

Australian Oil Company Limited

ABN 83 114 061 433

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of Australian Oil Company Limited will be held at 29 Bay Road, Claremont WA 6010 on Wednesday 28th November 2012 at 10 am.

BUSINESS

1. To receive the financial report of the company and of the consolidated entity for the year ended 30 June 2012 and the reports by directors and auditors thereon.

No resolution is required relating to the financial report, but shareholders will be given the opportunity to ask questions at the meeting

2. To consider and , if thought fit, to pass the following ordinary resolution:

In accordance with Section 250R of the Corporations Act, the Remuneration Report be adopted.

The Corporations Act requires listed companies to put a non-binding resolution to the AGM regarding the remuneration report.

Voting exclusion: The Company will disregard any votes on resolution 2 by or on behalf of a member of the Key Management Personnel of the Company (including Directors) ("KMP") or their closely related parties, as well as undirected votes given to a KMP as proxyholder. However the Company need not disregard a vote cast by a KMP or closely related party of the KMP where the vote is cast as a proxy and the proxy appointment specifies how the proxy is to vote.

- **Important instructions for Resolution2** :*If the Chairman of the meeting is your proxy and you have not directed him/her how to vote on Resolution 2, the Chairman will be prevented from casting your votes on Resolution 2. If the Chairman is your proxy, in order for your votes to be counted on Resolution2, you must direct your proxy how to vote on Resolution2.*

3. To consider and, if thought fit, to pass the following ordinary resolution:

That Mr Ian Tchacos is re-elected as a director of Australian Oil Company Limited.

Information in relation to Resolution:

Mr Ian Tchacos retires by rotation in accordance with the Company's Constitution.

For personal use only

4. To consider and , if thought fit, to pass the following ordinary resolution:
That for all purposes under the Corporations Act 2001(Cth (including sections 195 and 208, and the Listing Rules of the ASX Limited (including Listing Rule 10.11) and for all other purposes, the Company be authorised to issue to Mr Keith Martens a total of 5,000,000 Options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

Voting exclusion: In accordance with ASX Listing Rule 14.11 the Company will disregard any votes cast on this resolution by Mr Martens and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the direction on a proxy form; or it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

PLEASE READ THE EXPLANATORY STATEMENT FOR THIS RESOLUTION

5. To consider and, if thought fit, to pass the following ordinary resolution:
That for all purposes under the Corporations Act 2001(Cth (including sections 195 and 208, and the Listing Rules of the ASX Limited (including Listing Rule 10.11) and for all other purposes, the Company be authorised to issue to Mr Andrew Childs a total of 3,000,000 Options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

Voting exclusion: In accordance with ASX Listing Rule 14.11 the Company will disregard any votes cast on this resolution by Mr Childs and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the direction on a proxy form; or it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

PLEASE READ THE EXPLANATORY STATEMENT FOR THIS RESOLUTION

- 6(a). To consider and, if thought fit, to pass the following ordinary resolution:

That for the purposes of ASX Listing Rule 7.4, shareholders ratify and approve the previous issues of a total of 5,168,666 fully paid ordinary shares as detailed in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

Voting exclusion: The Company will disregard any votes cast on this resolution by and person who participated in the issues of ordinary shares described in the Explanatory Memorandum and any of their associates. However the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the direction on a proxy form; or it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

PLEASE READ THE EXPLANATORY STATEMENT FOR THIS RESOLUTION

- 6(b). To consider and, if thought fit, to pass the following ordinary resolution:

That for the purposes of ASX Listing Rule 7.4, shareholders ratify and approve the previous issues of a total of 5,100,000 fully paid ordinary shares as detailed in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

Voting exclusion: The Company will disregard any votes cast on this resolution by and person who participated in the issues of ordinary shares described in the Explanatory Memorandum and any of their associates. However the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the direction on a proxy form; or it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

PLEASE READ THE EXPLANATORY STATEMENT FOR THIS RESOLUTION

ENTITLEMENT TO VOTE

In accordance with the *Corporations Act 2001* (Cth) the board has determined that for the purposes of the meeting, a person's entitlement to vote at the meeting will be the entitlement of that person set out in the Register of Members of the Company at 7:00pm on 26th November 2012. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

VOTING BY PROXY

- A shareholder entitled to attend and vote at the meeting is entitled to appoint not more than 2 proxies to attend and vote instead of the shareholder.
- Where 2 proxies are appointed the Proxy Form should specify the proportion, or the number of votes that the proxy may exercise. If the Proxy Form does not specify the proportion or number of the shareholder's votes each proxy may exercise, each proxy may exercise half of the votes.
- A proxy need not be a shareholder of the Company. The proxy appointed may be described in the Proxy Form by an office held, e.g. "the Chair of the Meeting".
- Proxy Forms must be signed by a shareholders or the shareholder's attorney or, if the shareholder is a corporation, must be under its common seal, or if it does not have one, by 2 directors or by a director and a company secretary, or if it is a proprietary company that has a sole director who is also the company secretary, by that director, or under hand of its attorney or duly authorised officer. If the Proxy Form is signed by a person who is not the registered holder of shares in the Company (i.e. under power of attorney or other authorisation), then the relevant authority (or a certified copy of such authority) must either have been exhibited previously to the Company or be enclosed with the Proxy Form.

To be effective, duly completed Proxy Forms (duly completed and executed) must be:

- received by mail at PO Box 178, Neutral Bay NSW 2089 Australia;
- in person at 208 Bagot Road, Subiaco WA 6008 Australia; or
- sent by fax to fax number: +61 8 9381 9386

by 10am on 26th November 2012.

By Order of the Board



Mark Ohlsson
Company Secretary
29th October 2012

EXPLANATORY NOTES

Resolution 4

Issue of Options to Mr Keith Martens

The Company proposes to grant 5,000,000 Options to Mr Keith Martens each at an exercise price of 25 cents per share (each an “Option” and together the “Options”). The issue of the Options to Mr Martens is designed to align his interests with those of the Company and its shareholders and is intended to provide incentive for him to further enhance the growth and value of the Company.

Introduction

The ASX Listing Rules and the Corporations Act (in certain circumstances) require shareholder approval to be obtained for the issue of the Options to Directors. Accordingly, approval for the issue of the Options is sought in accordance with the provisions of Listing Rule 10.11 of the ASX Listing Rules and Part 2E of the Corporations Act.

The proposed Resolution 4 if passed will approve the issue of securities to and confer financial benefits upon a Director of the Company. The Company seeks to obtain member approval in accordance with the requirements of Chapter 2E of the Corporations Act and ASX Listing Rule 10.11. Accordingly, information required under the Listing Rules and the Corporations Act as well as information that will properly enable shareholders to consider Resolution 4 is presented below.

Corporations Act

Section 208 of the Corporations Act provides that for a public company to give a financial benefit to a related party it must obtain the prior approval of its members.

A “related party” for the purposes of the Corporations Act includes a director of a public company. A “financial benefit” for the purposes of the Corporations Act is widely defined and includes a public company granting options to a related party. The granting of Options to a Director as contemplated by Resolution 4 constitute the giving of a financial benefit and accordingly, the Company is seeking shareholder approval under section 208 of the Corporations Act to approve the grant of the Options.

The resolutions are also put pursuant to section 195(4) of the Corporations Act. Section 195(1) provides that a director of a public company who has a material personal interest in a matter that is being considered at a directors’ meeting must not be present when the matter is being considered at the meeting or vote on the matter.

ASX Listing Rules

ASX Listing Rule 10.11 provides that a company must not issue or agree to issue equity securities to a related party of the company, such as a director, without the company first obtaining the approval by ordinary resolution of its shareholders.

The Company is seeking approval of shareholders under ASX Listing Rule 10.11 to allow the Company to issue the Options to Mr Martens. If shareholders approve the issue of the Options under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1, so that the Options will not be taken into account in determining whether a future share issue will result in the 15% cap imposed by Listing Rule 7.1 being exceeded.

If the Options are exercised for shares, the shares will be issued on the same terms as all other ordinary shares of the Company currently on issue. The Options are issued on the terms set out under the heading “Terms and Conditions of the Options” set out below.

Corporate Governance

The ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (Box 8.1) recognise that most executive remuneration packages will involve a balance between fixed and incentive pay. The Options granted to Mr Martens constitute equity-based remuneration. The Board believes that the Options are an effective tool to provide incentives to Mr Martens and promote the interests of the Company and its shareholders.

The Directors consider the terms of the Options are reasonable given the circumstances of the Company.

Potential Benefits – Issue of Options

If the Options are issued pursuant to the proposed Resolution 4, the Company considers that the following benefits will arise:

- Mr Martens will have a vested interest in the affairs of the Company and incentives to ensure that the Company is able to create a successful and profitable business. The consequential increase in shareholder value and the market price of the shares of the Company will benefit all shareholders, notwithstanding the dilutionary effect on shareholders of the Options being exercised;
- the issue of the Options to Mr Martens is a non-cash form of remuneration, thus conserving the Company's cash reserves. The issue of the Options therefore enables the Company to provide Mr Martens with a reward for services provided and an incentive for future services they will provide to the Company to further progress the Company in a cost-effective manner, as opposed to other forms of remuneration, such as cash; and
- the exercise of the Options will provide working capital for the Company at no significant cost. If all of the Options proposed to be issued to Mr Martens are ultimately exercised, an amount of approximately \$1,250,000 would be subscribed into the capital of the Company. As the Options are to be granted for nil consideration there will be no funds raised by the Company in granting the Options.

Furthermore, the Board considers it important to adequately compensate Mr Martens in order to attract and retain people with appropriate qualifications and skills to be able to contribute to the success of the Company.

Potential Costs – Issue of Options

The potential cost to the Company of the issue of the Options to Mr Martens is that there will be a dilution of the issued share capital if the Options are exercised.

If the Options are exercised at a time when the market price of the Company's shares is greater than the exercise price of the Options, there will be a detriment insofar as the Company will be required to issue shares at a price lower than it might otherwise have been able to, with the result that less funds will be raised.

From an economic and commercial point of view the Board considers that the potential cost and detriment to the Company resulting from the granting of the Options is nominal given that the Options are out of the money at the date of the issue.

If all of the Options to be issued under Resolution 4 are exercised and no further shares are issued by the Company in the meantime, the total number of ordinary fully paid shares issued would increase by 5,000,000 to 84,285,512 and the newly issued shares would

comprise 5.9% of the issued shares at that time. The effect will be to dilute the shareholding of existing shareholders by approximately 5.9% on an undiluted basis (based on 79,285,512 shares currently on issue).

The lowest and highest price of shares in the Company in the past 12 months on the ASX was 4.1 cents on 28th June 2012 and 26.5 cents on 14th August 2012 respectively.

The closing price of shares in the Company on 26th October 2011, the last trading day before lodgement of the Notice of Annual General Meeting and Explanatory Memorandum with the ASX was \$0.056.

Valuation of Options

The Options are not currently quoted on the ASX and as such have no market value. It is not intended for the Options to be listed on the ASX. The Options will grant Mr Martens a right to one share in the Company upon exercise of an Option and payment of the exercise price of the Option. Accordingly, the Options may have a present value at the date of their grant. The Options may acquire future value dependent upon the extent to which the shares exceed the exercise price of the Options during the term of the Options.

It is a requirement of ASIC that a dollar value be placed on the Options to be issued in these circumstances.

As a general proposition, options to subscribe for ordinary fully paid shares in a company have value. Various factors impact upon the value of options including things such as:

- the period outstanding before the expiry date of the options;
- the exercise price of the options relative to the underlying price or value of the securities into which they may be converted;
- the proportion of the issued capital as expanded consequent upon exercise represented by the shares issued upon exercise (i.e. whether or not the shares that might be acquired upon exercise of the options represent a controlling or other significant interest);
- the value of the shares into which the options may be converted; and
- whether or not the options are listed (i.e. readily capable of being liquidated),

There are various formulae which can be applied to determining the theoretical value of options including the formula known as the Binomial option price calculation.

The Binomial option price calculation method has been used to value the Options based on the assumed exercise price of 25 cents. In determining the value of the Options, the following inputs have been assumed:

- a) the Options are granted for nil consideration and have less than a three year life vesting immediately;
- b) assumed exercise price: 25 cents (392% more than estimated share price at grant date);
- c) grant date: 30th November 2012
- d) expiry date: 31st December 2014
- e) share price at grant date: estimated 5.1 cents
- f) expected price volatility of the Company's shares: 84.32%
- g) expected dividend yield: 0
- h) risk-free interest rate: 5.5%

Using the Binomial option price calculation method and the assumed data outlined above, the Options have been valued at \$0.00588 each. Accordingly, the total value of the proposed Options to be granted to Mr Martens is \$29,400.00 over the term of the Options.

Accordingly, the total balance sheet impact attributable to the granting of the Options is \$29,400 over the term of the Options. In determining the number and terms of the Options to be issued to Mr Martens, consideration was given to the relevant experience and role of Mr Martens and his remuneration terms, the current market price of shares in the Company and the terms of the recent option packages granted to directors of other companies within the sector in which the Company operates.

Identifying the Related Parties

The related party to whom Resolution 4 would permit financial benefits to be given is Mr Martens.

Financial Benefits

The nature of financial benefits to be provided to Mr Martens is set out in the first section of the discussion on Resolution 4.

Taxation Consequences

No stamp duty will be payable in respect of the grant of the Options. No GST will be payable by the Company in respect of the grant of the Options (or if it is then it will be recoverable as an input credit).

Other than the information above and otherwise set out in this Explanatory Memorandum, the Directors believe that there is no other information known to the Company or its Directors that will be reasonably required by shareholders to make a decision in relation to benefits contemplated by the proposed Resolution 4.

Terms and Conditions of the Options

Subject to shareholder approval, the Options will be issued on the following terms:

- Each Option entitles the holder to subscribe for one ordinary share in the Company at a price of 25 cents per share.
- The Options will be issued a nil issue price and will vest immediately.
- The Options will be issued to Mr Martens (effective as at the date of this meeting) as soon as practicable after the date of the meeting and in any event not later than one month from the date of the meeting.
- The Options will have an expiry date of 31st December 2014. The Options will vest immediately.
- The Options may be exercised by notice in writing to the Directors of the Company accompanied by payment of the exercise price.
- The Company will not apply to the ASX for official quotation of the Options but will apply for granting of official quotation of shares issued pursuant to exercise of the Options as soon as practicable after the date of allotment of the shares.
- Shares issued on the exercise of the Options will rank equally with the then existing issued fully paid ordinary shares in the Company.

- If there is a pro rata issue (except a bonus issue) to shareholders, the exercise price of the option may be reduced according to the following formula:

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

Where

O' = the new exercise price of the option;

O = the Old exercise price of the option;

E = the number of underlying securities into which one option is Exercisable;

Note: E is one unless the number has changed because of a bonus issue.

P = the average market Price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex rights date or ex entitlements date;

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); and

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

- In the event of any reorganisation (including reconstruction, consolidation, subdivision, reduction or return) of the issued capital of the Company, the Options will be reorganised as required by the ASX Listing Rules, so that the holder will not receive a benefit that the existing holders of ordinary shares do not receive but in all other respects the terms of exercise will remain the same.
- In the event of the Company effecting a Rights Issue at a discount, the exercise price of the Options shall be adjusted in accordance with the ASX Listing Rules.
- Holders of the Options will not be entitled to participate in new issues of capital which may be offered to shareholders during the currency of the Options without first exercising their Options.
- If a takeover bid is made for the shares of the Company then, at any time during the Takeover Period, any unvested Options will vest and the Option holder may exercise each Option at the exercise price, despite the fact that it is then outside an exercise period specified in the Option. The "Takeover Period" referred to is from the start of the offer period until one month after the end of the offer period.
- The Options will otherwise be in accordance with the requirements of the ASX Listing Rules.

The Options will be issued for no cost and no funds will be raised from the issue of the Options unless and until they are exercised. If all of the Options are exercised the amount of funds raised from the Options the subject of Resolution 4 will amount to a total of \$1,250,000. The funds raised will form part of the working capital of the Company.

Resolution 5

Issue of Options to Mr Andrew Childs

The Company proposes to grant 3,000,000 Options to Mr Andrew Childs each at an exercise price of 25 cents per share (each an "Option" and together the "Options"). The issue of the Options to Mr Childs is designed to align his interests with those of the Company and its shareholders and is intended to provide incentive for him to further enhance the growth and value of the Company.

Introduction

The ASX Listing Rules and the Corporations Act (in certain circumstances) require shareholder approval to be obtained for the issue of the Options to Directors. Accordingly, approval for the issue of the Options is sought in accordance with the provisions of Listing Rule 10.11 of the ASX Listing Rules and Part 2E of the Corporations Act.

The proposed Resolution 5 if passed will approve the issue of securities to and confer financial benefits upon a Director of the Company. The Company seeks to obtain member approval in accordance with the requirements of Chapter 2E of the Corporations Act and ASX Listing Rule 10.11. Accordingly, information required under the Listing Rules and the Corporations Act as well as information that will properly enable shareholders to consider Resolution 5 is presented below.

Corporations Act

Section 208 of the Corporations Act provides that for a public company to give a financial benefit to a related party it must obtain the prior approval of its members.

A "related party" for the purposes of the Corporations Act includes a director of a public company. A "financial benefit" for the purposes of the Corporations Act is widely defined and includes a public company granting options to a related party. The granting of Options to a Director as contemplated by Resolution 5 constitute the giving of a financial benefit and accordingly, the Company is seeking shareholder approval under section 208 of the Corporations Act to approve the grant of the Options.

The resolutions are also put pursuant to section 195(4) of the Corporations Act. Section 195(1) provides that a director of a public company who has a material personal interest in a matter that is being considered at a directors' meeting must not be present when the matter is being considered at the meeting or vote on the matter.

ASX Listing Rules

ASX Listing Rule 10.11 provides that a company must not issue or agree to issue equity securities to a related party of the company, such as a director, without the company first obtaining the approval by ordinary resolution of its shareholders.

The Company is seeking approval of shareholders under ASX Listing Rule 10.11 to allow the Company to issue the Options to Mr Childs. If shareholders approve the issue of the Options under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1, so that the Options will not be taken into account in determining whether a future share issue will result in the 15% cap imposed by Listing Rule 7.1 being exceeded.

If the Options are exercised for shares, the shares will be issued on the same terms as all other ordinary shares of the Company currently on issue. The Options are issued on the terms set out under the heading "Terms and Conditions of the Options" set out below.

Corporate Governance

The ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (Box 8.1) recognise that most executive remuneration packages will involve a balance between fixed and incentive pay. The Options granted to Mr Childs constitute equity-based remuneration. The Board believes that the Options are an effective tool to provide incentives to Mr Childs and promote the interests of the Company and its shareholders.

The Directors consider the terms of the Options are reasonable given the circumstances of the Company.

Potential Benefits – Issue of Options

If the Options are issued pursuant to the proposed Resolution 5, the Company considers that the following benefits will arise:

- Mr Childs will have a vested interest in the affairs of the Company and incentives to ensure that the Company is able to create a successful and profitable business. The consequential increase in shareholder value and the market price of the shares of the Company will benefit all shareholders, notwithstanding the dilutionary effect on shareholders of the Options being exercised;
- the issue of the Options to Mr Childs is a non-cash form of remuneration, thus conserving the Company's cash reserves. The issue of the Options therefore enables the Company to provide Mr Childs with a reward for services provided and an incentive for future services they will provide to the Company to further progress the Company in a cost-effective manner, as opposed to other forms of remuneration, such as cash; and
- the exercise of the Options will provide working capital for the Company at no significant cost. If all of the Options proposed to be issued to Mr Childs are ultimately exercised, an amount of approximately \$750,000 would be subscribed into the capital of the Company. As the Options are to be granted for nil consideration there will be no funds raised by the Company in granting the Options.

Furthermore, the Board considers it important to adequately compensate Mr Childs in order to attract and retain people with appropriate qualifications and skills to be able to contribute to the success of the Company.

Potential Costs – Issue of Options

The potential cost to the Company of the issue of the Options to Mr Childs is that there will be a dilution of the issued share capital if the Options are exercised.

If the Options are exercised at a time when the market price of the Company's shares is greater than the exercise price of the Options, there will be a detriment insofar as the Company will be required to issue shares at a price lower than it might otherwise have been able to, with the result that less funds will be raised.

From an economic and commercial point of view the Board considers that the potential cost and detriment to the Company resulting from the granting of the Options is nominal given that the Options are out of the money at the date of the issue.

If all of the Options to be issued under Resolution 5 are exercised and no further shares are issued by the Company in the meantime, the total number of ordinary fully paid shares issued would increase by 3,000,000 to 82,285,512 and the newly issued shares would comprise 3.6% of the issued shares at that time. The effect will be to dilute the

shareholding of existing shareholders by approximately 3.6% on an undiluted basis (based on 79,285,512 shares currently on issue).

The lowest and highest price of shares in the Company in the past 12 months on the ASX was 4.1 cents on 28th June 2012 and 26.5 cents on 14th August 2012 respectively.

The closing price of shares in the Company on 26th October 2011, the last trading day before lodgement of the Notice of Annual General Meeting and Explanatory Memorandum with the ASX was \$0.056.

Valuation of Options

The Options are not currently quoted on the ASX and as such have no market value. It is not intended for the Options to be listed on the ASX. The Options will grant Mr Childs a right to one share in the Company upon exercise of an Option and payment of the exercise price of the Option. Accordingly, the Options may have a present value at the date of their grant. The Options may acquire future value dependent upon the extent to which the shares exceed the exercise price of the Options during the term of the Options.

It is a requirement of ASIC that a dollar value be placed on the Options to be issued in these circumstances.

As a general proposition, options to subscribe for ordinary fully paid shares in a company have value. Various factors impact upon the value of options including things such as:

- the period outstanding before the expiry date of the options;
- the exercise price of the options relative to the underlying price or value of the securities into which they may be converted;
- the proportion of the issued capital as expanded consequent upon exercise represented by the shares issued upon exercise (i.e. whether or not the shares that might be acquired upon exercise of the options represent a controlling or other significant interest);
- the value of the shares into which the options may be converted; and
- whether or not the options are listed (i.e. readily capable of being liquidated),

There are various formulae which can be applied to determining the theoretical value of options including the formula known as the Binomial option price calculation.

The Binomial option price calculation method has been used to value the Options based on the assumed exercise price of 25 cents. In determining the value of the Options, the following inputs have been assumed:

- a) the Options are granted for nil consideration and have less than a three year life vesting immediately;
- b) assumed exercise price: 25 cents (392% more than estimated share price at grant date);
- c) grant date: 30th November 2012
- d) expiry date: 31st December 2014
- e) share price at grant date: estimated 6.5 cents
- f) expected price volatility of the Company's shares: 84.32%
- g) expected dividend yield: 0
- h) risk-free interest rate: 5.5%

Using the Binomial option price calculation method and the assumed data outlined above, the Options have been valued at \$0.00588 each. Accordingly, the total value of the proposed Options to be granted to Mr Childs is \$17,640.00 over the term of the Options.

Accordingly, the total balance sheet impact attributable to the granting of the Options is \$17,640 over the term of the Options. In determining the number and terms of the Options to be issued to Mr Childs, consideration was given to the relevant experience and role of Mr Childs and his remuneration terms, the current market price of shares in the Company and the terms of the recent option packages granted to directors of other companies within the sector in which the Company operates.

Identifying the Related Parties

The related party to whom Resolution 5 would permit financial benefits to be given is Mr Childs.

Financial Benefits

The nature of financial benefits to be provided to Mr Childs is set out in the first section of the discussion on Resolution 5.

Taxation Consequences

No stamp duty will be payable in respect of the grant of the Options. No GST will be payable by the Company in respect of the grant of the Options (or if it is then it will be recoverable as an input credit).

Other than the information above and otherwise set out in this Explanatory Memorandum, the Directors believe that there is no other information known to the Company or its Directors that will be reasonably required by shareholders to make a decision in relation to benefits contemplated by the proposed Resolution 5.

Terms and Conditions of the Options

Subject to shareholder approval, the Options will be issued on the following terms:

- Each Option entitles the holder to subscribe for one ordinary share in the Company at a price of 25 cents per share.
- The Options will be issued a nil issue price and will vest immediately.
- The Options will be issued to Mr Childs (effective as at the date of this meeting) as soon as practicable after the date of the meeting and in any event not later than one month from the date of the meeting.
- The Options will have an expiry date of 31st December 2014. The Options will vest immediately.
- The Options may be exercised by notice in writing to the Directors of the Company accompanied by payment of the exercise price.
- The Company will not apply to the ASX for official quotation of the Options but will apply for granting of official quotation of shares issued pursuant to exercise of the Options as soon as practicable after the date of allotment of the shares.
- Shares issued on the exercise of the Options will rank equally with the then existing issued fully paid ordinary shares in the Company.

- If there is a pro rata issue (except a bonus issue) to shareholders, the exercise price of the option may be reduced according to the following formula:

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

Where

O' = the new exercise price of the option;

O = the Old exercise price of the option;

E = the number of underlying securities into which one option is Exercisable;

Note: E is one unless the number has changed because of a bonus issue.

P = the average market Price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex rights date or ex entitlements date;

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); and

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

- In the event of any reorganisation (including reconstruction, consolidation, subdivision, reduction or return) of the issued capital of the Company, the Options will be reorganised as required by the ASX Listing Rules, so that the holder will not receive a benefit that the existing holders of ordinary shares do not receive but in all other respects the terms of exercise will remain the same.
- In the event of the Company effecting a Rights Issue at a discount, the exercise price of the Options shall be adjusted in accordance with the ASX Listing Rules.
- Holders of the Options will not be entitled to participate in new issues of capital which may be offered to shareholders during the currency of the Options without first exercising their Options.
- If a takeover bid is made for the shares of the Company then, at any time during the Takeover Period, any unvested Options will vest and the Option holder may exercise each Option at the exercise price, despite the fact that it is then outside an exercise period specified in the Option. The "Takeover Period" referred to is from the start of the offer period until one month after the end of the offer period.
- The Options will otherwise be in accordance with the requirements of the ASX Listing Rules.

The Options will be issued for no cost and no funds will be raised from the issue of the Options unless and until they are exercised. If all of the Options are exercised the amount of funds raised from the Options the subject of Resolution 5 will amount to a total of \$750,000. The funds raised will form part of the working capital of the Company.

Resolutions 6(a) and 6(b)

Ratification and approval of previous allotment and issue of securities

The purpose of resolutions 6(a) and 6(b) are for shareholders to approve and ratify under ASX Listing Rule 7.4, issues of securities which have occurred during the 12 months before the date of this meeting and count toward the Company's 15% limit under ASX Listing Rule 7.1.

ASX Listing Rule 7.1 provides, subject to certain exceptions, prior approval of shareholder be required for an issue of securities if the securities will, when aggregated with the securities issued by the entity during the previous 12 months, exceed 15% of the number of ordinary securities at the commencement of that 12 month period.

The issue of securities detailed in this resolution did not exceed the 15% threshold, however, ASX Listing Rule 7.4 provides that where an entity ratifies an issue of securities, the issue will be treated as having been made with the approval for the purpose of Listing Rule 7.1, thereby replenishing that entity's 15% capacity and enabling it to issue further securities up to that limit.

Resolutions 6(a) and 6(b) propose the ratification and approval of the issue of securities for the purpose of satisfying the requirements of Listing Rule 7.4.

In compliance with Listing Rule 7.5 the following information is provided with respect to the issues of securities:-

On 3 July 2012 5,168,666 fully paid ordinary shares were issued at a price of 5 cents per share. The shares rank equally with existing ordinary shares. The shares were issued to sophisticated investors. The funds raised will be used for working capital.

On 30 August 2012 5,100,000 fully paid ordinary shares were issued at a price of 14 cents per share. The shares rank equally with existing ordinary shares. The shares were issued to sophisticated investors. The funds raised will be used for working capital.