



AUSTRALIAN **BAUXITE** LIMITED
ASX:ABZ

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Company Announcement Office
Australian Securities Exchange Limited

Employee Share Plan

Following is a copy of Australian Bauxite Limited's Employee Share Option Plan Explanatory Memorandum and Rules.

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Australian Bauxite Limited Employee Share Option Plan Explanatory Memorandum

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Australian Bauxite Limited ACN 139 494 885 – Employee Share Option Plan – Explanatory Memorandum

1. Definitions

In this Memorandum, unless the contrary intention appears, the following terms have the following meanings:

ASX means ASX Limited ACN 008 624 691;

ASIC means Australian Securities and Investments Commission;

Board means the board of directors of the Company or any committee of that board;

Company means Australian Bauxite Limited ACN 139 494 885;

Corporations Act means *Corporations Act 2001 (Cth)*;

Eligible Person means any person considered by the Board to be an employee or an associate of an employee (including past or prospective employees) of the Company or a Subsidiary of the Company, and expressly including any person considered by the Board:

- (a) to be an employee of the Company or any other entity in the Group, including without limitation all executive and non-executive directors, for the purposes of the proposed Division 83A of the *Income Tax Assessment Act 1997*; or
- (b) to be a person the Board considers to be a permanent employee of the Company or any other entity in the Group for the purposes of the proposed Division 83A of the *Income Tax Assessment Act 1997*; or,
- (c) an associate of an employee of the Company within the meaning of the proposed section 83A-305 of the *Income Tax Assessment Act 1997*; or
- (d) to be a person that falls within column 1 of the table of the proposed section 83A-325 of the *Income Tax Assessment Act 1997*;

Exercise Price means the exercise price of an option determined under rule 7 of the Plan as adjusted from time to time, if applicable, under rule 14;

Expiry Date means, subject to rule 8, the date on which an Option lapses under rules 4.4(a) and 8.1;

Group means the group of related or associated companies of which the Company is the holding company and includes any entity designated by the Board to be a member of the Group (even though not a subsidiary of the Company);

Listed means that the Company is admitted to the official list of, or otherwise listed on the ASX or any other securities exchange;

Listing Rules means the listing rules of the ASX or any other securities exchange on which the Company is Listed;

Option means an option in respect of unissued Shares in the Company and granted under this Plan;

Participant means a person who holds one or more Options;

Plan means this Employee Share Option Plan established by the Company;

Plan Rules means the Plan Rules being Annexure A;

Subsidiary of the Company means any company that would be a subsidiary of the Company in accordance with the *Corporations Act, 2001*;

Share means an ordinary share in the capital of the Company.

2. Interpretation

In this Memorandum, except where the context otherwise requires:

- (a) the singular includes the plural and vice versa;
- (b) a reference to the whole or part of any legislation includes any amendment, consolidation or re-enactment of the legislation or any legislative provision substituted for the legislation;
- (c) headings are inserted for convenience only and do not affect construction or interpretation of these rules; and,
- (d) expressions given a meaning in the Corporations Act have the same meaning when used in this Plan.

3. Introduction

3.1 Establishment

On the 15 October 2009 the Board of the Company established the Australian Bauxite Limited ACN 139 494 885 Employee Share Option Plan (**Plan**).

3.2 Plan Rules

A copy of the Plan Rules is set out in Annexure A.

3.3 Plan Purpose

The purpose of the Plan is to provide an opportunity for Eligible Persons to participate in the growth and development of the Company through participation in the equity of the Company (assuming the exercise of the Options).

3.4 No Cost

Options are issued at no cost to the Eligible Person.

3.5 Rights

Each Option gives the holder the right to subscribe for an ordinary share in the Company at a price determined in accordance with the Plan Rules.

3.6 Terms and conditions

The terms and conditions applicable to the issue of Options are described more fully below.

3.7 Incentive

The Board believes it is important to provide incentives to employees and other Eligible Persons in the form of Options which provide the opportunity to participate in the share capital of the Company.

3.8 Use of funds raised

The Company expects to apply the proceeds of exercise of the Options to working capital needs, asset or business acquisitions and general corporate purposes.

4. General Information

4.1 Option Grant

- (a) The Board resolved to grant Options to Eligible Persons.
- (b) This memorandum is accompanied by a cover letter that notifies you of the number of Options that were granted to you and any vesting or other conditions applicable to the grant of those Options to you (**Notice of Option Grant**).
- (c) There is no need to notify your acceptance of the grant.
- (d) However, if you do not wish to accept the grant you should notify the Company Secretary within ten business days of receipt of the Notice of Option Grant.

4.2 Option Exercise

- (a) Your Options are exercisable once they have vested and become exercisable as set out in the Notice of Option Grant.
- (b) To exercise your Options, you should complete an application in the form of Annexure B and return the form to the Company Secretary together with your Option Certificate and payment of the exercise price for the Options exercised.
- (c) Unless you are exercising all of your Options, you must exercise the Options in multiples of 100 or other multiple permitted by the Board.
- (d) If you do not exercise the Options before the expiry date (assuming they have not otherwise been exercised or lapsed), the Options will automatically lapse on the expiry date set out in the Notice of Grant of Options.

4.3 Share Issue

- (a) Each Option carries with it the right to one share when the Option is exercised.

- (b) However, the number of shares issued on exercise of an Option may be adjusted to take account of securities issued by the Company (bonus and rights issues) and to take account of reconstructions of the Company's capital (eg subdivisions and consolidations of the Company's shares).
- (c) In some cases, these changes in the Company's capital may require an adjustment to the exercise price of the Option to ensure you are fairly affected by the changes.
- (d) The way in which the exercise price of the Option or the number of shares to which you are entitled on exercise of the Option is adjusted, is set out in the Plan Rules.
- (e) Should the Company be listed on a stock exchange at any time, the listing rules of the stock exchange may also affect the number of shares issued on exercise of the Option or the exercise price of the Option.
- (f) The Plan Rules currently provide for the following adjustments:
 - (1) **bonus issue** – the number of shares is adjusted to give a right to an additional number of shares to compensate for the bonus issue (see rule 14.1);
 - (2) **rights issues** – the exercise price of the Option is amended by a formula to adjust the exercise price to take into account the effect of the rights issue on the value of the Company's shares (see rule 14.2)
 - (3) **capital reconstructions** – the number of shares issued on exercise of the Option and the exercise price of the Options are appropriately adjusted to take account of capital reconstructions such as consolidations and subdivisions of the number of shares on issue (see rule 14.3); and
 - (4) **capital returns** – the exercise price of the Options is adjusted for returns of capital (see rule 14.4).

You will be notified of any changes as a result of the application of these rules.

- (g) Shares issued on exercise of your Options rank equally with fully paid ordinary shares of the Company on issue at the time your Option is exercised.

4.4 Transferability of Options

The Options are personal to you and cannot be transferred, assigned, encumbered or otherwise disposed of unless the Board otherwise agrees.

5. Information about the Company

5.1 Share Capital

- (a) At the time of issue of this memorandum, the Company has on issue the number of ordinary shares stated in Item 2 of the Schedule and the number of options over ordinary shares stated in Item 3 of the Schedule.
- (b) The number of Options which the Board has decided to issue on this occasion is the number of options stated in Item 4 of the Schedule.

- (c) The rights attaching to shares in the Company are governed by the provisions of the Corporations Act, the Constitution (as modified from time to time) and the general law.

5.2 Dividend Policy

- (a) Whether, after Options are exercised, the Company pays dividends in the future on the shares issued on exercise will be a matter to be determined by the Board having regard to the circumstances of the Company from time to time.
- (b) You should be aware that payment of dividends is dependent on a number of factors including future profitability, cash flows, capital expenditure requirements and the taxation position of the Company.
- (c) It is unlikely that any dividends will be paid in the short to medium term.
- (d) There is no guarantee that dividends will be paid in the future.

5.3 Financial Information

The Company Secretary can provide you with a copy of the most recent published financial statements of the Company on request.

6. Employee Share Trading Policy

- (a) There are legal constraints (commonly referred to as "insider trading laws") on the ability of persons to trade shares in the capital of the Company if they have knowledge or information about the Company which is not generally available to others and which might affect the price of the Company's shares.
- (b) Before trading shares in the Company, you should consider whether these rules might have any application.
- (c) If necessary, you could initially direct questions to the Company Secretary.
- (d) However, the Company Secretary may suggest that you seek legal advice on the point (if appropriate).
- (e) You should consider whether you should seek that advice in any event.

7. Risk Factors

7.1 Investment Liquidity

- (a) The Options will not be listed on any securities exchange on which the Company is Listed.
- (b) If the Company is Listed at the time of exercise of any Options, the Company will make application to the relevant securities exchange for listing or quotation of the Shares issued on exercise of the Options.
- (c) Any such application is to be made in accordance with the requirements of the applicable Listing Rules.

- (d) However if the Company is not Listed at the time of exercise of any Options, the shares will be illiquid as there will be no secondary market for the same.

7.2 Return on Investment

- (a) Holders of shares in the Company should not expect to receive dividends or other distributions from their shareholdings in the short to medium term.
- (b) The Board does not expect to earn significant profits in that time frame and will in any event have a need to apply profits and cash flow to ongoing capital expenditure requirements.
- (c) Future profitability may also be affected by other risk factors referred to below.

7.3 Other Risk Factors

- (a) Exercising your Options and thereby subscribing for shares may involve risks generally applicable to investments in shares.
- (b) These risks include the value of shares being affected by general national and international economic conditions, movements in national and international share prices, and expectations as to future national and international economic conditions.

8. Taxation Issues

The issue and exercise of your Options may have taxation and social security implications. The following summary of the relevant taxation issues is necessarily of a general nature. Employees may not rely on this summary and are strongly advised to seek independent professional advice on the taxation and social security implications of participating in the Plan having regard to their individual circumstances.

Further, the Commonwealth Government has announced that it intends to amend the legislation governing the tax treatment of employee share schemes to apply from the tax year commencing 1 July 2009. This clause of this Memorandum has been prepared on the basis of the Exposure Draft of the Tax Laws Amendment (2009 Budget Measures No. 2) Bill 2009: Employee share schemes issued on 14 August 2009. Please note that there may be significant changes to the legislation before it is enacted.

8.1 Relevant Taxation Law - Overview

In broad terms, where an employee is granted an option under an employee share scheme at a discount to the market value of the option, the market value of that discount must be included in the employee's assessable income either:

- (a) in the year of income in which the option is granted; or
- (b) if certain conditions are met, at the time when a certain event (**deferred taxing point**) occurs.

However this Plan does not meet the required conditions for the deferred taxing point to apply because it does not meet the non-discriminatory conditions. Therefore only sub-clause (a) above will apply in relation to this Plan and any discount to market value at the time of issue

will be included in the assessable income of the employee in the income year of issue with no right to defer the taxing point.

The \$1,000 exemption that applies to some employee share schemes if certain conditions are met also does not apply to this Plan because the Plan does not satisfy the non-discriminatory conditions.

Where options are issued and there is no discount to the market value of the options, the issue of those options does not give rise to assessable income.

An option will be granted under an employee share scheme if a company provides the option in itself to, and only to, employees, or associates of employees (including past or prospective employees) of the company or a subsidiary of the company (determined in the same manner as it is determined whether or not a corporation is a subsidiary of another corporation under the *Corporations Act 2001*).

8.2 Up Front Taxation

Generally, any discount received on options acquired under an employee share scheme is included in the employee's assessable income in the year of income when the option is issued.

8.3 Market Value

The market value of the option is to be determined by reference to the ordinary methods of calculating market value. The Australian Tax Office (**ATO**) has published material on working out market value which can be found in the ATO's guide *Market value for tax purposes*.

However, alternative methods of calculating the market value of an option can also be specified by regulation in the *Income Tax Assessment Regulations 1997*.

8.4 Tax on sale of shares

There is no tax applicable on the exercise of the options. However if and when the shares are sold, the difference between:

- (a) the sale proceeds, and
- (b) the employee's cost base in the shares (being the aggregate of the amount paid to exercise the option and the amount included in the employee's income in relation to any discount to the market value of the option), is subject to CGT treatment.

In general terms, 50% of any capital gain may be exempt from tax if the shares, as opposed to the options, are held for at least 12 months before disposal. (Note: The 50% reduction applies only where shares are held by individuals or trusts. In relation to complying superannuation funds the discount is 33⅓%)

8.5 TFN Withholding

In certain circumstances, a company may also be required to pay a withholding tax in relation to discounted options, including where the employee has not quoted their Tax File Number or Australian Business Number by the end of the income year in which the option is issued.

9. Questions

If you have any questions in relation to the Plan, please contact the Company Secretary.

Annexure A - Plan Rules

Australian Bauxite Limited Employee Share Option Plan Rules

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Australian Bauxite Limited ACN 139 494 885 – Employee Share Option Plan Rules

1. Definitions

In these Plan Rules, unless the contrary intention appears, the following terms have the following meanings:

ASX means ASX Limited ACN 008 624 691;

ASIC means Australian Securities and Investments Commission;

Board means the board of directors of the Company or any committee of that board;

Company means Australian Bauxite Limited ACN 139 494 885;

Corporations Act means *Corporations Act 2001 (Cth)*;

Eligible Person means any person considered by the Board to be an employee or an associate of an employee (including past or prospective employees) of the Company or a Subsidiary of the Company, and expressly including any person considered by the Board:

- (a) to be an employee of the Company or any other entity in the Group, including without limitation all executive and non-executive directors, for the purposes of the proposed Division 83A of the *Income Tax Assessment Act 1997*; or
- (b) to be a person the Board considers to be a permanent employee of the Company or any other entity in the Group for the purposes of the proposed Division 83A of the *Income Tax Assessment Act 1997*; or,
- (c) an associate of an employee of the Company within the meaning of the proposed section 83A-305 of the *Income Tax Assessment Act 1997*; or
- (d) to be a person that falls within column 1 of the table of the proposed section 83A-325 of the *Income Tax Assessment Act 1997*;

Exercise Price means the exercise price of an option determined under rule 7 of the Plan as adjusted from time to time, if applicable, under rule 15;

Expiry Date means, subject to rule 8, the date on which an Option lapses under rules 4.4(a) and 8.1;

Group means the group of related or associated companies of which the Company is the holding company and includes any entity designated by the Board to be a member of the Group (even though not a subsidiary of the Company);

Listed means that the Company is admitted to the official list of, or otherwise listed on the ASX or any other securities exchange;

Listing Rules means the listing rules of the ASX or any other securities exchange on which the Company is Listed;

Loan means a loan made by the Company to an employee pursuant to clause 11.1;

Option means an option in respect of unissued Shares in the Company and granted under this Plan;

Participant means a person who holds one or more Options;

Plan means this Employee Share Option Plan established by the Company;

Plan Rules means the rules of the Plan set out herein;

Subsidiary of the Company means any company that would be a subsidiary of the Company in accordance with the *Corporations Act, 2001*;

Share means an ordinary share in the capital of the Company.

2. Interpretation

In these Plan Rules, except where the context otherwise requires:

- (a) the singular includes the plural and vice versa;
- (b) a reference to the whole or part of any legislation includes any amendment, consolidation or re-enactment of the legislation or any legislative provision substituted for the legislation;
- (c) headings are inserted for convenience only and do not affect construction or interpretation of these rules; and,
- (d) expressions given a meaning in the Corporations Act have the same meaning when used in this Plan.

3. Commencement of the Plan

This Plan takes effect on and from the date determined by the Board.

4. Grant of Options

4.1 Grant

Subject to rule 4.3, the Board may, in its discretion and from time to time, grant to Eligible Persons any number of Options on such terms as they may determine in accordance with these rules.

4.2 Terms of Grant

Options must be granted on the terms of this Plan and each Participant will be taken to have agreed to be bound by the terms of this Plan on the grant of Options to that Participant.

4.3 Shareholder approval

If and to the extent applicable at any time, the grant of Options under this Plan generally or to particular Eligible Persons is subject to receipt of any necessary shareholder or other approvals under:

- (a) the Corporations Act or any other law applicable to the Company; and
- (b) if the Company is Listed, the applicable Listing Rules.

4.4 Matters for determination

Subject to any limitations under the Corporations Act or any other law applicable to the Company, when granting Options to an Eligible Person the Board:

- (a) must determine the date on which the Options are to lapse (if not exercised or lapsed under rule 8 before that date);
- (b) may determine the dates on which the Options vest in the Participant and, subject to rule 9, thereby become exercisable by the Participant; and
- (c) may determine any other conditions which must be satisfied before the Options vest in the Participant or are otherwise exercisable by the Participant.

5. Maximum Number of Options

The maximum number of Options that may be granted to Participants under this Plan from time to time is limited to such number as:

- (a) if the Company is Listed, is consistent with any applicable Listing Rules; and
- (b) in any event is determined by the Board from time to time in its discretion or having regard to regulatory constraints under the Corporations Act, ASIC policy or any other law applicable to the Company.

6. Notice of Grant

6.1 Notification

When Options are granted to an Eligible Person, the Eligible Person (now a **Participant**) is to be notified by the Company of the grant.

6.2 Terms of notice

The notice is to specify:

- (a) the number of Options granted;
- (b) the Exercise Price of the Options granted;
- (c) the date determined by the Board as the Expiry Date under rule 4.4(a);

- (d) if applicable, the dates on which the Options vest as determined by the Board under rule 4.4(b); and
- (e) if applicable, any other conditions attaching to the Options as determined by the Board under rule 4.4(c)..

6.3 Commencement

Subject to rule 6.4, the term of an Option commences on the date the Board resolves to grant the Option.

6.4 Decline of acceptance

An Eligible Person may, within ten (10) business days after receipt of a notice of grant under rule 6.1, by notice to the Company decline to accept the Options referred to in the notice of grant. If notice is received from an Eligible Person under this rule, the Options will not be granted to that person. If no notice is received under this rule, the Options are deemed granted to that person.

7. Exercise Price

The exercise price of each Option is to be such price as determined by the Board in its discretion when granting the Option.

8. Expiry Date

8.1 Lapsing

Subject to rules 8.2 and 8.3, Options granted to a Participant lapse at 5:00 pm Sydney time on the date determined by the Board under rule 4.4(a) (unless exercised prior to that date).

8.2 Cessation of employment

If a Participant ceases to be an employee of the Company or any other entity in the Group (other than through the death of the Participant):

- (a) all Options granted to a Participant which have not vested automatically lapse; and
- (b) all Options granted to the Participant which have vested lapse on the expiry of 90 days (or such longer period as determined by the Board) after the date on which the Participant ceases to be an employee, unless the employee ceases to be an employee as a result of termination for dishonesty, fraud or cause (as defined in the relevant Participants employee agreement with the Company) in which case the Options lapse immediately on ceasing to be an employee.

8.3 Death

On the death of a Participant:

- (a) all Options granted to a Participant which have not vested automatically lapse; and
- (b) notwithstanding anything to the contrary in this Plan, the Options which have already vested in the Optionholder prior to death, lapse on the expiry of 12 months after the

date of the Optionholder (except to the extent that the executor or beneficiaries of that Optionholder's estate exercise any or all of those Options).

9. Option Exercise

9.1 Vesting condition

If an Option is subject to vesting pursuant to rules 4.4(b) and 4.4(c), it may only be exercised if it has vested and before it expires. While the Company is not Listed, the Board may in its absolute discretion accelerate the vesting of Options of any Optionholder.

9.2 Exercise time

Subject to rule 9.1, an Option may be exercised by a Participant at such time(s) as the Board determines at the time of grant.

9.3 Entitlement

When exercised, each Option held by a Participant entitles the Participant to subscribe for and to be issued one Share (credited as fully paid). The subscription price for the Share is equal to and satisfied by payment of the exercise price of the Option.

10. Manner of Exercise

10.1 Method

A Participant may exercise Options by lodging with the Company a notice of exercise in a form approved or accepted by the Board accompanied by:

- (a) payment of the aggregate exercise price for the Options the subject of the notice;
- (b) the Participants option certificate; and
- (c) a duly executed deed of accession.

10.2 Minimum Number

If a Participant does not exercise all Options held by the Participant, the Participant must exercise Options in multiples of 10,000 or other multiple permitted by the Board. On exercise of any Options by a Participant, the Company must issue Shares in accordance with this Plan. The Company must comply with the requirements of the Corporations Act and, if the Company is Listed, the Listing Rules in connection with the manner and timing of issue of the Shares. The Company is not obliged to issue Shares unless it has received cleared funds on account of the exercise price of Options.

10.3 Ranking

Shares issued on exercise of Options rank equally with all existing Shares from the date of the issue of such Shares.

10.4 **Name**

Shares may only be issued in the name of the Participant exercising the Option unless the Board otherwise agrees.

11. **Loan to Exercise Options**

11.1 **Loan Offer**

- (a) The Directors may offer a loan of money to an employee who holds an Option for the amount of the exercise price of the Option, to enable the employee to pay the purchase price for the Share on the exercise of the Option that has been issued pursuant to this Plan.
- (b) The offer of the loan shall be in writing and must state the terms and conditions of the loan as determined by the Directors.
- (c) The terms of the loan offer shall remain open for acceptance for ten business days.
- (d) Upon acceptance of the offer, the employee shall be bound by the terms of the offer and the Company will apply the amount of the loan to the exercise price of the Option and issue the Share.

11.2 **Dividends**

Until the Loan is repaid, the Company may apply any dividends paid in respect of the Shares in satisfaction of any amounts outstanding under or in connection with the loan.

11.3 **Lien**

- (a) The Company shall have a lien over the Shares until all the amounts outstanding under or in connection with the Loan have been repaid.
- (b) Until the Loan is repaid, the Company may take any action available to it to prevent the transfer of the Shares.

11.4 **Disposal of Shares**

- (a) Notwithstanding the above, an employee may dispose of all or part of his or her Shares if authorised to do so by the Company or if a takeover bid is made for the Shares.
- (b) If the employee disposes of the all or part of his or her Shares as permitted by sub-clause (a), the employee must repay the Loan or that proportion of the Loan being the same proportion as the Shares disposed of to the total number of Shares held by the employee.

11.5 **Repayment of Loan**

- (a) A Loan shall be repayable in full on the first to occur of the following events:
 - (1) the employee ceases to be an employee of the Company, or of any of its subsidiaries, as the case may be;

- (2) the employee fails to comply with a term or condition of the Loan or this Plan;
or
 - (3) the employee becomes bankrupt; or
 - (4) on the fifth anniversary of the date of the advance of the Loan; or,
 - (5) the Company demands repayment of the Loan.
- (b) A Loan may also be repaid at the option of the employee.

11.6 Default

- (a) If the employee:
- (1) fails to comply with a term or condition of the Loan or this Plan; or
 - (2) becomes bankrupt; or
 - (3) fails to repay any amount outstanding under or in connection with the Loan when required to do so,
- the Company may purchase the Shares from the employee or direct that they be sold to a nominee of the Company at a price not less than the lesser of the purchase price of the Shares paid by the employee and the market price thereof at the date of such disposition.
- (b) The Company shall apply the proceeds from the disposal of the shares towards satisfaction of any amounts outstanding under or in connection with the Loan.
- (c) Any remaining amount of the Loan shall be immediately due and payable by the Employee to the Company.

12. No Transfer

The rights and entitlements of a Participant to Options may not be transferred, assigned, encumbered or otherwise disposed of by the Participant except by transmission on death of the Participant or with the written agreement of the Board (which may be given or withheld in its discretion).

13. Quotation of Options and Shares

13.1 No listing

The Options will not be listed on any securities exchange on which the Company is Listed.

13.2 Application for Listing

If the Company is Listed at the time of exercise of any Options, the Company will make application to the relevant securities exchange for listing or quotation of the Shares issued on exercise of the Options. Any such application is to be made in accordance with the requirements of the applicable Listing Rules.

13.3 Condition

The grant of each Option is subject to a condition that if the Company become Listed, the Participant or former Participant must sign any restriction (escrow) agreement required by the relevant securities exchange, in respect of the Option or any Shares issued on exercise of the Option.

14. Participation in New Issues

A Participant may only participate in issues of securities by the Company if the Option has been exercised and a Share allotted in respect of the exercise of that Option before the books closing date for determining entitlements to the security issue.

15. Variations of Capital

15.1 Bonus issues

- (a) If, prior to an exercise of an Option by a Participant, the Company makes a bonus issue of Shares pursuant to an offer of Shares to at least all holders of Shares to whom such an offer would be lawful, then on exercise by a Participant of an Option the Participant will be entitled to be allotted (in addition to the Shares to which the Participant is otherwise entitled), the number of additional Shares (in this rule 13.1 called "Additional Shares") which would have been issued to the Participant in such Bonus Issue (disregarding fractions) if, at the date on which entitlements to the bonus issue were calculated, the Participant had been registered as the holder of Shares equal to the aggregate of the number of Shares and any Additional Shares (if any, resulting from any earlier application of this rule) to which the Participant would have been entitled if immediately prior to that date the Participant had so exercised the Option in respect of the Shares then the subject of the Option and the exercise.
- (b) The Additional Shares must be issued credited as fully paid and rank equally with the other Shares issued as a result of the exercise of the Option.

15.2 Rights Issues

If, prior to an exercise of an Option by a Participant, any offer or invitation is made by the Company to at least all holders of Shares to whom such an offer would be lawful for the subscription of cash for shares of the Company, the Exercise Price of the Option will be reduced according to the following formula:

$$O1 = \frac{O2 - E[P - (S + D)]}{N + 1}$$

Where:

- O1 = the new Exercise Price of the Option;
- O2 = the old Exercise Price of the Option;
- E = the number of Shares into which the Option is exercisable;
- P = the subscription price for a Share under the pro rata issue or, if the Company is Listed, the average market price per Share (weighted by reference to volume) of the Shares during the 5 trading days on the exchange on which the shares are Listed ending on the day before

the ex-rights date or ex-entitlements date or if there is no such date then the date chosen by the Board. If the Company is Listed on more than one exchange, then this provision is to be interpreted by reference to trading on the primary exchange on which Shares are Listed (unless the Board otherwise determines);

- 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); and
- N = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

15.3 Reconstruction of Capital

In the event of a consolidation, subdivision or similar reconstruction of the issued capital of the Company:

- (a) the number of Shares to which a Participant is entitled on exercise of an Option will be reduced or increased in the same proportion as the issued capital of the Company is consolidated, subdivided or reconstructed (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of shareholders approving the consolidation, subdivision or reconstruction); and
- (b) an appropriate adjustment will be made to the Exercise Price, to the effect that the total amount payable on an exercise of all Options by each Participant will not alter.

15.4 Return of Capital

If, prior to the exercise of an Option by a Participant, the Company makes a return of capital to holders of Shares generally, the Exercise Price will be reduced by the amount of the capital returned in respect of each Share.

15.5 Cumulative Adjustments

The terms of this rule 15 relating to bonus issues, rights issues, reconstructions and returns of capital may be applied on more than one occasion such that their effects may be cumulative. It is intended that the adjustments they progressively effect will be such as to reflect in relation to the Shares subject to Options, the adjustments which on the occasions in question are progressively effected in relation to Shares already on issue.

15.6 Notice of Adjustments

Whenever the number of Shares subject to an Option or the Exercise Price is adjusted in accordance with these rules, the Company will give notice of the adjustment to the Participant holding the Option.

16. Plan and Option Amendments

16.1 Amendment by Board

The rights attaching to the Options may be amended by the Board subject to receipt of any necessary shareholder or other approval under:

- (a) the Corporations Act or any other law applicable to the Company; and
- (b) if the Company is Listed, the applicable Listing Rules.

16.2 Subject to Listing Rules

If the Company is Listed and the provisions of this Plan or the terms of issue of the Options are inconsistent with the Listing Rules, then the Listing Rules prevail to the extent of any inconsistency and the terms of the Options will be deemed modified accordingly without further action by the Company, the Board or the holder of the Option being necessary.

16.3 Deemed modification

Without limiting the generality of rule 16.2, it is a term of each Option that, if the Company is Listed, the rights of the Participant who holds the Option are deemed modified from time to time as necessary to ensure the terms of the Options comply with the Listing Rules generally and in particular (but without limitation) as those rules apply to reorganisations of capital at the time of any re-organisation of the Company's capital, in each case despite any inconsistent provision in the terms of this Plan.

16.4 Amendment without prejudice

Subject to rules 16.1 to 16.3 (inclusive) and, if the Company is Listed, to receipt of any necessary approvals required under the Listing Rules, the terms of this Plan may be amended by the Board but without prejudice to the existing or accrued rights of Participants before any amendments are made.

17. Administration of the Plan

This Plan will be administered by the Board. The Board will have power to:

- (a) delegate to any persons for such period and on such terms as it sees fit, the exercise of any of its powers or discretions under this Plan;
- (b) determine appropriate procedures for administration of this Plan consistent with these rules, including approving the form and content of forms and notices to be issued under this Plan; and
- (c) resolve conclusively all questions of fact, construction, interpretation or ambiguity in connection with the terms or operation of this Plan and the terms of Options granted under this Plan.

18. Notices

- (a) Notices may be given by the Company to Participants in the manner permitted by the Corporations Act for the giving of notices to holders of Shares and the relevant provisions of the Corporations Act apply (with necessary changes) to notices given to Participants.
- (b) Service of all documents required by this Plan shall be deemed to be affected if the Company sends the document by registered post to the last address of the Participant known to the Company.

19. Termination of the Plan

This Plan may be determined at any time by resolution of the Board. Termination of this Plan will be without prejudice to the rights of Participants in respect of Options outstanding at the date of termination.

20. Governing Law

The terms of this Plan are governed by the laws of the State of New South Wales.