whether in person or by proxy, attorney or representative).
- (b) On a show of hands every Shareholder has one vote, and on a poll, every Shareholder has one vote for each fully paid Share.

2. Notes

- (a) The Company has determined that, for the purposes of this Annual General Meeting, all Shares in the Company shall be taken to be held by the person who held Shares as registered Shareholders 48 hours prior to 10.30 am on Tuesday 15 November 2005 ("**Effective Time**").
- (b) All holders of Shares in the Company as at the Effective Time are entitled to attend and vote at this Annual General Meeting and may appoint a proxy to attend this Annual General Meeting and vote in that member's stead.
- (c) A proxy need not be a member of the Company.
- (d) The original proxy form sent with this Notice should be used for this Annual General Meeting.
- (e) Each Shareholder who is entitled to cast 2 or more votes at this Annual General Meeting, may appoint 2 persons to act as proxies and may specify the proportion of number of votes that each proxy is entitled to exercise. If a Shareholder does not specify the proportion or number of that Shareholder's votes each proxy may exercise, then each proxy will be entitled to exercise half of the votes. An additional proxy form will be supplied by the Company on request.
- (f) In the case of an individual, a proxy must be under the hand of the individual or his or her attorney duly authorised in writing and, in the case of a corporation, a proxy must be executed by the corporation under common seal, pursuant to section 127 of the Corporations Act or under the hand of its duly authorised officer or attorney.
- (g) Any member may by power of attorney appoint an attorney to act on his or her behalf and such power of attorney or certified copy thereof must be received by the Company as specified in paragraph (i).
- (h) Any corporation which is a member of the Company may appoint a representative to attend and vote for that corporation at the Annual General Meeting. Appointments of representatives by corporations should be received by the Company as specified in paragraph (i) or handed in at the Annual General Meeting when registering as a company representative.
- (i) In accordance with the Company's Constitution, proxies and powers of attorneys granted by Shareholders must be received by the Company at least 48 hours prior to 10.30a.m. (W.S.T.) Tuesday 15 November 2005 at:
 - (i) the Company's Share Registry, Computershare Investor Services Pty Ltd, GPO Box D182, Perth,WA, 6840; or
 - (ii) by facsimile at the Company's Share Registry, Computershare Investor Services Pty Ltd – facsimile number (08) 3923 2033.

MERMAID MARINE AUSTRALIA LIMITED

ABN 21 083 185 693

EXPLANATORY MEMORANDUM

1. Introduction

This Explanatory memorandum has been prepared for the information of Shareholders of the Company in connection with the business to be conducted at the Annual General Meeting to be held at The University of Western Australia, Hackett Entrance 1, Hackett Drive, Crawley 6009, Western Australia on 15 November 2005 at 10:30 am.

This Explanatory Memorandum should be read in conjunction with and forms part of the accompanying Notice. The purpose of this Explanatory Memorandum is to provide information to Shareholders in deciding whether or not to pass the Resolution set out in Notice.

This Explanatory Memorandum includes the following information to assist Shareholders in deciding how to vote on the Resolutions:

Section 2:	Action to be taken by Shareholders
Section 3:	Resolutions 1 and 2 - Re-election of Directors
Section 4:	Resolution 3 – Ratification of Placement
Section 5:	Resolution 4 – Approval of issue of Options under Managing Director Incentive Plan
Section 6:	Resolution 5 – Approval for Issue of Options to the Managing Director
Section 7:	Resolution 6 – Adoption of Remuneration Report
Section 8:	Definitions

2. Action to be taken by Shareholders

Shareholders should read the Notice and this Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

A Proxy Form is included with this Notice. This is to be used by Shareholders if they wish to appoint a representative (a "proxy") to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company's Share Registry in accordance with the instructions thereon. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

3. Resolutions 1 and 2 – Election of Directors

It is a requirement under Article 72.1 of the Company's Constitution that Mr Birchmore and Mr Carver retire as a Director, by rotation. Mr Birchmore and Mr Carver each offer himself respectively for re-election and in accordance with Article 72.2, is eligible for re-election.

The remaining Directors recommend to Shareholders, in respect of Resolution 1 that Mr Birchmore be re-elected, and in respect of Resolution 2, that Mr Carver be re-elected.

4. Resolution 3 – Ratification of Placement

4.1 General

On 8 November 2005 the Company announced the Placement of 14,705,883 Shares at \$0.34 per Share ("**placement**").

Resolution 3 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4.2 for the allotment and issue of the Shares pursuant to the Placement.

4.2 Reason Shareholder Ratification is Required

ASX Listing Rule 7.1 states a company in any 12 month period may only issue securities which total 15% of its issued capital. Resolution 3 seeks Shareholder ratification of the issues of the Shares pursuant to the Placement for the purposes of re-instating the maximum number of equity securities under Listing Rule 7.1, that the Company may issue in any 12 month period without Shareholder approval.

4.3 Specific Information required by ASX Listing Rule 7.5

For the purposes of ASX Listing Rule 7.5 information regarding the Placement is provided as follows:

- (a) 14,705,883 Shares were allotted;
- (b) The issue price of each Share was \$0.34;
- (c) The Shares are fully paid ordinary shares in the capital of the Company;
- (d) The Shares were allotted to institutional and sophisticated investors who are clients of, and were introduced to the Company by, Bell Potter Securities Limited and Tolhurst Noall Limited. The following allottees acquired 10% or more of the total number of Shares allotted under the placement:

<u>Allottee</u>	<u>Number</u>
National Nominees Ltd	7,352,942
Chimaera Capital Pty Ltd	1,470,588
Eclectic Australia B Fund	1,450,000

- (e) No related parties were issued any Shares under the placement.
- (f) The funds raised by the placement were used to strengthen the Company's balance sheet and to assist in funding a major fleet acquisition program; and
- (g) A voting exclusion statement is included in the Notice of the Annual General Meeting at Resolution 3.

5. Resolution 4 – Approval of issue of Options under Managing Director Incentive Option Plan

5.1 Background

The Board seeks to remunerate its key Directors and management in such a way that motivates those officers to pursue the long-term growth and success of the Company within an appropriate control framework and demonstrate a clear relationship between key executive performance and remuneration.

To this end, the Board has resolved to establish a long term incentive plan following the review of the remuneration package of its Managing Director, Mr Jeffrey Andrew Weber, which it believes will align the long-term creation of value for Shareholders with rewards to the Managing Director.

A copy of the Plan is attached to this Explanatory Memorandum as **Annexure A**.

The Plan is a new incentive plan, under which no securities have been previously issued to any person.

5.2 Summary of terms of the Plan

The following is a summary of the principal terms of the Plan:

- a) **Participation:** The Board may from time to time invite the Managing Director or certain specified associates (referred to as an "Eligible Person" in the Plan) to apply for a grant of a specified number of Managing Director Options ("**Options**") under the Plan.
- b) **Nature of Managing Director Options:** An Option is an option to acquire a fully paid ordinary Share in the capital of the Company on the terms set out in the Plan during the relevant exercise period and subject to satisfaction of the applicable performance hurdles.
- c) **No payment:** The Managing Director will not pay anything for the grant of Options, but will be required to pay the exercise price of \$0.40 per Option upon its exercise.
- d) **Vesting:** Under the terms of the Plan, following the acceptance of a valid application for Options under the Plan, the Managing Director will be granted on a consecutive basis, one of three equal tranches of 200,000 Options. Specifically, Options under Tranche 1 are granted after the first anniversary of the Plan Date, Options under Tranche 2 are granted after the second anniversary of the Plan Date, and Options under Tranche 3 are granted after the third anniversary of the Plan Date.
- e) **Exercise:** Each Option granted may be exercised at any time from the date of grant until the fourth anniversary of the Plan Date at an exercise price of \$0.40 per Option, and subject to the applicable performance hurdle for that tranche being satisfied.

Namely, in respect of:

- Options granted under Tranche 1, the average market price per Share (weighted by reference to volume) of Shares traded on ASX being \$0.50 or higher for a period of at least 5 consecutive ASX trading days at any time during the Exercise Period;
 - Options granted under Tranche 2, the average market price per Share (weighted by reference to volume) of Shares traded on ASX being \$0.65 or higher for a period of at least 5 consecutive ASX trading days at any time during the Exercise Period; and
 - Options granted under Tranche 3, the average market price per Share (weighted by reference to volume) of Shares traded on ASX being \$0.70 or higher for a period of at least 5 consecutive ASX trading days at any time during the Exercise Period.
- f) **Lapse:** All Options will lapse on the fourth anniversary after the Plan Date.
 - g) **Limitations:** The number of Options which may be granted under the Plan at any time must not exceed the maximum permitted under ASIC Class Order 03/184 (which provides relief from the disclosure regime of the Corporations Act) to ensure compliance with the Class Order, being 5 per cent of the total number of issued ordinary shares of the Company when aggregated with the number of ordinary shares in the Company issued, or the subject of an option issued, pursuant to an employee share scheme during the previous 5 years (less certain exempted offers).

Shareholders are being requested to approve the grants of Options under the Plan as an exception to the restriction in the Listing Rule 7.1 that no more than 15 per cent of issued capital can be issued by the Company in any 12 month period without Shareholder approval. Exception 9 in Listing Rule 7.2 provides that Listing Rule 7.1 does not apply to an issue under an employee incentive scheme if Shareholders approve the issue of securities under the scheme as an exception to Listing Rule 7.1 and the issue is within 3 years of that Shareholder approval. While the issue of securities under the Performance Rights Plan will be considerably below 15 per cent, the Board feels that it is prudent to carve these securities out of that limit so as to retain the maximum capacity to finance new business opportunities through the issue of securities.

6. Resolution 5 – Issue of Options to the Managing Director

6.1 Background

The effect and purpose of Resolution 5 is to authorise the grant of a maximum of 600,000 Options under the Plan to Mr Jeffrey Weber in three tranches as set out below:

- Tranche 1: 200,000 Options after the first anniversary of the Plan Date;
- Tranche 2: 200,000 Options after the second anniversary of the Plan Date;
and
- Tranche 3: 200,000 Options after the third anniversary of the Plan Date.

A copy of the Rules of the Plan is set out in **Annexure A** of this Explanatory Memorandum. A full copy of the Rules of the Plan will also be tabled at the AGM.

6.2 Reason Shareholder Approval is Required

ASX Listing Rule 10.14 requires that a listed company obtain the Shareholder approval by ordinary resolution prior to the issue of securities (including an option) pursuant to an employee share option plan to a director of the company.

6.3 Specific Information Required by ASX Listing Rule 10.15

ASX Listing Rule 10.15 sets out a number of matters which must be included in a notice of meeting proposing an approval by Shareholders under Listing Rule 10.14.

For the purposes of Listing Rule 10.15, the following further information is provided in relation to the issue of Options to Mr Weber:

- (a) **(maximum number of Options to be issued)** the maximum number of Options that may be issued to Mr Weber in respect of which approval is required is 600,000.
- (b) **(issue and allotment date)** it is proposed that the Options will be issued in three tranches as follows:
 - Tranche 1: 200,000 Options after the first anniversary of the Plan Date;
 - Tranche 2: 200,000 Options after the second anniversary of the Plan Date;
and
 - Tranche 3: 200,000 Options after the third anniversary of the Plan Date.The Options are exercisable at the discretion of Mr Weber, and shall expire, if not previously exercised, no later than the fourth anniversary of the Plan Date.
In any case, the Options shall be granted to Mr Weber within 3 years of the date of the Annual General Meeting.
- (c) **(terms of the securities)** the Options are issued subject to the terms of the Plan. A copy of the Plan is attached as Annexure A of this Explanatory Memorandum.

The shares which will be issued upon exercise of the Options will be fully paid ordinary shares and will be on the same terms as the currently issued fully paid ordinary shares in the Company.
- (d) **(use or intended use of the funds raised)** there are no funds raised in connection with the issue of the Options as the Options are to be issued without payment of cash consideration. The proceeds from a future exercise of the Options however, is likely to be used toward meeting working capital requirements of the Company relevant at, or about the time of the exercise of the Options at the discretion of the Board.

- (e) **(determination of the exercise price)** the exercise price of the Options of \$0.40 was determined by the Board with reference to the Company's Share price during the previous twelve months and at the time of resolving to approve the issue of the Options (subject to shareholder approval) at a meeting of Directors of the Company held on 24 August 2005.
- (f) **(consideration for the issue of the Options)** Mr Weber, will not be required to make any payment for the issue of the Options pursuant to the proposed Resolutions although he will be required to pay the \$0.40 exercise price per Option if exercised in due course.
- (g) **(details of previous issue of securities under Plan)** to date, no director of the Company nor any of their associates, nor any other person referred to in Listing Rule 10.14 has received any securities under the Plan.
- (h) **(directors entitled to participate under the Plan)** Mr Weber is the only director that may participate in the Plan.
- (i) **(loans)** it is confirmed that no loans are to be advanced or made available by the Company in relation to the granting or exercise of the Options proposed to be issued to Mr Weber.

Details of any Options issued under the Plan will be published in each annual report of the Company relating to a period in which Options have been issued, together with a statement that approval for the issue of the Options was obtained under ASX Listing Rule 10.14.

7. **Adoption of Remuneration Report**

Sections 249L and 250R of the Corporations Act, require that a resolution that the remuneration report be adopted, must be put to the vote at the Annual General Meeting. The vote on this resolution is advisory only and does not bind the directors or the Company.

The remuneration report is set out on pages 17 to 18 of the 2005 annual report.

Shareholders will also be provided with a reasonable opportunity to ask questions or make statements in relation to the remuneration report.

8. **Definitions**

In this Explanatory Memorandum and Notice of Annual General Meeting:

"Annual General Meeting" means the Annual General Meeting of the Company to be held on the 15 November 2005.

"ASX" means Australian Stock Exchange Limited.

"Chair" means the person appointed to chair the Annual General Meeting of the Company convened by this Notice.

"Company" means Mermaid Marine Australia Limited ABN 21 083 185 693.

"Constitution" means the Constitution of the Company.

"Corporations Act" means the Corporations Act 2001 (Cth).

"Directors" means the directors of the Company.

"Exercise Period" has the meaning as defined in the Plan.

"Listing Rules" means the listing rules of the ASX.

"Notice" means the Notice of Annual General Meeting.

"Placement" means the placement of 14,705,883 Shares each at \$0.34 as announced to the ASX on 8 November 2004.

"Plan" means the Managing Director Incentive Option Plan, a copy of which is attached as Annexure A.

"Plan Date" has the meaning as defined in the Plan.

"Resolution" means a resolution referred to in this Notice.

"Share" means a fully paid ordinary share in the capital of the Company.

"Shareholder" means a registered shareholder of the Company.

"W.S.T" means Western Standard Time

In this Notice, words importing the singular include the plural and vice versa.

ANNEXURE A

COPY OF MANAGING DIRECTOR INCENTIVE OPTION PLAN

Rules of the Mermaid Marine Australia Limited Managing Director Incentive Option Plan

1. Purpose, Definitions and Interpretation

1.1 The Plan is:

- (a) established under Rule 2 to provide a method whereby the Managing Director is able to acquire Shares in the capital of the Company;
- (b) consequent upon the Board's review of the remuneration package of the Managing Director and negotiations with the Managing Director of the remuneration package;
- (c) an initiative for creating a stronger link between executive reward and increasing Company shareholder value; and
- (d) an incentive, through the Managing Director's holding of Managing Director Options, to motivate the Managing Director to grow the Company for the benefit of all the Company's shareholders.

1.2 In these Rules, unless the contrary intention appears:

Announcement means the announcement made by the Company to ASX on [xx] October 2005 detailing the review of Jeff Webers remuneration and disclosing that as part of Jeff Weber's negotiated remuneration package, the Company would grant Jeff Weber the Managing Director Options subject to shareholder approval at the next annual general meeting of the shareholders of the Company.

Application has the meaning given in Rule 4.2 and Applicant has the meaning given in Rule 4.1.

Associated Company means at any time any body corporate that at that time is a related body corporate of the Company within the meaning of section 50 of the Corporations Act.

ASX means Australian Stock Exchange Limited and in the context of its market operations, means the Australian Stock Exchange.

ASX Listing Rules means the Listing Rules prescribed from time to time by the ASX.

Board means the Directors acting as the Board of the Company.

Business Day means a day on which banks are open for business generally in Western Australia.

Certificate means the certificate or holding statement issued by the Company to a Holder in respect of an Option.

Change of Control Event means a person, or a group of associated persons, becoming entitled to sufficient shares in the Company to give that person or persons the ability, in general meeting, to replace all or a majority of the Board.

Class Order means a class order released from time to time by the Australian Securities and Investment Commission.

Company means Mermaid Marine Australia Limited (ABN 21 083 185 693).

Corporations Act means the Corporations Act 2001 (Cth).

Eligible Person means:

- (a) the Managing Director;
- (b) the spouse of the Managing Director;
- (c) a body corporate in which the Managing Director holds and beneficially owns not less than 50% of the issued voting share capital;
- (d) the trustee of a trust in which the Managing Director is a beneficiary or object; or
- (e) the trustee of a superannuation fund of which the Managing Director is a member.

Exercise Period means, in relation to the Managing Director Options, subject to Rule 5.2(e) the period commencing on the Grant Date and expiring on the fourth anniversary of the Plan Date.

Exercise Price means, in respect of a Managing Director Option, the consideration per Share, as outlined in Rule 7.2, payable by a Holder on exercise of the Option which is \$0.40.

First Occasion has the meaning given in Rule 3.1.

Grant Date means the date on which the Managing Director Options are granted in the terms of Rule 5.2.

Group means, collectively, the Company and each Associated Company.

Group Company means the Company or any Associated Company.

Holder means, in relation to a Managing Director Option, the person entered in the Company's register of options as the holder of that Managing Director Option.

Lapse Date has the meaning given in Rule 5.2(e).

Managing Director means Mr Jeff Weber in his capacity as the Managing Director of the Company.

Managing Director Option means an option granted under the Plan to subscribe (subject to Rule 5.2) for one Share.

Maximum Amount means 600,000 Managing Director Options.

Plan means the Mermaid Marine Australia Limited Managing Director Incentive Option Plan established in accordance with these Rules.

Plan Date has the meaning given in Rule 2.6.

Rules means these rules, as amended from time to time.

Second Occasion has the meaning given in Rule 3.1.

Shares means fully paid ordinary shares in the capital of the Company.

Specified Options has the meaning given in Rule 3.1.

Takeover Period means, in relation to a takeover bid in respect of voting shares in the Company, means the offer period as defined in section 624 of the Corporations Act.

Termination has the meaning given in Rule 5.2(e).

Termination Date has the meaning given in Rule 5.2(e).

Third Occasion has the meaning given in Rule 3.1.

Tranche 1 Specified Options has the meaning given in Rule 3.1.

Tranche 2 Specified Options has the meaning given in Rule 3.1.

Tranche 3 Specified Options has the meaning given in Rule 3.1.

1.3 In these Rules:

- (a) the singular includes the plural and vice versa;
- (b) a reference to a gender includes all genders; and
- (c) a reference to any legislation or to the provision of any legislation includes any modification or re-enactment of it, any legislative provision substituted for it and all regulations and statutory instruments issued under it.

2. Establishment and termination of the Plan

- 2.1 The Board may establish and administer the Plan in accordance with the terms and conditions set out in these Rules.
- 2.2 The Board may terminate the Plan at any time that it considers appropriate in its absolute discretion.
- 2.3 Where the Board terminates the Plan the Board cannot grant any further Managing Director Options under the Plan, but all Managing Director Options already granted remain in existence and, notwithstanding the termination, the Plan continues to have effect in relation to those Managing Director Options until the last of them lapses.
- 2.4 Once all Managing Director Options granted under this Plan have either lapsed or been exercised, the Plan shall automatically terminate.
- 2.5 The establishment of this Plan and the grant of any Managing Director Options under it is subject to and conditional upon all requisite board, shareholder and other (if any) approvals in the terms of the Corporations Act and the ASX Listing Rules.
- 2.6 The date on which this Plan is established is the date upon which the Board resolves to establish the Plan ("Plan Date").

3. Issue of invitations

- 3.1 Subject to these Rules the Company (acting through the Board) may, within a reasonable time after:
 - (a) the first anniversary of the Plan Date ("First Occasion");
 - (b) the second anniversary of the Plan Date ("Second Occasion"); and
 - (c) the third anniversary of the Plan Date ("Third Occasion"),issue an invitation (in such form as the Board decides from time to time) to the Managing Director, inviting applications for a grant of Managing Director Options up to the number specified in the invitation ("Specified Options") and specifying an acceptance period such that:
 - (d) on the First Occasion, up to 200,000 Managing Director Options may be specified in the invitation ("Tranche 1 Specified Options");
 - (e) on the Second Occasion, up to 200,000 Managing Director Options may be specified in the invitation ("Tranche 2 Specified Options"); and
 - (f) on the Third Occasion, up to 200,000 Managing Director Options may be specified in the invitation ("Tranche 3 Specified Options").

- 3.2 The aggregate total of the Tranche 1 Specified Options, the Tranche 2 Specified Options and the Tranche 3 Specified Options may be no greater than the Maximum Amount.

4. Applications

- 4.1 Following receipt of an invitation pursuant to Rule 3.1, the Managing Director or an Eligible Person nominated by the Managing Director ("Applicant") may apply for the Specified Options.
- 4.2 The Applicant may apply for the full number of Specified Options or part of them (but only in multiples of 100 Managing Director Options) by sending to the Secretary of the Company an application (in the form attached to the invitation) duly signed and completed ("Application").
- 4.3 The Application must be received by the Company within the acceptance period specified in the invitation.
- 4.4 The Board is entitled to receive from the Applicant any information that the Board considers necessary concerning the Applicant and the Applicant's entitlement to lodge an Application, and may reject any Application.

5. Grant and terms of Managing Director Options

- 5.1 If a duly signed and completed Application for Specified Options is received by the Company and the Company does not reject the Application under Rule 4.4 within 30 Business Days after receiving the Application, the Company will be taken to have accepted the Application and will grant the Managing Director Options applied for to the Applicant (such person then being known as the "Holder"). The Company will issue an Option Certificate to each Holder in respect of Managing Director Options granted to them.
- 5.2 Unless otherwise determined by the Board when it resolves to grant the Managing Director Option, each Managing Director Option is granted on the following terms:
- Exercise of Options
- (a) A Holder may only exercise their Managing Director Options within the Exercise Period.
 - (b) All Managing Director Options may be exercised:
 - (i) during a Takeover Period; or
 - (ii) at any time after a Change of Control Event has occurred.
 - (c) At the conclusion of the Exercise Period, any Managing Director Options not exercised shall automatically lapse.
 - (d) Subject to paragraphs 5.2(b) and 5.2(e) the Managing Director Options are exercisable at the Exercise Price, during the Exercise Period on the following basis:
 - (i) The Managing Director Options the subject of the Tranche 1 Specified Options may be exercised if the average market price per Share (weighted by reference to volume) of the Shares traded on ASX is \$0.50 or higher for a period of at least 5 consecutive ASX trading days at any time during the Exercise Period;
 - (ii) The Managing Director Options the subject of the Tranche 2 Specified Options may be exercised if the average market price per Share (weighted by reference to volume) of the Shares traded on ASX is \$0.65 or higher for a period of at least 5 consecutive ASX trading days at any time during the Exercise Period; and
 - (iii) The Managing Director Options the subject of the Tranche 3 Specified Options may be exercised if the average market price per Share (weighted by reference to volume) of the Shares traded on ASX is \$0.70 or higher for a period of at least 5 consecutive ASX trading days at any time during the Exercise Period.

- (e) If the employment agreement between the Company and the Managing Director, is validly terminated in accordance with its terms or otherwise ("Termination") then the Managing Director Options which:
- (i) have been granted prior to the date on which Termination occurs ("Termination Date"); and
 - (ii) are exercisable in accordance with the Rules but are not properly exercised prior to 30 days after the Termination Date ("Lapse Date"),
- will automatically lapse on the Lapse Date.

Notice of Exercise

- (f) Managing Director Options may only be exercised by notice in writing to the Secretary of the Company delivered to the registered office of the Company. The notice must specify the number of Managing Director Options being exercised (being in integral multiples of parcels of 100) and must be accompanied by:
- (i) the Exercise Price for the number of Managing Director Options specified in the notice; and
 - (ii) the Certificate for those Managing Director Options, for cancellation by the Company.

The notice only becomes effective when the Company has received the full amount of the Exercise Price for the number of Managing Director Options specified in the notice in cleared funds.

Issue of certificates

- (g) Subject to paragraphs 5.2(a) to 5.2(f) above, within 5 Business Days of the notice referred to in paragraph 5.2(f) above becoming effective, the Board must:
- (i) allot and issue the number of Shares specified in the notice to the Holder;
 - (ii) cancel the Certificate for the Managing Director Options being exercised; and
 - (iii) if applicable, issue a new Certificate for any remaining Managing Director Options covered by the Certificate accompanying the notice.

Allotment of Shares

- (h) All Shares allotted upon the exercise of Managing Director Options rank *pari passu* in all respects with other fully paid ordinary shares in the Company, and, in particular, entitle their holders to participate fully in:
- (i) any dividend declared after the date of allotment for Shares by the Company; and
 - (ii) all issues of securities and other entitlements whatsoever offered to holders of Shares where entitlements to participate in those issues are determined by reference to a record date after the date of allotment of Shares allotted upon the exercise of Managing Director Options.

Official quotation

- (i) If the Company's Shares are officially quoted by ASX, the Company must apply for official quotation by ASX of all Shares allotted pursuant to the exercise of Managing Director Options not later than 5 Business Days after the date of allotment and otherwise in accordance with the ASX Listing Rules.

Pro rata issues

- (j) In the event of a pro rata issue (except a bonus issue) to the holders of Shares, the Exercise Price of a Managing Director Option will be reduced using the formula:

$$O' = O - \frac{E[P - (S + D)]}{N + 1}$$

where:

- O' = the new exercise price of the Managing Director Option.
- O = the old exercise price of the Managing Director Option.
- E = the number of Shares into which one Managing Director Option is exercisable.
- P = the average market price per Share (weighted by reference to volume) of the Shares during the 5 trading days ending on the day before the ex rights date or ex entitlements date.
- S = the subscription price for a Share under the pro rata issue.
- D = the dividend due but not yet paid on the existing Shares (except those to be issued under the pro rata issue).
- N = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

Bonus issues

- (k) If from time to time prior to the expiry of any Managing Director Options the Company makes an issue of any class of shares to the holders of ordinary shares in the Company on a pro rata basis by way of capitalisation of profits or reserves (other than an issue in lieu of dividends) (a "bonus issue") then upon exercise of a Managing Director Option, each Holder is entitled to have issued (in addition to the Shares which would otherwise be issued upon such exercise) the number of shares of the class which would have been issued to the Holder under the bonus issue ("bonus shares") if on the date on which entitlements to participate in the bonus issue were calculated the Holder had been registered as the holder of the number of Shares of which the Holder would have been registered as holder if immediately prior to that date the Managing Director Option had been exercised and the Shares the subject of such exercise had been duly allotted and issued. The bonus shares must 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 rank pari passu in all respects with the other shares of that class on issue at the date of issue of the bonus shares.

Reconstruction of capital

- (l) In the event that, prior to the expiry of any Managing Director Options, there is a reconstruction (including a consolidation, subdivision, reduction or return) of the issued capital of the Company, then all rights under the Managing Director Options will be reconstructed in the manner required by the Listing Rules.

Notice of adjustment

- (m) The Company must give notice to each Holder of any adjustment to the number of Shares for which the Holder is entitled to subscribe or to the Exercise Price pursuant to the

provisions of paragraphs 5.2(j), 5.2(k), or 5.2(l) above.

Participation in new issues

- (n) The Holder is only entitled to participate in a new issue of Shares to existing shareholders of the Company generally if the Holder has validly exercised an Option and has become a shareholder of the Company prior to the record date for determining entitlements to the issue, and is then only entitled to participate in relation to Shares of which the Holder is the registered holder. The Company must give notice to the Holder in accordance with the Listing Rules of any new issue before the record date for determining entitlements to the issue.

6. Number of Managing Director Options to be granted

- 6.1 The aggregate total of Managing Director Options to be issued under this Plan shall be less than or equal to the Maximum Amount.
- 6.2 The Company must ensure that the number of Shares the subject of an offer or grant of Managing Director Options when aggregated with:
 - (a) the number of Shares in the same class which would be issued were each outstanding Managing Director Option to acquire unissued shares under the Plan exercised; and
 - (b) the number of Shares in the same class issued during the previous 5 years pursuant to the Plan or any other employee share scheme operated by the Company,must not exceed 5% of the total number of issued Shares in the same class at the time of the offer or grant of Managing Director Options, or any such other maximum number permitted under any Class Order providing relief from the disclosure regime of the Corporations Act to ensure compliance with such Class Order.

7. Issue and Exercise Price of Managing Director Options

- 7.1 Managing Director Options granted under the Plan will be granted free of charge.
- 7.2 Subject to Rule 5.2(l), the Exercise Price payable on exercise of each Managing Director Option is \$0.40.
- 7.3 Subject to Rule 9.1, the Board may impose any terms it thinks fit on an invitation to take up Managing Director Options granted under the Plan.

8. Transfer of Managing Director Options

- (a) A Holder may only sell, transfer, dispose of or otherwise deal with the Managing Director Options with the prior written consent of the Board (which consent may be withheld at the Board's absolute discretion other than in the case of a proposed transfer or disposition to another Eligible Person when the Board will not unreasonably withhold its consent).
- (b) Any purported transfer of Managing Director Options without the consent of the Board will be void.
- (c) The instrument of transfer must be in writing, signed by both parties, duly stamped and otherwise in such form as the Board may from time to time prescribe. The Board will not register any transfer of a Managing Director Option made otherwise than in accordance with this Rule.

9. Amendments to the Rules

- 9.1 Subject to Rule 9.2, the Board may alter, delete or add to these Rules, with the exceptions of Rules 2.4, 5.2(d), 6.1, 8(a), the definitions of Eligible Person, Exercise Period, Exercise Price and Maximum Amount, at any time.
- 9.2 No amendment to the provisions of the Plan, or to any restrictions or other conditions relating to any Managing Director Option granted pursuant to the Plan, may be made which reduces the rights of Eligible Persons in respect of Managing Director Options granted to them prior to the date of the amendment, other than any amendment introduced primarily:
- (a) for the purpose of complying with or conforming to present or future State or Commonwealth legislation governing or regulating the maintenance or operation of the Plan or like plans;
 - (b) to correct any manifest error or mistake; or
 - (c) to take into consideration possible adverse tax implications in respect of the Plan arising from, amongst others, adverse rulings from the Commissioner of Taxation, changes to tax legislation (including an official announcement by the Commonwealth of Australia) and/or changes in the interpretation of tax legislation by a Court of competent jurisdiction.
- 9.3 As soon as is reasonably practicable after making any amendment under Rule 9.1, the Board will give notice in writing of the amendment to any Holder affected by the amendment.

10. Powers of the Board

The Plan will be administered by the Board which has the power to:

- (a) determine procedures from time to time for administration of the Plan consistent with these Rules;
- (b) subject to Rule 9, amend or modify these Rules;
- (c) resolve conclusively all questions of fact or interpretation arising in connection with the Plan; and
- (d) delegate to any one or more persons for such period and on such conditions as they may determine, the exercise of the Board's powers or discretions arising under the Plan.

11. Employee Share Loan

The Company will not provide the Managing Director with a loan or any other financial accommodation for the purposes of enabling him to exercise the Managing Director Options.

12. Miscellaneous

The rights and obligations of the individual under the terms of his office or employment with any Group Company are not affected by his participation in the Plan and these Rules do not form part of and are not incorporated into any contract of engagement or employment of any individual with a Group Company, nor do they confer directly or indirectly on the individual any legal or equitable right whatsoever against a Group Company except as expressly provided for in this Plan once Managing Director Options have been granted. The individual has no rights of compensation or damages in consequence of the termination of his engagement or employment for any reason whatsoever in so far as those rights arise or may arise from his ceasing to have rights under the Plan as a result of such termination.