

**AUSTRALIAN OIL COMPANY
LIMITED**

ABN 83 114 061 433

**NOTICE OF ANNUAL GENERAL MEETING
AND
EXPLANATORY STATEMENT**

**Annual General Meeting to be held at Suite 1, 45 Ord Street, West Perth WA 6005
on Friday 29th November 2013 commencing at 10am (WST)**

This Notice of Annual General Meeting and Explanatory Statement should be read in its entirety.
If Shareholders are in doubt as to how to vote, they should seek advice from their accountant,
solicitor or other professional adviser without delay.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of Shareholders of Australian Oil Company Limited (ACN 114 061 433) ("Company") will be held at Suite 1, 45 Ord Street, West Perth WA 6005 on Friday 29th November 2013 commencing at 10am (WST).

ORDINARY BUSINESS

1. Financial Statements and Reports

To receive and consider the annual financial report, together with the Director's and auditor's reports for the year ending 30 June 2013.

2. Resolution 1 – Approval of Remuneration Report

To consider and, if thought fit, pass the following **advisory only resolution**:

"That, for the purposes of section 250R of the Corporations Act and for all other purposes, Shareholders approve the Remuneration Report for the year ending 30 June 2013."

Note: The vote on this resolution is advisory only and does not bind the Directors or the Company.

Voting Exclusion

The Company will disregard any votes cast on this Resolution 1 by any member of the Key Management Personnel or their Closely Related Parties, if Resolution 1 is passed.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides. The Chairman of the meeting (where expressly authorised) intends to vote all available undirected proxies in favour of Resolution 1.

3. Resolution 2 – Re-election of a Director – Mr Keith Martens

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

"That, for all purposes, Mr Keith Martens who retires by rotation in accordance with the Company's Constitution and, being eligible, offers himself for re-election, is re-elected as a Director."

4. Resolution 3 – Re-election of a Director – Mr Gary Jeffery

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

"That, for all purposes, Mr Gary Jeffery, who was appointed an additional Director on 25 October 2013 and, being eligible, offers himself for re-election, is re-elected as a Director."

5. **Resolution 4 – Approval of 10% Placement Facility**

To consider and, if thought fit, pass the following resolution as a **special resolution**:

“That, for the purposes of Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities totaling up to 10% of the issued capital of the Company (at the time of issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Statement.”

Voting Exclusion

The Company will disregard any votes cast on this Resolution 4 by a person (and any associates of such a person) who may participate in the 10% Placement Facility and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if Resolution 4 is passed.

However, the Company will not disregard a vote if:

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

6. **Resolution 5 – Issue of Options to Mr Keith Martens**

To consider and, if thought fit, pass the following resolution as an **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 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 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.

7. **Resolution 6 – Issue of Options to Mr Andrew Childs**

To consider and, if thought fit, pass the following resolution as an **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 2,000,000 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.

8. **Resolution 7 – Issue of Options to Mr Gary Jeffery**

To consider and, if thought fit, pass the following resolution as an **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 Gary Jeffery 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 Jeffery 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.

9. **Resolution 8 – Issue of Options to Mr Mark Ohlsson**

To consider and, if thought fit, pass the following resolution as an **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 Mark Ohlsson a total of 1,000,000 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 Ohlsson 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.

Accompanying Explanatory Statement

The accompanying Explanatory Statement forms part of this Notice and should be read in conjunction with it.

Proxies

Please note that:

- (a) a Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company;
- (c) a Shareholder may appoint a body corporate or an individual as its proxy;
- (d) a body corporate appointed as a Shareholder’s proxy may appoint an individual as its representative to exercise any of the powers that the body may exercise as the Shareholder’s proxy; and

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- (e) Shareholders entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms. If a Shareholder appoints a body corporate as its proxy and the body corporate wishes to appoint an individual as its representative, the body corporate should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company or its share registry in advance of the Annual General Meeting or handed in at the Annual General Meeting when registering as a corporate representative.

Completed proxy forms (along with copies of any power of attorney under which the form is signed) must be delivered no later than 48 hours prior the Annual General Meeting in any of the following ways:

By post to:

PO Box 178

Neutral Bay NSW 2089

By facsimile to:

61 8 9486 7375

By hand delivery to:

45 Ord Street

West Perth WA 6005

Voting Entitlements

In accordance with Regulations 7.11.37 and 7.11.38 of the *Corporations Regulations 2001* (Cth), the Board has determined that a person's entitlement to vote at the Annual General Meeting will be the entitlement of that person set out in the register of Shareholders as at 10am (WST) on 27th November 2013. Accordingly, transactions registered after that time will be disregarded in determining Shareholder's entitlement to attend and vote at the Annual General Meeting.

By Order of the Board of Directors



Mark Ohlsson
Company Secretary

30 October 2013

Explanatory Statement

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Company's Annual General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the resolution in the accompanying Notice.

This Explanatory Statement should be read in conjunction with the Notice.

1. Financial Statements and Reports

The Corporations Act requires the annual financial report, the directors' report and the auditor's report for the last financial year to be laid before the Annual General Meeting. The financial statements and reports are contained in the Company's Annual Report. Shareholders who have elected to receive the Annual Report will have been provided with a copy. The Annual Report is also available on ASX's website.

While no resolution is required in relation to this item, Shareholders will be given the opportunity to ask questions and make comments on the financial statements and reports.

2. Resolution 1 – Approval of Remuneration Report

Section 249L(2) of the Corporations Act requires a company to inform shareholders that a resolution on the Remuneration Report will be put at the Annual General Meeting. However, section 250R(3) of the Corporations Act expressly provides that the vote on this Resolution is advisory only and does not bind the Directors of the Company.

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors' report contained in the Annual Report.

Under changes to the Corporations Act which came into effect on 1 July 2011, if at least 25% of the votes on the Resolution are voted against adoption of the Remuneration Report at the Annual General Meeting, and then again at the Company's 2014 annual general meeting, the Company will be required to put to Shareholders a resolution proposing the calling of an extraordinary general meeting to consider the appointment of directors of the Company ("**Spill Resolution**").

If more than 50% of Shareholders vote in favour of the Spill Resolution, the Company must convene the extraordinary general meeting ("**Spill Meeting**") within 90 days of the Company's 2014 annual general meeting. All of the Directors who were in office when the Company's 2014 Directors' report was approved, other than the Managing Director of the Company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as Directors is approved will be the Directors of the Company.

Pursuant to the Corporations Act, if you elect to appoint the Chairman or another member of Key Management Personnel or any Closely Related Party as your proxy to vote on Resolution 1 then **you must direct the proxy on how they are to vote**. If your proxy is the Chairman or another member of Key Management Personnel or any Closely Related Party and you do not direct your proxy on how to vote on Resolution 1, your vote will not be

counted in computing the required majority. Please see the Proxy Form for further information on such appointments.

In accordance with section 250SA of the Corporations Act, the Chairman will provide a reasonable opportunity for discussion of the Remuneration Report at the Annual General Meeting.

3. Resolution 2 – Re-election of a Director – Mr Keith Martens

In accordance the Constitution, Mr Martens retires by rotation and being eligible offers himself for re-election.

Keith Martens is an explorationist with 35 years of experience in Australia, North America, New Zealand, Philippines and Kazakhstan. He is the lead explorationist for Australian Oil Company. He is also Principal of Martens Petroleum Consulting Pty Ltd.

The Board (excluding Mr Martens) recommends that Shareholders vote in favour of Resolution 2.

4. Resolution 3 – Re-election of a Director – Mr Gary Jeffery

In accordance the Constitution, Directors who are appointed to the Board during the year must offer themselves for re-election at the first Annual General Meeting after their appointment.

Mr Jeffery has over forty years of project development, operations and exploration experience in the oil, gas and mining and energy utilities industries, having worked for both large and small organisations in over thirty countries worldwide.

He is an experienced director of public companies in Australia, Uganda and Canada, and has broad international experience in resources. He is currently a Director of unlisted Bombora Energy Pty Ltd and provides consulting services on energy and resource related matters through Dungay Consulting Trust.

Gary graduated with a BSc in Geology and Geophysics from the University of New England. He is a member of the Australian Institute of Energy, Fellow of Australian Institute of Company Directors, and a WA Energy Research Alliance (WAERA) Industry Advisory Group participant.

The Board (excluding Mr Jeffery) recommends that Shareholders vote in favour of Resolution 3.

5. Resolution 4 – Approval of 10% Placement Facility

5.1 General

Listing Rule 7.1A enables eligible entities to issue Equity Securities totalling up to 10% of its issued share capital through placements over a 12 month period after the entity's annual general meeting ("**10% Placement Facility**"). The 10% Placement Facility is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity.

The Company is now seeking shareholder approval by way of a special resolution to have the ability to issue Equity Securities under the 10% Placement Facility. A special resolution requires approval of 75% of the votes cast by shareholders.

The exact number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to Section 4.2(c) below).

The Board believes that Resolution 4 is in the best interests of the Company and unanimously recommends that Shareholders vote in favour of this Resolution.

5.2 Description of Listing Rule 7.1A

(a) Shareholder approval

The ability to issue Equity Securities under the 10% Placement Facility is subject to shareholder approval by way of a special resolution at an annual general meeting.

(b) Equity Securities

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company.

As at the date of the Notice, the Company has the following Equity Securities on issue:

- (i) 79,285,512 Listed Ordinary Shares; and
- (ii) 16,500,000 Unlisted Options.

(c) Formula for calculating 10% Placement Facility

Listing Rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

$$(A \times D) - E$$

A is the number of shares on issue 12 months before the date of issue or agreement:

- (A) plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;
- (B) plus the number of partly paid shares that became fully paid in the 12 months;
- (C) plus the number of fully paid shares issued in the 12 months with approval of holders of shares under Listing Rule 7.1 and 7.4. This does not include an issue of fully paid shares under the entity's 15% placement capacity without shareholder approval;
- (D) less the number of fully paid shares cancelled in the 12 months.

Note that A has the same meaning as in Listing Rule 7.1 when calculating an entity's 15% placement capacity.

D is 10%.

E is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or

agreement to issue that are not issued with the approval of shareholders under Listing Rule 7.1 or 7.4.

(d) **Listing Rule 7.1 and Listing Rule 7.1A**

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to Section 8.2(c) above).

(e) **Minimum Issue Price**

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 Trading Days in which trades in the equity securities were recorded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

"VWAP" is a trading benchmark calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the period.

(f) **10% Placement Period**

Shareholder approval of the 10% Assignment Facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained and expires on the earlier to occur of:

- (i) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; or
- (ii) the date of the approval by shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

("10% Placement Period").

5.3 **Specific information required by Listing Rule 7.3A**

Pursuant to and in accordance with Listing Rule 7.3A, information is provided in relation to the approval of the 10% Placement Facility as follows:

- (a) The Equity Securities will be issued at an issue price of not less than 75% of the VWAP for the Company's Equity Securities over the 15 ASX trading days in which trades in the equity securities were recorded immediately before:
 - (i) the date on which the price at which the Equity Securities are to be issued is agreed; or

- (ii) if the Equity Securities are not issued within 5 ASX trading days of the date in paragraph (i) above, the date on which the Equity Securities are issued.
- (b) If Resolution 4 is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders' voting power in the Company will be diluted as shown in the below table (in the case of Listed Options, only if the Listed Options are exercised). There is a risk that:

- (i) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Annual General Meeting; and
- (ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date.

The below table shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for variable "A" calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of this Notice.

The table also shows:

- (iii) two examples where variable "A" has increased, by 50% and 100%. Variable "A" is based on the number of ordinary securities the Company has on issue. The number of ordinary securities on issue may increase as a result of issues of ordinary securities that do not require Shareholder approval (for example, a pro rata entitlements issue or scrip issued under a takeover offer) or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and
- (iv) two examples of where the issue price of ordinary securities has decreased by 50% and increased by 50% as against the current market price.

Variable A in Listing Rule 7.1A.2		Dilution		
		\$0.045 50% decrease in Market Price	\$0.09 Current Market Price	\$0.18 100% increase in Market Price
Current Variable A 79,285,512	10% Voting Dilution	7,928,551 Shares	7,928,551 Shares	7,928,551 Shares
	Funds raised	\$356,785	\$713,570	\$1,427,139
50% increase in current Variable A 118,928,268	10% Voting Dilution	11,892,827 Shares	11,892,827 Shares	11,892,827 Shares
	Funds raised	\$535,177	\$1,070,354	\$2,140,709
100% increase in current Variable A 158,571,024	10% Voting Dilution	15,857,102 Shares	15,857,102 Shares	15,857,102 Shares
	Funds raised	\$713,570	\$1,427,139	\$2,854,278

The table has been prepared on the following assumptions:

- The Company issues the maximum number of Equity Securities available under the 10% Placement Facility.
- No Listed Options (including any Listed Options issued under the 10% Placement Facility) are exercised into Shares before the date of the issue of the Equity Securities;
- The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% Placement Facility, based on that Shareholder's holding at the date of the Annual General Meeting.

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5. The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
6. The issue of Equity Securities under the 10% Placement Facility consists only of Shares. If the issue of Equity Securities includes Listed Options, it is assumed that those Listed Options are exercised into Shares for the purpose of calculating the voting dilution effect on existing Shareholders.
7. The issue price is \$0.09, being the closing price of the Shares on ASX on 29th October 2013.

- (c) The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Resolution 4 for the issue of the Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities or Listing Rule 11.2 (disposal of main undertaking).
- (d) The Company may seek to issue the Equity Securities under the 10% Placement Facility to raise funds for exploration expenditure including leasing, exploration activities, drilling and development activities on the Company's projects.

The Company will comply with the disclosure obligations under Listing Rules 7.1A.4 and 3.10.5A upon issue of any Equity Securities.

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- (i) the purpose of the issue;
- (ii) the methods of raising funds that are available to the Company including, but not limited to, rights issue or other issue in which existing security holders can participate;
- (iii) the effect of the issue of the Equity Securities on the control of the Company;
- (iv) the financial situation and solvency of the Company;
- (v) prevailing market conditions; and
- (vi) advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but are likely to be investors which are sophisticated or professional investors (or both) for the purposes of section 708 of the Corporations Act. The Allottees will not be related parties of the Company.

- (e) The Company has not previously obtained Shareholder approval under Listing Rule 7.1A.
- (f) A voting exclusion statement is included in the Notice. At the date of the Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

6. Resolution 5 - Issue of Options to Mr Keith Martens

The Company proposes to grant 3,000,000 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 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 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 5, 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 \$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 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 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 2.3 cents on 6th June 2013 and 10.5 cents on 17th October 2013 respectively.

The closing price of shares in the Company on 29th October 2013, the last trading day before lodgement of the Notice of Annual General Meeting and Explanatory Memorandum with the ASX was \$0.09.

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 (150% more than estimated share price at grant date);
- c) grant date: 30th November 2013
- d) expiry date: 31st December 2015
- e) share price at grant date: estimated 10 cents
- f) expected price volatility of the Company's shares: 60.01%
- 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 \$0.01183 each. Accordingly, the total value of the proposed Options to be granted to Mr Martens is \$35,499.00 over the term of the Options.

Accordingly, the total balance sheet impact attributable to the granting of the Options is \$35,499 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 5 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 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 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 2015 and are exercisable on or before that date. 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.

7. Resolution 6 - Issue of Options to Mr Andrew Childs

The Company proposes to grant 2,000,000 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 6 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 6 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 6 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 6, 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 \$500,000 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 6 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 2,000,000 to 81,285,512 and the newly issued shares would comprise 2.5% of the issued shares at that time. The effect will be to dilute the shareholding of existing shareholders by approximately 2.5% 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 2.3 cents on 6th June 2013 and 10.5 cents on 17th October 2013 respectively.

The closing price of shares in the Company on 29th October 2013, the last trading day before lodgement of the Notice of Annual General Meeting and Explanatory Memorandum with the ASX was \$0.09.

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 (150% more than estimated share price at grant date);
- c) grant date: 30th November 2013
- d) expiry date: 31st December 2015
- e) share price at grant date: estimated 10 cents
- f) expected price volatility of the Company's shares: 60.01%
- g) expected dividend yield: 0

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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 \$0.01183 each. Accordingly, the total value of the proposed Options to be granted to Mr Childs is \$23,666.00 over the term of the Options.

Accordingly, the total balance sheet impact attributable to the granting of the Options is \$23,666 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 6 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 6.

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 6.

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 2015 and are exercisable on or before that date. 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.

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- 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 6 will amount to a total of \$500,000. The funds raised will form part of the working capital of the Company.

8. Resolution 7 - Issue of Options to Mr Gary Jeffery

The Company proposes to grant 5,000,000 Options to Mr Gary Jeffery each at an exercise price of 25 cents per share (each an "Option" and together the "Options"). The issue of the Options to Mr Jeffery 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 7 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 7 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 7 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 Jeffery. 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 Jeffery constitute equity-based remuneration. The Board believes that the Options are an effective tool to provide incentives to Mr Jeffery 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 7, the Company considers that the following benefits will arise:

- Mr Jeffery 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 Jeffery 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 Jeffery 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 Jeffery 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 Jeffery 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 Jeffery 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 7 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 2.3 cents on 6th June 2013 and 10.5 cents on 17th October 2013 respectively.

The closing price of shares in the Company on 29th October 2013, the last trading day before lodgement of the Notice of Annual General Meeting and Explanatory Memorandum with the ASX was \$0.09.

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 Jeffery 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 (150% more than estimated share price at grant date);
- c) grant date: 30th November 2013
- d) expiry date: 31st December 2015
- e) share price at grant date: estimated 10 cents
- f) expected price volatility of the Company's shares: 60.01%
- 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 \$0.01183 each. Accordingly, the total value of the proposed Options to be granted to Mr Jeffery is \$59,165.00 over the term of the Options.

Accordingly, the total balance sheet impact attributable to the granting of the Options is \$59,165 over the term of the Options. In determining the number and terms of the Options to be issued to Mr Jeffery, consideration was given to the relevant experience and role of Mr Jeffery 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 7 would permit financial benefits to be given is Mr Jeffery.

Financial Benefits

The nature of financial benefits to be provided to Mr Jeffery is set out in the first section of the discussion on Resolution 7.

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 7.

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 Jeffery (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 2015 and are exercisable on or before that date. 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.

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- 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 7 will amount to a total of \$1,250,000. The funds raised will form part of the working capital of the Company.

9. Resolution 8 - Issue of Options to Mr Mark Ohlsson

The Company proposes to grant 1,000,000 Options to Mr Mark Ohlsson each at an exercise price of 25 cents per share (each an "Option" and together the "Options"). The issue of the Options to Mr Ohlsson 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. Whilst Mr Ohlsson retired as a Director on 24 October 2013 approval is still required for the issue of Options as Mr Ohlsson's resignation occurred within the past 6 months. Mr Ohlsson continues in his role as Company Secretary.

The proposed Resolution 8 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 8 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 8 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 Ohlsson. 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 Ohlsson constitute equity-based remuneration. The Board believes that the Options are an effective tool to provide incentives to Mr Ohlsson 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 8, the Company considers that the following benefits will arise:

- Mr Ohlsson 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 Ohlsson 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 Ohlsson 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 Ohlsson are ultimately exercised, an amount of approximately \$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 Ohlsson 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 Ohlsson 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 8 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 1,000,000 to 80,285,512 and the newly issued shares would

comprise 1.2% of the issued shares at that time. The effect will be to dilute the shareholding of existing shareholders by approximately 1.2% 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 2.3 cents on 6th June 2013 and 10.5 cents on 17th October 2013 respectively.

The closing price of shares in the Company on 29th October 2013, the last trading day before lodgement of the Notice of Annual General Meeting and Explanatory Memorandum with the ASX was \$0.09.

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 Ohlsson 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 (150% more than estimated share price at grant date);
- c) grant date: 30th November 2013
- d) expiry date: 31st December 2015
- e) share price at grant date: estimated 10 cents
- f) expected price volatility of the Company's shares: 60.01%
- g) expected dividend yield: 0
- h) risk-free interest rate: 5.5%

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Using the Binomial option price calculation method and the assumed data outlined above, the Options have been valued at \$0.01183 each. Accordingly, the total value of the proposed Options to be granted to Mr Ohlsson is \$11,833.00 over the term of the Options.

Accordingly, the total balance sheet impact attributable to the granting of the Options is \$11,833 over the term of the Options. In determining the number and terms of the Options to be issued to Mr Ohlsson, consideration was given to the relevant experience and role of Mr Ohlsson 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 8 would permit financial benefits to be given is Mr Ohlsson.

Financial Benefits

The nature of financial benefits to be provided to Mr Ohlsson is set out in the first section of the discussion on Resolution 8.

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 8.

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 Ohlsson (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 2015 and are exercisable on or before that date. 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 8 will amount to a total of \$250,000. The funds raised will form part of the working capital of the Company.