

Auzex Resources Limited ABN 74 106 444 606 (Company)

Pre-quotation Disclosure

Annexure C - Terms and conditions of the Auzex Option Plan

See attached



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Auzex Option Plan

Adopted by resolution of the Board on 11 August 2005

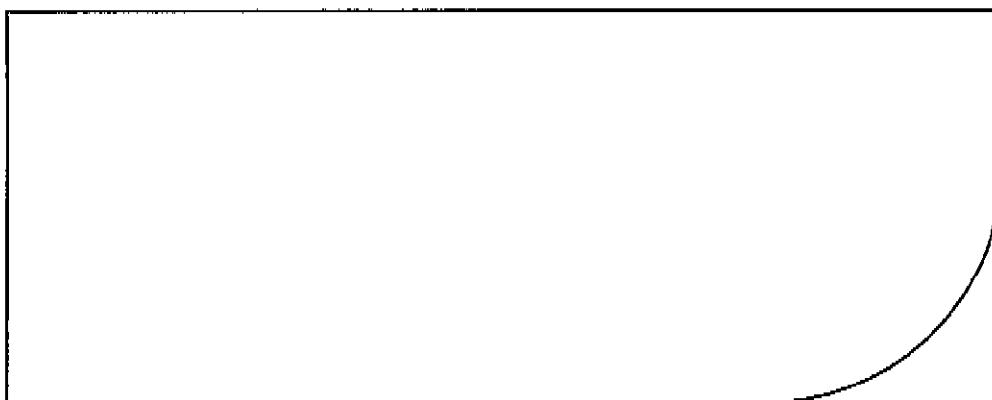


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Operative provisions

1 General nature of plan

Description

- 1.1 This is a plan under which Eligible Persons may become holders of Options in the Company.

Object of the plan

- 1.2 The purpose of this plan is to help the Company recruit, reward, retain and motivate Eligible Persons.

Name of plan

- 1.3 This plan is called the **Auzex Option Plan**.

Commencement of plan

- 1.4 This plan starts on the Starting Date.

2 Eligibility and participation

Eligibility

- 2.1 Subject to receiving an invitation from the Board, a person is eligible to participate in this plan if that person is:

2.1.1 a director, secretary or other permanent fulltime or permanent part-time employee of the Group; or

2.1.2 a consultant or contractor to the Group.

Invitations to participate

- 2.2 Subject to this rule, the Board may make Invitations to any Eligible Person at any time.

Maximum number of Options which may be granted

- 2.3 The Company must not grant any Option under this plan if, immediately after the grant, the sum of the total number of:

2.3.1 unissued shares over which Options, rights or other options (which remain outstanding) have been granted under this plan and any other Group employee incentive scheme; and

2.3.2 Shares issued during the preceding five years under this plan and any other Group employee incentive scheme,

but disregarding any Excluded Offer, would exceed 5% of the total number of Shares on issue at the time of the proposed issue or grant.



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Maximum percentage of Shares which may be held

2.4 The Company must not grant any Options to a Participant under this plan if immediately after the issue or grant, the Participant would:

2.4.1 own (legally or beneficially); or

2.4.2 control the exercise of voting power attached to,

5% or more of all shares then on issue. A Participant is not entitled to exercise any Option if the exercise of that Option would require the Company to be in breach of this Rule.

Voluntary participation

2.5 Participation in this plan by Eligible Persons is voluntary and no Eligible Person is required to participate in this plan.

Overriding restrictions on grant and exercise

2.6 No Option may be granted or exercised if to do so would contravene the Constitution of the Company, the Listing Rules, the Corporations Act 2001 or any other applicable law of a jurisdiction in which the Company is incorporated or a Participant resides and any purported granted or exercise in breach of the foregoing is invalid.

3 Invitations to participate

Invitations to Participate

3.1 Subject to this Rule, the Board may make Invitations to any Eligible Person at any time.

Form of Invitation

3.2 An Invitation must be made in writing and must specify the:

3.2.1 name and address of the Eligible Person to whom the Invitation is made;

3.2.2 total number of Options being made available to the Eligible Person or the method for determining that number ;

3.2.3 closing date for applications and the last date for acceptances by the Company;

3.2.4 Exercise Period, the Exercise Price and the Exercise Conditions if any attaching to the Options,

and be accompanied by:

3.2.5 an application form;

3.2.6 in respect of an initial Invitation made to an Eligible Person, a summary, or a copy of, these Rules;

- 3.2.7 the procedure to be followed by an Eligible Person to apply to participate in this plan and to apply for Options; and
- 3.2.8 any other information or documents required to be included in the Invitation by law or the Listing Rules.

Effect of acceptance of Invitation

- 3.3 If the Board resolves to accept an application by an Eligible Person to participate in this plan and to be granted Options the Board must notify the Eligible Person accordingly. Once notice is given, a contract is formed under which:
 - 3.3.1 an Eligible Person :
 - (a) becomes bound by the terms and conditions of the Invitation and this plan; and
 - (b) agrees to the Grant of the Options made available to the Eligible Person in accordance with the terms and conditions of the Eligible Person's application which is accepted by the Board; and
 - 3.3.2 the Company must subject to this plan:
 - (a) grant to the Eligible Person the Options contained in the application accepted by the Board; and
 - (b) issue an option certificate in the form determined by the Board to evidence the issue of the grant of the Options.

4 Risk lies with Participant

- 4.1 If an Eligible Person is granted Options and participates in this plan, the risk of loss to that Eligible Person as the holder of Options arising for any reason whatsoever including from the Options falling in value lies with the Eligible Person. Neither the Group, nor the Board, nor officer or employee of the Company represents that the Options will maintain their value or increase in value. None of them is responsible to an Eligible Person if the Eligible Person suffers any loss.
- 4.2 Neither the Group nor any adviser to the Group nor the Board represents or warrants that the plan will have any particular taxation consequences or that any Participant will gain any taxation advantage by participating in this plan and they are not liable for, or as a consequence of, any taxes imposed upon or duties assessed against a Participant.

5 Option terms

Entitlement to Shares

- 5.1 Subject to **Rule 7**, each Option confers an entitlement to subscribe for and be issued one Share, credited as fully paid, at the Exercise Price.

Obligation of the Company to issue Shares

- 5.2 Subject to these Rules, the Company must issue a Share on each exercise of an Option.

Ranking of Shares

- 5.3 Shares issued on the exercise of Options will rank equally with all existing Shares on and from the date of issue in respect of all rights issues, bonus share issues and dividends that have a record date for determining entitlements on or after the date of issue of those Shares.

Options subject to this plan

- 5.4 Options will be governed by this plan until the Options:
- 5.4.1 lapse in accordance with **Rule 7**; or
 - 5.4.2 are exercised and Shares have been issued as a result of that exercise.

Options personal to Participant

- 5.5 Options are personal to the Participant and may not be transferred or exercised by any other person or body corporate except to the extent necessary to enable a Participant's legal personal representative to exercise the Options in accordance with **Rule 6**, unless the Board resolves otherwise.

6 Exercise of Options

Procedure for exercise

- 6.1 Subject to the satisfaction of the Exercise Conditions and these Rules, an Option which has not lapsed in accordance with **Rule 7** may be exercised during the Exercise Period by the Participant lodging with the share registry of the Company, as nominated by the Board:
- 6.1.1 a Notice of Exercise signed by the Participant;
 - 6.1.2 the relevant certificate and such other documentation as may be specified in the information given to the Participant in accordance with **Rule 3.2**; and
 - 6.1.3 payment of the Exercise Price in respect of the Options exercised.

Form of payments

- 6.2 All payments made under **Rule 6.1** must, unless otherwise determined by the Board, be made:
- 6.2.1 by cheque made out in favour of the Company; and
 - 6.2.2 denoted in Australian dollars,
- provided that **Rule 6.1.3** will be deemed not to have been satisfied unless and until the cheque has been cleared.

Exercise in minimum parcels

- 6.3 A Participant may exercise some or all of the Options he or she holds, but must exercise Options in such minimum parcels as may be prescribed by the Board from time to time and notified to the Participants in writing.

Partial exercise – issue of new certificate

- 6.4 Where a Participant submits a Notice of Exercise in respect of only some of the Options covered by a certificate, the Company must either:
- 6.4.1 issue a certificate which evidences the remaining number of Options held by the Participant; or
 - 6.4.2 endorse the existing certificate to reflect the remaining number of Options held by the Participant,
- as the Company determines in its discretion.

Timing of issue of Shares

- 6.5 The Company must use its reasonable endeavours as soon as practicable to issue following the exercise of the Options, the number of Shares in respect of which Options have been validly exercised pursuant to this **Rule 6**.

Quotation

- 6.6 Subject to this plan, the Company will not seek official quotation of any Options.
- 6.7 The Company will apply to ASX for official quotation of any Shares issued on exercise of Options under this plan.

7 Lapse of Options

When do Options lapse

- 7.1 Subject to **Rule 7.2**, an Option will lapse on the earliest of:
- 7.1.1 the Last Exercise Date;
 - 7.1.2 a determination of the Board that the Participant has, in the Board's opinion:
 - (a) been dismissed or removed from office or had the contract terminated for a reason which entitles a company in the Group to dismiss the Participant or terminate the contract without notice or has committed any act of fraud, defalcation or gross misconduct in relation to the affairs of that company (whether or not charged with an offence);
 - (b) done any act which brings the Group into disrepute;
 - 7.1.3 the date on which the Participant ceases to be employed or engaged by any member of the Group (other than due to the occurrence of a Special Circumstance);

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- 7.1.4 the receipt by the Company of notice from the Participant (after a Special Circumstance has arisen with respect to the Participant) that the Participant has elected to surrender the Option.

Discretion of Board

- 7.2 **Rule 7.1** is subject to the Board, in its discretion, allowing a Participant to exercise all or any of their Options, whether or not the Exercise Conditions have been satisfied, and whether or not the Options would otherwise have lapsed, provided that no Options will be capable of exercise later than the Last Exercise Date.

Determination whether to exercise discretion

- 7.3 If, within 30 days of the earlier to occur of:

- 7.3.1 a person who was a Participant, ceasing to be an Eligible Person; or
- 7.3.2 the giving of notice of termination by any of the Eligible Person, the Company or other member of the Group which employs or engages the Eligible Person,

a person who was a Participant, requests the Board in writing to do so, the Board must determine whether or not to exercise its discretion under **Rule 7.2** in relation to that person, having regard to (among other matters) the following factors:

- 7.3.3 the reason for the cessation of employment or engagement within the Group;
- 7.3.4 the length of time between the date of cessation of employment or engagement and the Last Exercise Date;
- 7.3.5 the total length of service of the person as an employee, consultant or contractor within the Group;
- 7.3.6 if the cessation of employment or engagement is related to the person's performance, then the extent to which the person has been given warning of their performance inadequacies;
- 7.3.7 information provided by the person to the Board to support any claim to exercise the discretion in the person's favour; and
- 7.3.8 applicable law.

Effect of lapse

- 7.4 On an Option lapsing, all rights of a Participant under this plan in respect of the Option cease and no consideration or compensation will be payable for or in relation to that lapse.

8 Pro rata issues, reconstructions of capital and takeovers

Participation in new issues

- 8.1 A Participant may participate in new issues of securities to holders of Shares only if:
- 8.1.1 the Option has been exercised; and
 - 8.1.2 a Share has been issued in respect of the Option before the record date for determining entitlements to the new issue.
- 8.2 The Company must give notice to Participants of any new issue not less than 10 Business Days before the record date for determining entitlements to the issue.

Adjustment for bonus issues of Shares

- 8.3 If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction, of dividends or by way of dividend reinvestment):
- 8.3.1 the number of Shares which will be issued on the exercise of the Option will be increased by the number of Shares which the Participant would have received if the Participant had exercised the Option before the record date for the bonus issue; and
 - 8.3.2 no change will be made to the Exercise Price.

Adjustment for rights issue

- 8.4 If the Company makes an issue of Shares pro rata to existing Shareholders (other than an issue in lieu of in satisfaction of dividends or by way of dividend reinvestment) the Exercise Price of the Option will be reduced according to the following formula:

$$\text{New exercise price} = O - \frac{E[P-(S+D)]}{N+1}$$

- O = the old exercise price of the Option.
- E = the number of underlying Shares into which one Option is exercisable.
- P = the average market price per Share (weighted by reference to volume) of the underlying Shares during the 5 trading days ending on the day before the ex rights date or ex entitlements date.
- S = the subscription price of a security under the pro rata issue.
- D = the dividend due but not yet paid on the existing underlying shares (except those to be issued under the pro rata issue).
- N = the number of shares with rights or entitlements that must be held to receive a right to one new share.

Reconstructions

- 8.5 If there is any reconstruction of the issued share capital of the Company, the number of Options to which each Participant is entitled, and/or the Exercise Price, must be reconstructed in a manner which will not result in any benefits being conferred on the Participants which are not conferred on Shareholders (subject to the provisions with respect to rounding of entitlements as sanctioned by the meeting of Shareholders approving the reconstruction of capital), but in all other respects, the terms for the exercise of Option will remain unchanged.

Takeovers

- 8.6 If a takeover bid or other offer is made to acquire some or all of the issued Shares of the Company, the Board must give written notice to Participants of the takeover bid or takeover bid (**Takeover Notice**) specifying a period of no less than 5 Business Days during which Options may be exercised.

8.6.1 Participants will be entitled:

- (a) in the period referred to in the Takeover Notice, to exercise all or any of their Options; and
- (b) to receive from the offeror the consideration payable on acceptance of the takeover bid or offer.

Compromise and arrangements

- 8.7 If, under Part 5.1 of the *Corporations Act 2001*, the Court sanctions a compromise or arrangement proposed for the purpose of, or in connection with, a scheme for the reconstruction of the Company or its amalgamation with any other company or companies which, if implemented, would result in a change in the Control of the Company, the Board must give written notice to Participants of the compromise or arrangement (**Reconstruction Notice**) specifying a period of not less than 5 Business Days during which Options may be exercised. Participants will be entitled, in the period referred to in the Reconstruction Notice, to exercise all or any of their Options.

Ability to exercise Options

- 8.8 The Participant may exercise all or any of their Options in accordance with **Rules 8.5** or **8.6**, regardless of whether or not:

8.8.1 the Exercise Conditions have been satisfied; or

8.8.2 the First Exercise Date has arrived,

provided that no Option will be capable of exercise later than the Last Exercise Date.

Aggregation

- 8.9 For the purposes of this **Rule 8**, if a number of Options are exercised simultaneously, the number of Shares or fractions of Shares that are to be issued as a consequence of those exercises, may be aggregated. Any fraction in that aggregate number only will be disregarded in determining the total entitlement of a Participant.

Calculations and adjustments

- 8.10 Any calculations or adjustments that are required to be made under this **Rule 8** will be made by the Board and will, in the absence of manifest error, be final and conclusive and binding on the Participants.

Advice to Participants

- 8.11 The Board must give notice to each Participant of any adjustment to the number of Shares that the Participant is entitled to subscribe for on exercise of an Option or to the Exercise Price per Share under an Option.

9 Restrictions on dealing with Options and Shares

No Transfer of Options or shares for two years

- 9.1 Subject to this plan, a Participant must not Transfer any of the Options (or Shares issued on exercise of an Option) unless the Participant has held the Options for at least two years (**Two Year Restriction**) after the Date of Grant. The Company is authorised to implement any procedure it deems appropriate to restrict the Participant from Transferring Options until this rule is satisfied.

Escrow of certificates

- 9.2 Without limiting **Rule 9.1**, each Participant:
- 9.2.1 must deliver to the Company any option certificate or other document of title in relation to the Participant's Options; and
 - 9.2.2 authorises and directs the Company to hold the documents of title in escrow for and on behalf of the Participant until the Participant is released from the Two Year Restriction.

Release of Two Year Restriction

- 9.3 A Participant is released from the Two Year Restriction in this rule if:
- 9.3.1 the two year period ends; or
 - 9.3.2 the Participant ceases to be an Eligible Person because of Special Circumstances.

10 Operation of plan

Plan administered by the Board

- 10.1 The plan is administered by the Board who has power to:
- 10.1.1 determine appropriate procedures for administration of the plan consistent with the Rules;
 - 10.1.2 resolve conclusively all questions of fact or interpretation in connection with the plan or the plan Rules; and

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- 10.1.3 delegate to any persons for such period and on such terms as they see fit the exercise of any of their powers or discretions under this plan;
- 10.1.4 terminate or suspend the operation of the plan at any time, provided the termination or suspension does not materially adversely affect the rights of Participants holding shares at that time;
- 10.1.5 take and rely on independent professional or expert advice in or in relation to the exercise of any of its powers or discretions under these rules.

Discretions of the Board

- 10.2 Any power or discretion which is conferred on the Company by these Rules may be exercised by the Board in the interests, or for the benefit, of the Company and the Board is not, in exercising any such power or discretion, under any fiduciary or other obligation to any other person.
- 10.3 Where these Rules provide for a determination, decision, approval or opinion of the Board or the Company, that determination, decision, approval or opinion may be made or given by the Board or the Company in its absolute discretion.

Plan to be operated on a non-discriminatory basis

- 10.4 The Board must operate the plan on a non-discriminatory basis in accordance with section 139GF of the Income Tax Assessment Act 1936.

11 Amendments

- 11.1 The Board may at any time amend any of these Rules or waive or modify the application of any of these Rules in relation to any Participant.
- 11.2 However, it may not do so in a way that would decrease any Participant's rights to Shares or to dividends or other money unless it first obtains the approval of not less than 75% of the Participants whose rights would be decreased.

12 Rights of Eligible Persons

- 12.1 This plan:
 - 12.1.1 does not confer on any Eligible Person the right to be offered any Options;
 - 12.1.2 does not confer on any Eligible Person the right to continue as a director, employee, consultant, contractor or in any other capacity;
 - 12.1.3 does not affect a Participant's terms of engagement by the Company;
 - 12.1.4 does not affect any rights which the Company may have to terminate any terms of engagement or to remove the Participant from office as a director, , employee, consultant, contractor or in any other capacity ;and

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- 12.1.5 may not be used to increase damages in any action brought against the Company in respect of the termination of any engagement or removal of the Participant from office, as a director employee, consultant, contractor or in any other capacity.

13 Termination of plan

- 13.1 The Board may terminate this plan at any time, at its absolute discretion. Termination does not affect the rights under this plan of Participants in respect of applications to participate that have been accepted by the Company and notified to the Participant.

14 General**Time of essence**

- 14.1 Time is of the essence under this document.

Agreement to benefit and bind successors

- 14.2 This document continues for the benefit of, and binds, a successor in title of a Participant.

Waiver

- 14.3 The fact that the Company fails to do, or delays in doing, something the Company is entitled to do under this document, does not amount to a waiver of any obligation of, or breach of obligation by the Company. A waiver by the Company is only effective if it is in writing. A written waiver by the Company is only effective in relation to the particular obligation or breach in respect of which it is given. It is not to be taken as an implied waiver of any other obligation or breach or as an implied waiver of that obligation or breach in relation to any other occasion.

Governing law and jurisdiction

- 14.4 This document is governed by the law of Queensland. Each Participant and the Company submits to the non-exclusive jurisdiction of its courts and will not object to the exercise of jurisdiction by those courts, either for forum non-convenience or on any other basis.

Cost and expenses

- 14.5 The Company must pay all expenses, costs and charges incurred in operating the plan, except that the Company is not responsible for any taxes which may become payable in connection with the issue of Shares pursuant to an exercise of the Options or any other dealing with the Options of Shares.

15 Interpretation

- 15.1 In this document, unless the contrary intention appears:

- 15.1.1 headings are for ease of reference only and do not affect the meaning of this document;

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- 15.1.2 the singular includes the plural and vice versa and words importing a gender include other genders;
- 15.1.3 other grammatical forms of defined words or expressions have corresponding meanings;
- 15.1.4 a reference to a rule, paragraph, schedule, annexure or attachment is a reference to a rule or paragraph of or schedule, annexure or attachment to this document, and a reference to this document includes its schedules, annexures and attachments;
- 15.1.5 a reference to a document or agreement, including this document, includes a reference to that document or agreement as novated, altered or replaced from time to time;
- 15.1.6 a reference to 'A\$', '\$A', 'dollar' or '\$' is a reference to Australian currency;
- 15.1.7 a reference to a specific time for the performance of an obligation is a reference to that time in Brisbane, Queensland even if the obligation is to be performed elsewhere;
- 15.1.8 words and expressions importing natural persons include partnerships, bodies corporate, associations, governments and governmental and local authorities and agencies, and vice versa;
- 15.1.9 a reference to any legislation or statutory instrument or regulation is construed in accordance with the *Acts Interpretation Act 1901* (Cth) or the equivalent State legislation, as applicable;
- 15.1.10 a reference to writing includes typewriting, printing, lithography, photography and any other method of representing or reproducing words, figures or symbols in a permanent and visible form;
- 15.1.11 if a day for the payment under this document falls on a day which is not a Business Day, payment is due on the next Business Day;
- 15.1.12 if a provision of this document binds two or more parties, that provision binds those parties jointly and severally; and
- 15.1.13 words and expressions used in this document and which are also used in the *Corporations Act 2001* have the meaning given to them in the *Corporations Act 2001*.

16 Definitions

16.1 In this document the following definitions apply:

ASX means Australian Stock Exchange Limited.

Board means the Board of directors of the Company from time to time.

Business Day means a day on which banks (as defined in the *Banking Act 1959* (Cth)) are open for general banking business in Brisbane, excluding Saturdays and Sundays.

Company means Auzex Resources Limited ACN 106 444 606.

Date of Grant means, with respect to an Option, the date on which the Board grants the Option to an Eligible Person.

Directors means the directors of the Company from time to time.

Eligible Person means a person who is eligible to participate in this plan under **Rule 2.1**.

Exercise Conditions means the performance, vesting or other conditions determined by the Board that are required to be satisfied before an Option can be exercised.

Exercise Period means the period commencing on the First Exercise Date and ending on the Last Exercise Date.

Exercise Price means the amount payable by the holder of an Option to exercise that Option.

Excluded Offer means any offer to grant options or issue shares or to be issued by way of or as a result of an offer:

- (a) to a person situated at the time of receipt of the offer outside this jurisdiction; or
- (b) that did not need disclosure to investors because of section 708 of the Corporations Act 2001; or
- (c) made under a disclosure document.

First Exercise Date means, unless otherwise specified in the terms and conditions of grant of an Option, the earlier of the date:

- (a) which is two years from the Date of Grant; or
- (d) on which Special Circumstances first arise in respect of a Participant.

Grant means a grant of Options to an Eligible Person under this plan.

Group means the Company and its Subsidiaries.

Invitation means an invitation to participate in this plan and to apply for Options.

Last Exercise Date means, unless otherwise specified at the time of Grant, the earlier of:

- (b) the date which is 5 years from the Date of Grant;
- (e) if Special Circumstances arise in respect of a participant, the date which is 12 months after such Special Circumstances first arise.

legal personal representative means the executor of the will or an administrator of the estate of a deceased person or the trustee of the estate of a person under a legal disability.

Listing Rules means the official listing rules of ASX.

Notice of Exercise means a duly completed and executed notice of exercise of an Option by a Participant, in the form prescribed and otherwise as required by the Board from time to time.

Option means an option to subscribe for Shares granted to an Eligible Person under this plan.

Participant means a person who holds Options granted under this plan and includes, if the Participant dies or becomes subject to a legal disability, the legal personal representative of the Participant.

Rules means the rules governing the operation of this plan set out in this document, as amended from time to time.

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

Shareholder means a holder of shares in the Company.

Special Circumstances, with respect to a Participant means:

- (c) Total and Permanent Disablement;
- (d) the death of the Participant;
- (e) the redundancy of the Participant; or
- (f) such other circumstances as the Board may at any time determine (whether before or after the Date of Grant).

Subsidiary means a body corporate of which the Company is a holding company in terms of section 9 and Division 6 of Part 1.2 of the *Corporations Act 2001*.

Starting Date means the date on which this plan is first adopted by the Board.

Tax Law means the *Income Tax Assessment Act 1936 (Cth)* or the *Income Tax Assessment Act 1997 (Cth)* as the case requires.

Total and Permanent Disablement means, in relation to a Participant, that the Participant has, in the reasonable opinion of the Board, become permanently incapacitated to such an extent as to render the Participant unlikely to engage in the Participant's usual occupation again.

Transfer includes sell, transfer, assign, encumber, dispose or otherwise deal with in any way.