

RULES OF THE TORO ENERGY LIMITED EMPLOYEE SHARE OPTION PLAN

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In these Rules, unless the contrary intention appears:

"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 includes any body corporate which may hereafter succeed to the powers, functions and duties of Australian Stock Exchange Limited;

"Board" means the directors acting as the board of directors of the Company;

"Business Day" means a day on which the stock market of ASX is open for trading in securities;

"Certificate" means the certificate issued by the Company to a Holder in respect of an Option;

"Company" means Toro Energy Limited ACN 117 127 590;

"Director" means a director of a Group Company from time to time;

"Eligible Person" means at any time a person who then is an employee (whether full-time or part-time) of a Group Company;

"Exercise Price" means, in respect of an Option, the subscription price per Share, determined in accordance with clause 12, payable by a Holder on exercise of the Option;

"Expiry Date" means, in relation to an Option, the period of 5 years from and including the Issue Date of the Option;

"Group" means, collectively the Company and each of the Associated Companies;

"Group Company" means the Company or any Associated Company;

"Holder" means, in relation to an Option, the person (whether an Eligible Person or a Permitted Nominee) entered in the Company's register of options as the holder of that Option;

"Issue Date" means, in relation to an Option, the date on which the Company grants that Option;

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

"Market Value" means:

- (a) the average closing sale price per Share (weighted by reference to volume) recorded on the stock market of ASX during the five trading days immediately preceding the day on which the Board resolves to offer an Option (excluding special crossings and overnight sales); or
- (b) in circumstances where there has been no trading in the Shares during the five trading days immediately preceding the day on which the Board resolves to offer an Option, the last sale price recorded on the stock market of ASX (excluding special crossings and overnight sales);

"Option" means an Option issued under the Plan to subscribe (subject to clause 11) for a Share;

"Permanent Disablement" means, in relation to an Eligible Person, that the Eligible Person has, in the opinion of the Board, after considering such medical and other evidence as it sees fit, become incapacitated to such an extent as to render the Eligible Person unlikely ever to engage in any occupation for which he is reasonably qualified by education, training or experience;

"Permitted Nominee" has the meaning given to it by clause 5.4;

"Plan" means The Toro Energy Limited Employee Share Option Plan established in accordance with these Rules;

"Redundancy" means, in relation to an Eligible Person, a determination by the Board that the relevant Group Company's need to employ a person for the particular kind of work carried out by that Eligible Person has ceased (but, for the avoidance of any doubt, does not include the dismissal of an Eligible Person for personal or disciplinary reasons or where the Eligible Person leaves the employ of any Group Company of his own accord);

"Retirement" means, in relation to an Eligible Person, retirement by that Eligible Person from any Group Company at age 60 or over or such earlier age as considered appropriate by the Board;

"Rules" means these rules, as amended from time to time;

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

1.2 Interpretation

In these Rules, unless the contrary intention appears:

- (a) where an expression is defined, another part of speech or grammatical form of that expression has a corresponding meaning;
 - (b) the singular includes the plural and vice versa;
 - (c) a reference to a gender includes all genders; and
 - (d) an expression defined in, or given a meaning for the purposes of, the Corporations Act or the Listing Rules has the same meaning where used in these Rules.
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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 and otherwise as it determines from time to time in its absolute and uncontrolled discretion.
 - 2.2 The Board may terminate the Plan, or suspend its operation for any period it considers desirable, at any time that it considers appropriate.
 - 2.3 The Board may not issue any further Options after the Plan has been terminated. However, these Rules will continue to apply to Options on issue at the date of such termination until the last of those Options lapses or is exercised.
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3. NUMBER OF OPTIONS TO BE ISSUED

The Company shall not offer or issue Options to any Eligible Person in accordance with the Plan if the total number of shares the subject of Options, when aggregated with:

- 3.1 the number of shares in the same class which would be issued were each outstanding offer or option to acquire unissued shares in the Company, being an offer made or option acquired pursuant to the Plan or any other employee share scheme extended only to employees or directors of Group Companies, to be accepted or exercised (as the case may be); and
- 3.2 the number of shares in the same class issued during the previous five years pursuant to the Plan or any other employee share scheme extended only to employees or directors of Group Companies,

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(but disregarding any offer made, or option acquired or share issued by way of or as a result of an offer to a person situated at the time of receipt of the offer outside Australia or any offer which, pursuant to Section 708 of the Corporations Act, does not need disclosure to investors), would exceed 5% of the total number of issued shares in that class of the Company as at the time of the proposed offer.

4. ENTITLEMENT TO PARTICIPATE

- 4.1 The Board may from time to time determine in its absolute and uncontrolled discretion that any Eligible Person is entitled to participate in the Plan and the extent of that participation. The determination of the Board shall be binding and neither the Board nor any director of the Company shall be obliged to give any reason for a determination.
- 4.2 The Board may exercise its powers in relation to the participation of any Eligible Person on any number of occasions.
- 4.3 Unless otherwise determined by the Board in its absolute and uncontrolled discretion, no Eligible Person shall be entitled to participate in the Plan unless that Eligible Person has been in continuous employment with a Group Company for at least 12 months prior to the Issue Date.
- 4.4 The Plan shall not form part of any contract of employment between any Group Company and any of its employees and shall not confer directly or indirectly on any such employee any legal or equitable right whatsoever against any Group Company.

5. OFFER OF OPTIONS

- 5.1 Subject to these Rules and to the Listing Rules, the Company (acting through the Board) may offer Options to any Eligible Persons at such times and on such terms as the Board considers appropriate in its absolute and uncontrolled discretion (but no offers of Options shall be made until the Company's Shares have been listed on the ASX for at least 12 months unless such offer does not need disclosure to investors pursuant to Section 708 of the Corporations Act). Each offer must state:
 - (a) that the Eligible Person to whom it is addressed may accept the whole or any lesser number of Options offered. The offer may stipulate a minimum number of Options and any multiple of such minimum or any other number which may be accepted;
 - (b) the period within which the offer may be accepted; and
 - (c) any other matters which the Board may determine.

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5.2 Upon receipt of an offer of Options, an Eligible Person may, within the period specified in the offer:

- (a) accept the whole or any lesser number of Options offered by notice in writing to the Board; or
- (b) nominate a nominee in whose favour the Eligible Person wishes to renounce the offer by notice in writing to the Board. The Board may, in its absolute and uncontrolled discretion, resolve not to allow such renunciation of an offer in favour of a nominee without giving any reason for such decision.

5.3 Each Option will be issued free.

5.4 Upon:

- (a) receipt of the acceptance referred to in paragraph 5.2(a); or
- (b) the Board resolving to allow a renunciation of an offer in favour of a nominee ("Permitted Nominee") and the Permitted Nominee accepting the whole or any lesser number of Options offered by notice in writing to the Board.

then the Eligible Person or the Permitted Nominee, as the case may be, will be taken to have agreed to be bound by these Rules and will be issued Options subject to these Rules.

5.5 Certificates for Options will be dispatched within 10 Business Days after their Issue Date (or within such lesser period (if any) as may be required by the Listing Rules).

5.6 If Options are issued to a Permitted Nominee of an Eligible Person, the Eligible Person must, without limiting any provision in these Rules, ensure that the Permitted Nominee complies with these Rules.

6. QUOTATION

6.1 The Company will not apply for official quotation by ASX of any Options.

6.2 If the Company's Shares have been granted official quotation by ASX, the Company must apply for official quotation of all Shares allotted pursuant to the exercise of Options not later than 10 Business Days after the date of allotment (or within such lesser period (if any) as may be required by the Listing Rules).

7. TRANSFER OF OPTIONS

Subject to clause 10.3, Options are only transferable with Board approval.

8. EXERCISE OF OPTIONS

8.1 Subject to these Rules, Options may be exercised at any time during the period commencing after the Issue Date and ending on the Expiry Date.

8.2 Options not exercised on or before the Expiry Date will automatically lapse.

8.3 Options may only be exercised by notice in writing to the Board delivered to the registered office of the Company. The notice must specify the number of Options being exercised and must be accompanied by:

- (a) the Exercise Price for the number of Options specified in the notice; and
- (b) the Certificate for those Options, for cancellation by the Company.

The notice is only effective (and only becomes effective) when the Company has received value for the full amount of the Exercise Price (for example, if the Exercise Price is paid by cheque, by clearance of that cheque).

8.4 Subject to clause 8.2, within 10 Business Days after the notice referred to in clause 8.3 becomes effective (or within such lesser period (if any) as may be required by the Listing Rules), the Board must:

- (a) allot and issue the number of Shares specified in the notice to the Holder;
- (b) cancel the Certificate for the Options being exercised; and
- (c) if applicable, issue a new Certificate for any remaining Options covered by the Certificate accompanying the notice.

9. SHARES ALLOTTED ON EXERCISE OF OPTIONS

All Shares allotted upon exercise of Options rank pari passu in all respects with Shares previously issued and, in particular, entitle the Holders to participate fully in:

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- 9.1 dividends declared by the Company after the date of allotment; and
 - 9.2 all issues of securities made or offered pro rata to holders of Shares.
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10. CEASING TO BE AN ELIGIBLE PERSON

- 10.1 If at any time prior to the Expiry Date of any Options, an Eligible Person ceases to be an Eligible Person for any reason other than Retirement, Permanent Disability, Redundancy or death, all Options held by such Eligible Person or his Permitted Nominee (as the case may be), will, to the extent that they have not been exercised beforehand, automatically lapse on the first to occur of:
 - (a) The expiry of the period of one (1) calendar month from the date of such occurrence, and
 - (b) The Expiry Date.
 - 10.2 A certificate signed by the company secretary of the Company stating that a person ceased for any reason to be an Eligible Person shall (in the absence of manifest error) be conclusive for the purposes of the Plan, both as to such occurrence and the date of such occurrence.
 - 10.3 If at any time prior to the Expiry Date of any Options a Holder dies, the deceased Holder's legal personal representative may:
 - (a) elect to be registered as the new Holder of the deceased Holder's Options;
 - (b) whether or not he becomes so registered, exercise those Options as if it were the Holder of them in accordance with these Rules; and
 - (c) if the deceased Holder had already given the Company a notice of exercise of his Options, pay the Exercise Price in respect of those Options.
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11. ENTITLEMENT TO PARTICIPATE IN FUTURE ISSUES

11.1 New Issues

Holders may only participate in new issues of securities to holders of Shares if an Option has been exercised and Shares allotted in respect of the Option before the record date for determining entitlements to the issue. The Company must give at least nine Business Days' notice (or such greater period of notice (if any) as may be required by the Listing Rules) to Holders of any new issue before the record

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date for determining entitlements to the issue in accordance with the Listing Rules.

11.2 Bonus Issues

If there is a bonus share issue ("Bonus Issue") to the holders of Shares, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the Holder would have received if the Option had been exercised before the record date for the Bonus Issue ("Bonus Shares"). Upon issue the Bonus Shares will rank pari passu in all respects with the other shares of that class on issue at the date of issue of the Bonus Shares.

11.3 Pro Rata Issue

If there is a pro rata issue (other than a Bonus Issue) to the holders of Shares, the Exercise Price of an Option will be reduced according to the following formula:

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

A = the new exercise price of the Option.

O = the old exercise price of the Option.

E = the number of Shares into which one Option is exercisable.

P = the average closing sale price per Share (weighted by reference to volume) recorded on the stock market of ASX during the 5 trading days immediately preceding the ex rights date or ex entitlements date (excluding special crossings and overnight sales and exchange traded option exercises).

S = the subscription price for a security under the pro rata issue.

D = the dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue).

N = the number of securities with rights or entitlements that must be held to receive a right to one new security.

11.4 Reorganisation of Capital

If, prior to the expiry or lapse of any Options, there is a reorganisation of the issued capital of the Company, those Options will be reorganised to the extent necessary to comply with the Listing Rules.

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11.5 Advice

In accordance with the Listing Rules, 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 clauses 11.2, 11.3 or 11.4.

12. EXERCISE PRICE OF OPTIONS

The Exercise Price of each Option will be determined by the Board when it resolves to offer the Option and will be not less than the Market Value of a Share at that time.

13. AMENDMENTS TO THE RULES

The Board may alter, delete or add to these Rules at any time (save for the provisions of clause 3), but, where the Company is admitted to the Official List of ASX, its resolution to do so has no effect unless the requirements of the Listing Rules in relation to the alteration, deletion or addition have been complied with.

14. NOTICES

Notices may be given by the Company to any Holder either personally or by sending by post to his address as noted in the Company's records or to the address (if any) within the Commonwealth of Australia supplied by him to the Company for the giving of notices. Notices of any overseas Holders shall be forwarded and posted by air. Where a notice is sent by post the notice shall be deemed to be served on the day after posting. The signature of any notice may be given by any Director or Secretary of the Company. A notice of exercise of Options shall not be deemed to be served on the Company until actually received.