



MERMAID MARINE
AUSTRALIA LTD

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22 September 2006

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

Dear Sir/Madam

RE: MANAGING DIRECTOR'S REMUNERATION REVIEW

The Board of Directors of Mermaid Marine Australia Limited, (the Company) announce that following its annual review of the performance and remuneration of the Company's Managing Director, Mr. Jeff Weber, it has resolved to amend the structure of Mr Weber's total remuneration package as follows:

- Fixed annual remuneration: 60%
- Short term incentive payment: 20%
- Long term incentive payment: 20%
- Total remuneration package: 100%

The fixed annual remuneration for the year ending 30 June 2007 was agreed at \$350,000.

The short term incentive payment will be subject to achieving a number of targets during the year which have been agreed between the Managing Director and the Board.

In relation to the long term incentive payment, the board has resolved to establish a Managing Director Incentive Share Plan and will recommend to shareholders at the next Annual General Meeting of the Company that shareholder approval be given to grant up to 520,000 shares in the Company to Mr Weber, subject to the terms and conditions of the Plan rules, a full copy of which are attached to this notice and are summarized below:

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Mermaid Road, DAMPIER WA 6713

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Under the Managing Director Incentive Share Plan, it is proposed to allow the Board to issue a maximum of 520,000 shares in Mermaid Marine Australia Ltd to Mr Weber during the vesting period, commencing 26 August 2008 and expiring 30 days thereafter, subject to the following performance hurdles:

- 50% of the shares, being 260,000 shares, may be issued if the weighted volume average share price (WVASP) of the Company's shares which are traded on the ASX exceeds 80 cents for a period of at least 10 successive trading days during the two year period commencing on 23 August 2006, being the date which the board resolved to establish the plan, and ending on 25 August 2008.
- the remaining 50% of the shares, being 260,000 shares, may be issued if the weighted volume average share price (WVASP) of the Company's shares which are traded on the ASX exceeds \$1.00 for a period of at least 10 successive trading days during the two year period commencing on 23 August 2006 and ending on 25 August 2008.

By order of the Board
MERMAID MARINE AUSTRALIA LIMITED



PETER RAYNOR
Company Secretary

Rules of the Mermaid Marine Australia Limited Managing Director Incentive Share 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 be issued 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, to motivate the Managing Director to grow the Company and shareholder value in the Company for the benefit of all the Company's shareholders.

1.2 In these Rules, unless the contrary intention appears:

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.

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; or
- (b) the trustee of a superannuation fund of which the Managing Director is a member.

First Threshold Event means WVASP exceeding the First Threshold Event Price over 10 successive trading days upon which Shares are traded on the ASX during the Qualifying Period.

First Threshold Event Price means \$0.80, subject to adjustment in the terms of clause 6.

First Threshold Event Shares means up to 260,000 Managing Director Shares, subject to adjustment in the terms of clause 6.

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 Share, the Eligible Person entered in the Company's register as the holder of that Managing Director Share.

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

Managing Director Share means a fully paid ordinary Share in the capital of the Company that may be the subject of the Plan.

Maximum Share Number means 520,000 Managing Director Shares, subject to adjustment in the terms of clause 6.

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

Plan Date has the meaning given in Rule 2.6.

Qualifying Period means the period commencing on the Plan Date and expiring on 25 August 2008.

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

Second Threshold Event means WVASP exceeding the Second Threshold Event Price for 10 successive days upon which the Shares are traded on the ASX during the Qualifying Period.

Second Threshold Event Price means \$1.00, subject to adjustment in the terms of clause 6.

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

Specified Shares means Managing Director Shares the subject of an invitation under clause 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.

Threshold Event means either or each of the First Threshold Event and the Second Threshold Event.

Threshold Event Price means either or each of the First Threshold Event Price and the Second Threshold Event Price.

Threshold Event Shares means either or each of the number of First Threshold Event Shares and Maximum Share Number.

Vesting Period means the period commencing on 26 August 2008 and expiring 30 days thereafter and also includes a Takeover Period.

WVASP means the weighted volume average share price at which the Shares are traded on the ASX.

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 offer any further Managing Director Shares under the Plan, but without prejudice to any Specified Shares already issued to a Holder.
- 2.4 Once all Managing Director Shares able to be offered under this Plan have either been issued or are not subscribed for by an Eligible Person in accordance with the terms of any invitation under the Plan, the Plan shall automatically terminate.
- 2.5 The establishment of this Plan and the issue of any Specified Shares under it is subject to and conditional upon all requisite board, shareholder and other (if any) approvals in the terms of the Corporations Act (including any applicable Class Order) 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 at any time during the Vesting Period (but subject to Rule 2.5) issue an invitation (in such form as the Board decides from time to time) to the Managing Director, inviting an Eligible Person to subscribe for such number of Managing Director Shares as determined by the Board (subject to Rules 3.2, 3.3, 3.4 and 3.5) for no further consideration.
- 3.2 **If:**
- (a) neither Threshold Event is satisfied (subject to Rule 3.5); or
 - (b) the Managing Director is not engaged by the Group in a senior executive capacity (howsoever described) at the end of the Qualifying Period; or
 - (c) there is a subsisting unresolved material default by the Managing Director in his obligations under his contract of engagement with the Group at the end of the Qualifying Period;
- then the Board is not entitled to issue an invitation under clause 3.1.
- 3.3 If only the First Threshold Event is satisfied, then the Board may not issue an invitation under clause 3.1 for more than the First Threshold Event Shares.
- 3.4 If the First Threshold Event and the Second Threshold Event are both satisfied, then the Board may not issue an invitation under clause 3.1 for more than the Maximum Share Number.
- 3.5 If the Board wishes to extend an invitation in the terms of Rule 3.1 during a Takeover Period, then the First Threshold Event and the Second Threshold Event are both deemed to have been satisfied.

4. Applications

- 4.1 Following issue of an invitation pursuant to Rule 3.1, an Eligible Person (who is lawfully entitled to hold the Specified Shares) nominated by the Managing Director ("**Applicant**") may apply to subscribe for the Specified Shares.
- 4.2 The Applicant may apply to subscribe for the full number of Specified Shares or part of them (but only in multiples of 100 Specified Shares) by sending to the Secretary of the Company a subscription application (in the form to be attached to the invitation) duly signed and completed ("**Application**").
- 4.3 The Application must be received by the Company within 10 Business Days of 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. Issue and Allotment

- 5.1 If a duly signed and completed Application for Specified Shares is received by the Company and the Company does not reject the Application under Rule 4.4 within 10 Business Days after receiving the Application, the Company will be taken to have accepted the Application and will grant the Specified Shares the subject of the Application to the Applicant
- 5.2 The Company will then allot the Specified Shares and issue a holding statement to the Applicant in respect of those Specified Shares.
- 5.3 All Specified Shares allotted under this clause rank *pari passu* in all respects with other fully paid ordinary shares in the Company, and, in particular, entitle the Holder to participate fully in:
- (a) any dividend declared after the date of allotment for Shares by the Company; and
 - (a) 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 the Specified Shares.
- 5.4 If the Company's Shares are officially quoted by ASX, the Company must apply for official quotation by ASX of all Specified Shares allotted pursuant to this clause not later than 5 Business Days after the date of allotment and otherwise in accordance with the ASX Listing Rules.

6. Adjustment of Threshold Event criteria

6.1 Pro rata issues

In the event of a pro rata issue (except a bonus issue) during the Qualifying Period to the holders of Shares, the Threshold Event Price will be reduced using the formula:

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

where:

O' = the new Threshold Event Price.

O = the old Threshold Event Price.

- P = the WVASP during the 5 ASX 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 under the pro rata rights issue.

6.2 Bonus issues

If from time to time during the Qualifying Period the Company makes an issue of any class of shares to the holders of Shares 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 the maximum number of Threshold Event Shares able to be issued under this Plan will be increased by the number of shares of the class which would have been issued to the Applicant under the bonus issue ("**bonus shares**") if on the date on which entitlements to participate in the bonus issue were calculated the Applicant had been registered as the holder of the number of Shares of which the Applicant would have been registered as holder if immediately prior to that date the Specified Shares had been duly allotted and issued. Any additional Specified Shares, over and above the numbers of Threshold Event Shares actually specified in this Plan, issued by the Company under the Plan as a consequence of the application of this clause, 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.

6.3 Reconstruction of capital

In the event that during the Qualifying Period there is a reconstruction (including a consolidation, subdivision, reduction or return) of the issued capital of the Company, then the maximum number of Threshold Event Shares or the Threshold Event Price or both will be reconstructed in a comparable manner as would be required by the ASX Listing Rules with respect to option rights in such circumstances.

6.4 Notice of adjustment

The Company must give notice to the Managing Director of any adjustment to the maximum number of Threshold Event Shares or Threshold Event Price.

7. Number of Managing Director Shares to be granted

- 7.1 The Company must ensure that the number of Specified Shares the subject of an invitation for subscription by an Eligible Person, when aggregated with the number of Shares in the same class (including options to take up shares in the same class) issued during the previous 5 years pursuant to the Plan or any other employee share or option scheme operated by the Company, must not exceed 5% of the total number of issued Shares in the same class (including options to take up shares in the same class) at the time of the invitation to subscribe for the Specified Shares, 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.

8. Issue Price and Conditions

- 8.1 There will be no amount payable by an Eligible Person on subscription for Specified Shares.
- 8.2 Subject to Rule 10, the Board may impose any terms it thinks fit on an invitation to take up Specified Shares in the terms of the Plan.

9. No Vesting until Issue

- 9.1 Until Specified Shares are actually issued by the Company neither the Managing Director, an Eligible Person nor an Applicant accrue any right or entitlement (legal, equitable or otherwise) in or to any Managing Director Shares or otherwise, and no rights or entitlements whatsoever vest under this Plan.
- 9.2 The rights and obligations of the Managing Director 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 the Managing Director 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. 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.

10. Amendments to the Rules

- 10.1 Subject to Rule 10.2, the Board may alter, delete or add to these Rules, with the exceptions of Rules 2.4, 2.5, 3.4 and 9 at any time.
- 10.2 No amendment to the provisions of the Plan, or to any restrictions or other conditions relating to any Managing Director Shares which may issue pursuant to the Plan, may be made which would require shareholder or other approvals in the terms of the Corporation Act (including any applicable Class Order) and the ASX Listing Rules unless such amendment is conditional upon such approval being obtained, and such approval is actually obtained.
- 10.3 As soon as is reasonably practicable after making any amendment under Rule 10.1, the Board will give notice in writing of the amendment to the Managing Director.

11. 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 10, 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.