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**BLUE ENERGY LIMITED**  
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**NOTICE OF ANNUAL GENERAL MEETING**

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The Annual General Meeting of Blue Energy Limited ACN 054 800 378 (“Company”) will be held at Johnson Winter and Slattery, Level 29, 111 Eagle Street, Brisbane, on Tuesday 22 November 2016 at 11.00am (Brisbane time).

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A copy of the Company’s Annual Report (including the Remuneration Report) and details of the Company’s operations are available at the Company’s website at <http://www.blueenergy.com.au>.

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*This Notice of General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.*

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## **NOTICE OF ANNUAL GENERAL MEETING**

Notice is given that the annual general meeting of shareholders of Blue Energy Limited ("**Company**") will be held at Johnson Winter and Slattery, Level 29, 111 Eagle Street, Brisbane, Queensland on Tuesday 22 November 2016 at 11.00am (Brisbane time) ("**Meeting**").

The Explanatory Memorandum to this Notice provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of this Notice.

The Company has determined pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on Sunday 20 November 2016 at 7.00pm (Sydney Time). Terms and abbreviations used in this Notice and the Explanatory Memorandum are defined in Schedule 1.

## **AGENDA**

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### **Financial Report**

To receive the financial report of the Company and its controlled entities for the year ended 30 June 2016 together with a Directors' report in relation to that financial year and the Auditor's report on the financial report.

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#### **1. Resolution 1 – Remuneration Report**

To consider and, if thought fit, pass the following Resolution under section 250R (2) Corporations Act:

*"That the Remuneration Report be adopted on the terms and conditions in the Explanatory Memorandum."*

##### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution by Key Management Personnel or their Closely Related Parties.

However, the Company will not disregard a vote if:

- it is cast by the person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote in accordance with the intention disclosed on the Proxy Form.

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#### **2. Resolution 2 – Election of Mr Seungsoo Han as a Director**

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

*'That Mr Seungsoo Han, having been appointed a Director since the last annual general meeting to fill a casual vacancy, who retires in accordance with the Constitution and, being eligible, offers himself for election, be elected as a Director.'*

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### **3. Resolution 3 – Approval of Employee Incentive Rights Plan**

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

*"That, for the purposes of Exception 9 of Listing Rule 7.2, Shareholders approve the issue of securities under the Employee Incentive Rights Plan pursuant to this plan on the terms and conditions set out in Schedule 2".*

#### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution by a Director (and an associate of a Director).

However, the Company will not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form to vote as the proxy decides.

Further, a member of the Key Management Personnel and their Closely Related Parties who are appointed as a proxy will not vote on this Resolution unless:

- the appointment specifies the way the proxy is to vote on this Resolution; or
- the proxy is the Chair and the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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### **4. Resolution 4 – Approval of the Grant of Rights under the Employee Incentive Rights Plan to Mr John Phillips**

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

*"Subject to Shareholders approving Resolution 3, that, for the purposes of Listing Rule 10.14 and Chapter 2E of the Corporations Act, Shareholders approve the granting of a first tranche of 12,800,000 Performance Rights and a second tranche of 6,400,000 Performance Rights to Mr John Phillips or his nominee pursuant to the Employee Incentive Rights Plan and on the terms and conditions set out in Schedule 2."*

#### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution by a Director and any associate of a Director.

However, the Company will not disregard a vote if:

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

Further, a member of the Key Management Personnel and their Closely Related Parties who are appointed as a proxy will not vote on this Resolution unless:

- the appointment specifies the way the proxy is to vote on this Resolution; or
- the proxy is the Chair and the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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## 5. Resolution 5 – Approval of the Grant of Rights under the Employee Incentive Rights Plan to Ms Karen Johnson

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

*"Subject to Shareholders approving Resolution 3, that, for the purposes of Listing Rule 10.14 and Chapter 2E of the Corporations Act, Shareholders approve the granting of 880,000 Performance Rights to Ms Karen Johnson or her nominee pursuant to the Employee Incentive Rights Plan and on the terms and conditions set out in Schedule 2."*

### Voting Exclusion

The Company will disregard any votes cast on this Resolution by a Director and any associate of a Director.

However, the Company will not disregard a vote if:

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

Further, a member of the Key Management Personnel and their Closely Related Parties who are appointed as a proxy will not vote on this Resolution unless:

- the appointment specifies the way the proxy is to vote on this Resolution; or
- the proxy is the Chair and the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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## 6. Resolution 6 – Approval of the Grant of Rights under the Employee Incentive Rights Plan to Mr Rodney Cameron

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

*"Subject to Shareholders approving Resolution 3, that, for the purposes of Listing Rule 10.14 and Chapter 2E of the Corporations Act, Shareholders approve the granting of 880,000 Performance Rights to Mr Rodney Cameron or his nominee pursuant to the Employee Incentive Rights Plan and on the terms and conditions set out in Schedule 2."*

### Voting Exclusion

The Company will disregard any votes cast on this Resolution by a Director and any associate of a Director.

However, the Company will not disregard a vote if:

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

Further, a member of the Key Management Personnel and their Closely Related Parties who are appointed as a proxy will not vote on this Resolution unless:

- the appointment specifies the way the proxy is to vote on this Resolution; or

- the proxy is the Chair and the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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## 7. Resolution 7 – Approval of the Grant of Rights under the Employee Incentive Rights Plan to Mr John Ellice-Flint

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

*"Subject to Shareholders approving Resolution 3, that, for the purposes of Listing Rule 10.14 and Chapter 2E of the Corporations Act, Shareholders approve the granting of 6,400,000 Performance Rights to Mr John Ellice-Flint or his nominee pursuant to the Employee Incentive Rights Plan and on the terms and conditions set out in Schedule 2."*

### Voting Exclusion

The Company will disregard any votes cast on this Resolution by a Director and any associate of a Director.

However, the Company will not disregard a vote if:

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

Further, a member of the Key Management Personnel and their Closely Related Parties who are appointed as a proxy will not vote on this Resolution unless:

- the appointment specifies the way the proxy is to vote on this Resolution; or
- the proxy is the Chair and the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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## 8. Resolution 8 – Approval for the grant of Options to Mr John Ellice-Flint

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an ordinary resolution:

*"That, for the purposes of Listing Rule 10.11 and Chapter 2E of the Corporations Act and for all other purposes, Shareholders approve the grant of 41,236,500 Performance Options to Mr John Ellice-Flint on the terms set out in the Explanatory Memorandum."*

### Voting Exclusion

The Company will disregard any votes cast on this Resolution by:

- a person who is to receive options (Mr John Ellice-Flint); and
- an associate of that person.

However, the Company will not disregard a vote if:

- it is cast by the person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the Meeting 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.

Further, a member of the Key Management Personnel and their Closely Related Parties who are appointed as a proxy will not vote on this Resolution unless:

- the appointment specifies the way the proxy is to vote on this Resolution; or
- the proxy is the Chair and the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

Dated 6 October 2016  
By Order of the Board

A handwritten signature in black ink, appearing to read 'Damien Cronin', with a long horizontal flourish extending to the right.

Damien Cronin  
Company Secretary  
Blue Energy Limited

## **EXPLANATORY MEMORANDUM**

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### **Introduction**

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting to be held at Ernst and Young, Level 51, 111 Eagle Street, Brisbane, Queensland on Tuesday 22 November 2016 at 11.00am (Brisbane time).

Terms and abbreviations used in this Explanatory Memorandum have the meaning given in Schedule 1.

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### **1. Resolution 1 – Remuneration Report**

Pursuant to section 250R(2) of the Corporations Act, the Company is required to put the Remuneration Report to the vote of Shareholders. The Financial Report contains a Remuneration Report which sets out the remuneration policy for the Company and reports the remuneration arrangements in place for specified executives and non-executive Directors.

The Corporations Act provides that Resolution 1 need only be an advisory vote of Shareholders.

Therefore, Resolution 1 is advisory only and does not bind the Directors. Of itself, a failure of Shareholders to pass Resolution 1 will not require the Directors to alter any of the arrangements in the Remuneration Report. However, the Board will take the outcome of the vote into consideration when considering the remuneration policy.

The Chairman of the Meeting will allow a reasonable opportunity for Shareholders as a whole to ask about, or make comments on, the Remuneration Report.

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### **2. Resolution 2 – Re-Election of Mr Seungsoo Han**

As announced on 4 May 2016 the Directors appointed Mr Seungsoo Han as a Director of the Company in accordance with Article 6.2(b) of the Constitution. Mr Han commenced his appointment with the Company immediately.

Article 6.3(j) of the Constitution requires that Mr Han retire at the Meeting and is eligible for re-election. Article 6.3 of the Constitution requires that one third of the Directors must retire at each annual general meeting. Rule 6.3 also provides that any Director who so retires is eligible for election at that meeting.

Pursuant to the Constitution, Mr Han retires and seeks election under Resolution 2.

Pursuant to the terms of the Heads of Agreement dated 28 May 2009 between the Company and KOGAS, KOGAS has the right to nominate one Director to the Board of the Company. Mr Han has been nominated by KOGAS.

Mr Han is the managing director of KOGAS Australia Pty Ltd, a subsidiary of KOGAS. Mr Han has nearly 30 years' experience in working with the KOGAS. Prior to his current role, Mr Han has worked in procurement and accounting and in senior management roles in both KOGAS' Strategy Planning and Marketing Departments, culminating in being Team Leader of both Departments.

Mr Han has a Bachelor's and Master's degree in Public Administration from, respectively, Kyung Hee University and the Korea Advanced Institute of Science and Technology, both in Seoul.

The Board believes that Mr Han has performed the duties and responsibilities of a director diligently and professionally, in the best interests of all Shareholders.

The Board unanimously supports the re-election of Mr Han.

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### **3. Resolution 3 – Approval of Employee Incentive Rights Plan**

#### **3.1 Background**

Resolution 3 seeks Shareholder approval in accordance with the Listing Rule 7.2 for the issue of Rights pursuant to this Employee Incentive Rights Plan. The Employee Incentive Rights Plan contemplates the issue to Eligible Employees (including Directors) of Rights to subscribe for Shares.

In 2013 Shareholders approved the Employee Incentive Rights Plan in accordance with Exception 9 of Listing Rule 7.2 for a period of 3 years. Since the previous approval in 2013, the Company has issued the following Rights and Shares under the Employee Incentive Rights Plan:

<b>Employee</b>	<b>Shares</b>	<b>Performance Rights</b>	<b>Retention Rights</b>
John Phillips	472,726	30,193,000	Nil
Tania Ross	163,726	Nil	Nil
James Freer	87,726	Nil	Nil
Stuart Owen	174,467	Nil	Nil
<b>Totals</b>	<b>898,645</b>	<b>30,193,000</b>	<b>Nil</b>

The Board has recently undertaken a review of the effectiveness of the current Employee Incentive Rights Plan against both current taxation legislation impacting on employee share schemes and the Employee Incentive Rights Plan as a continuing best practice means of engaging, retaining and motivating the Company's Board and staff.

The outcome of this review has concluded that Directors (including the Managing Director and CEO) should participate in the plan and that the current Employee Incentive Rights Plan, a plan encompassing performance rights aimed at rewarding the Board and employees for achieving the long term business goal of the Company to grow shareholder value, remains a best practice employee incentive plan. As such, the Company seeks Shareholder approval in accordance with the Listing Rule 7.2 of the terms including the changed term allowing wider Director participation of the Employee Incentive Rights Plan as set out in Schedule 2.

#### **3.2 ASX Listing Rules**

Listing Rule 7.1 places restrictions on the number of equity securities, including rights, which a listed company may issue in any 12 months without Shareholder approval. However, certain issues are exempt from this Listing Rule 7.1 and are effectively disregarded for the purposes of counting the number of securities which a company may issue under Listing Rule 7.1.

Exempt issues include an issue of securities to persons participating in an employee rights scheme where Shareholders have approved the issue of securities under the scheme as an exemption from Listing Rule 7.1. Shareholder approval must be given in a general meeting held not more than 3 years before the date of issue where the notice of that meeting contains or is accompanied by certain prescribed information (set out below).

In order to take advantage of the exemption from Listing Rule 7.1 and allow the Company greater flexibility to issue securities, Shareholders are requested to approve the Employee Incentive Rights Plan as an exemption from Listing Rule 7.1.

This approval will be effective for a period of 3 years from the date of the passing by Shareholders of Resolution 3.

For the purpose of Listing Rule 7.2 Exception 9, the terms of the Scheme are set out in Schedule 2.

The Chairman intends to vote all undirected proxies in favour of Resolution 3.

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## **4. Resolution 4 – Approval for the Grant of Rights Under the Employee Incentive Rights Plan to Mr John Phillips**

### **4.1 Background**

The Company and the managing Director, Mr John Phillips, executed a renewed employment contract covering the period 1 April 2016 to 30 June 2020 on the same terms as his previous contract. Mr Phillips' salary has remained unchanged since 2010.

The Board has chosen to issue Rights to the Managing Director, Mr John Phillips, as a key component of the incentive portion of his remuneration in order to retain his services and to provide an incentive linked to the performance of the Company. As such, the Board believes that the number of Rights to be granted to Mr Phillips is commensurate with his value to the Company. The Employee Incentive Rights Plan (EIRP) provides for Rights to be issued in two classes of Retention Rights and Performance Rights with differing vesting requirements. If the Rights vest, Mr Phillips will either be issued Shares in the Company, or the trustee of the Blue Energy EST will acquire Shares for the purpose of allocating them to Mr Phillips. Mr Phillips will not be able to sell or otherwise dispose of the Shares issued or allocated to him on vesting of the Rights until the Company notifies him otherwise in accordance with the EIRP.

### **4.2 First Tranche of Performance Rights**

The Board has utilised its discretion within the rules of the EIRP and determined that in the current market conditions the use of Retention Rights is not appropriate at this point in time. Accordingly Mr Phillips will not be issued Retention Rights.

Despite the tough economic, political and environmental conditions that the Company has endured over the last twelve months significant gains have been made in continuing to reduce the Company's overhead costs, in increasing its gas reserves and in moving to commercialise those reserves.

Whilst no short term incentives were awarded for the delivery of these outcomes the Board believes the Managing Director is deserving of recognition under the Performance Rights Plan through the issue of the first tranche of Performance Rights, particularly as his salary has remained unchanged since 2010.

### **4.3 Second Tranche of Performance Rights**

During the financial year 2015-2016, in order to assist the Company's financial position and assist it in its budgetary constraints, Mr Phillips agreed to voluntarily forego 20% of his annual salary of \$400,000. In recognition of this, and of Mr Phillips permanently waiving his legal entitlement to the 20% cash component of his salary foregone, the Board approved, subject to Shareholder approval, the issue of a second tranche of 6,400,000 Performance Rights representing a cash salary sacrifice component of 20% of his salary during the financial year 2015-2016.

### **4.4 General Terms of Performance Rights**

Given the speculative nature of the Company's activities, it is considered the performance of the Managing Director and the performance and value of the Company are closely related. As such, the Rights granted will generally only be of benefit to Mr Phillips if he performs to the level whereby the value of the Company increases sufficiently in accordance with the offer conditions in Schedule B of Schedule 2. In addition, other than in certain circumstances described in paragraph 21 of Schedule 2, Mr Phillips must remain an employee of the Company until 30 June 2020 for the Performance Rights to vest.

If Mr Phillips ceases to be an employee prior to 30 June 2020 (other than in certain circumstances including a change in control of the Company) the Rights will immediately lapse.

### **4.5 Proposed Shareholder Approval**

Shareholder approval is sought for the issue of:

- a first tranche of 12,800,000 Performance Rights; and

- a second tranche of 6,400,000 Performance Rights,

to Mr John Phillips (or his nominee).

Mr Phillips is a related party for the purpose of Chapter 2E of the Corporations Act.

The issue of Rights to Mr Phillips will constitute the giving of a financial benefit to a related party under section 229(3)(e) of the Corporations Act and consequently, approval under section 208 of the Act is sought.

Listing Rule 10.14 also requires the approval of Shareholders before securities (which include rights to acquire Shares) can be issued to Mr Phillips under the Employee Incentive Rights Plan.

If Resolution 4 is passed, Listing Rule 10.12 (exception 4) exempts the Company from any requirement for approval under Listing Rule 10.11 for the grant of the Rights to Mr Phillips.

If Resolution 4 is passed, approval under Listing Rule 7.1 is not required as the issue of securities to Mr Phillips under the Employee Incentive Rights Plan will have been approved by Shareholders at this 2016 Annual General Meeting.

#### **4.6 Information Required by Listing Rule 10.15 and Section 219 of the Corporations Act**

For the purposes of Listing Rule 10.15 and section 219 of the Corporations Act information regarding the Rights is provided as follows:

##### ***Terms and Conditions of the Rights***

The terms and conditions of the Rights are detailed in Schedule 2.

##### ***Maximum Number of Rights to be Issued***

19,200,000 Performance Rights.

The number of Rights proposed to be issued has been calculated on the basis of the formula in sections 9 and 10 of the Employee Incentive Rights Plan. As outlined above The Board has utilised its discretion within the rules of the EIRP and determined that in the current market conditions the use of Retention Rights is not appropriate at this point in time. The Board believes that this provides additional alignment between Mr Phillips and shareholders.

##### ***Eligible Participants***

Non-executive and executive Directors and other Eligible Employees are eligible to receive Rights under the Employee Incentive Rights Plan.

##### ***Consideration Paid for the Rights***

The Rights (and any Shares issued or acquired when the Rights vest) would be issued for nil consideration and as such, no funds will be raised by the issue of the Rights.

No loan has or will be granted in relation to the issue of the Rights.

##### ***Issue of Rights***

If Resolution 4 is passed, the Company will issue the Rights no later than one month after the date of the Meeting.

##### ***Managing Directors' Remuneration***

The total current annual base remuneration of Mr Phillips is \$400,000 and has not been increased since his appointment in 2010.

Mr Phillips is also entitled to reimbursement of all reasonable travelling, accommodation and other expenses properly incurred in the course of the Company's business. Other than as set out in this Notice, Mr Phillips does not receive any other emoluments.

The amount of Mr Phillips' annual base remuneration to 30 June 2020 will be similar to that received by him for the current year.

### ***Managing Directors' Current Interest***

Mr Phillips current shareholding (held directly or indirectly) is 1,186,788 shares. He also holds (directly or indirectly) 10,345,000 Rights. The previously issued Rights (being 10,345,000 Performance Rights) were approved at the 2013 annual general meeting with a nil acquisition price. The previously issued rights have the same terms and conditions as those contained in this Explanatory Memorandum.

### ***Valuation of the Rights***

A valuation of the Rights proposed to be issued under Resolution 4 has been obtained and, on the basis of the assumptions set out below, the technical value of the Rights is as follows:

<b>Tranche</b>	<b>Number of Rights</b>	<b>Fair Value per Right</b>	<b>Total Fair Value of Rights</b>
1. Performance Rights	12,800,000	\$0.0098	\$125,440
2. Performance Rights	6,400,000	\$0.0098	\$62,720

This valuation imputes a total fair value of \$188,160 to the Rights. This value may go up or down after the date of valuation as it will depend on the future price of the Monte Carlo process used, together with the following assumptions:

- the risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the Rights, being 1.55%;
- the underlying security spot price used for the purposes of this valuation is based on the price of the Shares as at 30 June 2016, being \$0.022;
- the recent volatility of the share price using Hoadley's volatility calculator, using data extracted from Bloomberg, being 80%;
- for the purposes of the valuation, no future dividend payments have been forecast;
- the valuation has been undertaken based upon meeting the 100% of the performance targets;
- for the purposes of the valuation it is assumed that the Rights will not vest any earlier than 30 June 2018; and
- for the purposes of determining the number of rights issued under the EIRP it is assumed there is a 50% probability that the Performance Rights will vest.

The Board believes, having taken appropriate expert advice on the matter, that this valuation model is appropriate in the circumstances. The Board has not used any other valuation or model in proposing the terms or number of the Rights.

The Board has decided to issue the number of Rights proposed because independent expert advice it has received indicates that the Rights proposed to be granted to Mr Phillips is appropriate in the circumstances.

### ***Dilutionary Effect***

The following table demonstrates the dilution of all other Shareholders' holdings in the Company upon the vesting of Mr Phillips Rights issued under Resolution 4:

Shares on issue at date of this Notice	1,141,891,882
Shares issued assuming vesting of all Rights under Resolution 4	19,200,000
Total Shares on issue assuming vesting of all Rights under Resolution 4	1,161,091,882
Dilutionary effect (approximately)	1.68%

Mr Phillips currently holds, directly or indirectly, 1,186,788 Shares, and 10,345,000 Rights.

If only the Rights to be issued under this Resolution 4 vest and Shares are issued or acquired, he will hold 20,386,788 Shares. Subject to no further Shares being issued between the date of this Notice and the date that the last of those Rights vest, Mr Phillip's holding will represent 1.75% of the issued capital of the Company.

If all of the Rights currently held by Mr Phillips and the Rights to be issued under this Resolution 4 for Mr Phillips vest or are exercised and Shares are issued or acquired, he will hold 30,731,788 Shares. Subject to no further Shares being issued between the date of this Notice and the date that the last of his Rights vests, Mr Phillip's holding will represent 2.62% of the issued capital of the Company.

The following table demonstrates the dilution of all other Shareholders' holdings in the Company upon the vesting of all of Mr Phillips Rights including those proposed to be issued under Resolution 4:

Shares on issue at date of this Notice	1,141,891,882
Shares issued assuming vesting of all Rights	29,545,000
Total Shares on issue assuming vesting of all Rights	1,171,436,882
Dilutionary effect (approximately)	2.52%

#### ***Other Information***

Under the accounting standard AASB 2 Share Based Payments, the Company would recognise the fair value of Rights granted to Mr Phillips over three years as an expense of \$188,160 in its income statement with a corresponding adjustment to equity. This amount is further adjusted for non-market vesting conditions. This valuation is not and should not be taken to be audited financial information.

For the 12 months prior to 4 October 2016, the Company's shares traded on the ASX in a range from \$0.019 to \$0.035. As at the close of 4 October 2016, the Company's shares were quoted at \$0.026

#### **4.7 Voting Exclusion and Proxies**

In accordance with Listing Rule 14.11 and sections 224(1) and 250BD Corporations Act:

- Mr Phillips and an associate of Mr Phillips;
- a Director; and
- Key Management Personnel or their closely related parties in contravention of section 250BD of the Corporations Act,

are excluded from voting on this Resolution.

The Chairman intends to vote all undirected proxies in favour of Resolution 4.

#### **4.8 Recommendation**

No Director, other than Mr Phillips, has an interest in the outcome of Resolution 4. Each Director recommends that this Resolution 4 be approved because they consider that the issue of the Rights to Mr Phillips will provide appropriate incentive to maximise the return to

Shareholders over the long term to assist in developing a unity of purpose for both the Managing Director and the Shareholders.

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## **5. Resolution 5 – Approval for the Grant of Rights Under the Employee Incentive Rights Plan to Ms Karen Johnson**

### **5.1 Background**

The Board has chosen to issue Rights to a non-executive Director, Ms Karen Johnson, as a key component of the incentive portion of her remuneration in order to retain her services and to provide an incentive linked to the performance of the Company. As such, the Board believes that the number of Rights to be granted to Ms Johnson is commensurate with her value to the Company. The Employee Incentive Rights Plan (EIRP) provides for Rights to be issued in two classes of Retention Rights and Performance Rights with differing vesting requirements. If the Rights vest, Ms Johnson will either be issued Shares in the Company, or the trustee of the Blue Energy EIRP will acquire Shares for the purpose of allocating them to Ms Johnson. Ms Johnson will not be able to sell or otherwise dispose of the Shares issued or allocated to her on vesting of the Rights until the Company notifies her otherwise in accordance with the EIRP.

### **5.2 Performance Rights**

The Board has utilised its discretion within the rules of the EIRP and determined that in the current market conditions the use of Retention Rights is not appropriate at this point in time. Accordingly Ms Johnson will not be issued Retention Rights.

During the financial year 2015-2016, in order to assist the Company's financial position and assist it in its budgetary constraints, Ms Johnson agreed to voluntarily forego her annual Director's fees of \$5,000.00 for performing the role of Chair of the Board's Risk and Audit Committee and Ms Johnson is no longer separately remunerated for performing the role of Chair of the Board's Risk and Audit Committee. In recognition of this the Board approved, subject to Shareholder approval, the issue of 880,000 Performance Rights.

### **5.3 General Terms of Performance Rights**

Given the speculative nature of the Company's activities, it is considered the performance of a Director and the performance and value of the Company are closely related. As such, the Rights granted will generally only be of benefit to Ms Johnson if she performs to the level whereby the value of the Company increases sufficiently in accordance with the offer conditions in Schedule B of Schedule 2. In addition, other than in certain circumstances described in paragraph 21 of Schedule 2, Ms Johnson must remain a Director of the Company until 30 June 2018 for the Performance Rights to vest.

If Ms Johnson ceases to be a Director prior to 30 June 2018 (other than in certain circumstances including a change in control of the Company) the Rights will immediately lapse.

### **5.4 Proposed Shareholder Approval**

Shareholder approval is sought for the issue of 880,000 Performance Rights to Ms Karen Johnson.

Ms Johnson is a related party for the purpose of Chapter 2E of the Corporations Act.

The issue of Rights to Ms Johnson will constitute the giving of a financial benefit to a related party under section 229(3) (e) of the Corporations Act and consequently, approval under section 208 of the Act is sought.

Listing Rule 10.14 also requires the approval of Shareholders before securities (which include rights to acquire Shares) can be issued to Ms Johnson under the Employee Incentive Rights Plan.

If Resolution 5 is passed, Listing Rule 10.12 (exception 4) exempts the Company from any requirement for approval under Listing Rule 10.11 for the grant of the Rights to Ms Johnson.

If Resolution 5 is passed, approval under Listing Rule 7.1 is not required as the issue of securities to Ms Johnson under the Employee Incentive Rights Plan will have been approved by Shareholders at this 2016 Annual General Meeting.

## **5.5 Information Required by Listing Rule 10.15 and Section 219 of the Corporations Act**

For the purposes of Listing Rule 10.15 and section 219 of the Corporations Act information regarding the Rights is provided as follows:

### ***Terms and Conditions of the Rights***

The terms and conditions of the Rights are detailed in Schedule 2.

### ***Maximum Number of Rights to be Issued***

880,000 Performance Rights.

The number of Rights proposed to be issued has been calculated on the basis of the formula in sections 9 and 10 of the Employee Incentive Rights Plan. As outlined above The Board has utilised its discretion within the rules of the EIRP and determined that in the current market conditions the use of Retention Rights is not appropriate at this point in time. The Board believes that this provides additional alignment between Ms Johnson and shareholders.

### ***Eligible Participants***

Non-executive and Executive Directors are eligible to receive Rights under the Employee Incentive Rights Plan.

### ***Consideration Paid for the Rights***

The Rights (and any Shares issued or acquired when the Rights vest) would be issued for nil consideration and as such, no funds will be raised by the issue of the Rights.

No loan has or will be granted in relation to the issue of the Rights.

### ***Issue of Rights***

If Resolution 5 is passed, the Company will issue the Rights no later than one month after the date of the Meeting.

### ***Directors' Remuneration***

The total current annual base remuneration of Ms Johnson is \$55,000 and has not been increased since her appointment.

Ms Johnson is also entitled to reimbursement of all reasonable travelling, accommodation and other expenses properly incurred in the course of the Company's business. Other than as set out in this Notice, Ms Johnson does not receive any other emoluments.

The exact amount of Ms Johnson' annual base remuneration in future years is not currently known but it is anticipated that it will be similar to that received by her for the current year.

### ***Directors' Current Interest***

Ms Johnson current shareholding (held directly or indirectly) is nil shares. She does not hold (directly or indirectly) any Options or Rights.

### ***Valuation of the Rights***

A valuation of the Rights proposed to be issued under Resolution 5 has been obtained and, on the basis of the assumptions set out below, the technical value of the Rights is as follows:

<b>Tranche</b>	<b>Number of Rights</b>	<b>Fair Value per Right</b>	<b>Total Fair Value of Rights</b>
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Performance Rights	880,000	\$0.0098	\$8,624
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This valuation imputes a total value of \$8,624 to the Rights. This value may go up or down after the date of valuation as it will depend on the future price of the Monte Carlo process used, together with the following assumptions:

- the risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the Rights, being 1.55%;
- the underlying security spot price used for the purposes of this valuation is based on the price of the Shares as at 30 June 2016, being \$0.022;
- the recent volatility of the share price using Hoadley's volatility calculator, using data extracted from Bloomberg, being 80%;
- for the purposes of the valuation, no future dividend payments have been forecast;
- the valuation has been undertaken based upon meeting the 100% of the performance targets;
- for the purposes of the valuation it is assumed that the Rights will not vest any earlier than 30 June 2018; and
- for the purposes of determining the number of rights granted to Ms Johnson under the EIRP it is assumed there is a 50% probability that the Performance Rights will vest.

The Board believes, having taken appropriate expert advice on the matter, that this valuation model is appropriate in the circumstances. The Board has not used any other valuation or model in proposing the terms or number of the Rights.

The Board has decided to issue the number of Rights proposed because independent expert advice it has received indicates that the Rights proposed to be granted to Ms Johnson is appropriate in the circumstances.

#### ***Dilutionary Effect***

The following table demonstrates the dilution of all other Shareholders' holdings in the Company upon the vesting of Ms Johnson Rights issued under Resolution 5:

Shares on issue at date of this Notice	1,141,891,882
Shares issued assuming vesting of all Rights under Resolution 5	880,000
Total Shares on issue assuming vesting of all Rights under Resolution 5	1,142,771,882
Dilutionary effect (approximately)	0.08%

Ms Johnson currently holds, directly or indirectly, nil Shares, no Options and no Rights.

If the Rights to be issued under this Resolution 5 vest and Shares are issued or acquired, she will hold 880,000 Shares. Subject to no further Shares being issued between the date of this Notice and the date that those Rights vest, Ms Johnson's holding will represent 0.08% of the issued capital of the Company.

If all of the Rights to be issued under this Resolution 5 vest or are exercised and Shares are issued or acquired, she will hold 880,000 Shares. Subject to no further Shares being issued between the date of this Notice and the date that the last of his Rights vests, Ms Johnson's holding will represent 0.08% of the issued capital of the Company.

The following table demonstrates the dilution of all other Shareholders' holdings in the Company upon the vesting of Ms Johnson's Rights proposed to be issued under Resolution 5:

Shares on issue at date of this Notice	1,141,891,882
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Shares issued assuming vesting of Rights	880,000
Total Shares on issue assuming vesting of Rights	1,142,771,882
Dilutionary effect (approximately)	0.08%

### **Other Information**

Under the accounting standard AASB Share Based Payments, the Company would recognise the fair value of Rights granted to Ms Johnson as an expense over three years of \$8,642 in its income statement with a corresponding adjustment to equity. This amount is further adjusted for non-market vesting conditions. This valuation is not and should not be taken to be audited financial information.

For the 12 months prior to 4 October 2016, the Company's shares traded on the ASX in a range from \$0.019 to \$0.035. As at the close of 4 October 2016, the Company's shares were quoted at \$0.026.

## **5.6 Voting Exclusion and Proxies**

In accordance with Listing Rule 14.11 and sections 224(1) and 250BD Corporations Act:

- Ms Johnson and an associate of Ms Johnson;
- a Director; and
- Key Management Personnel or their closely related parties in contravention of section 250BD of the Corporations Act,

are excluded from voting on this Resolution.

The Chairman intends to vote all undirected proxies in favour of Resolution 5.

## **5.7 Recommendation**

No Director, other than Ms Johnson, has an interest in the outcome of Resolution 5. Each Director recommends that this Resolution 5 be approved because they consider that the issue of the Rights to Ms Johnson will provide appropriate incentive to maximise the return to Shareholders over the long term to assist in developing a unity of purpose for both the Board and the Shareholders.

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## **6. Resolution 6 – Approval for the Grant of Rights Under the Employee Incentive Rights Plan to Mr Rodney Cameron**

### **6.1 Background**

The Board has chosen to issue Rights to a non-executive Director, Mr Rodney Cameron, as a key component of the incentive portion of his remuneration in order to retain his services and to provide an incentive linked to the performance of the Company. As such, the Board believes that the number of Rights to be granted to Mr Cameron is commensurate with his value to the Company. The Employee Incentive Rights Plan (EIRP) provides for Rights to be issued in two classes of Retention Rights and Performance Rights with differing vesting requirements. If the Rights vest, Mr Cameron will either be issued Shares in the Company, or the trustee of the Blue Energy EST will acquire Shares for the purpose of allocating them to Mr Cameron. Mr Cameron will not be able to sell or otherwise dispose of the Shares issued or allocated to him on vesting of the Rights until the Company notifies him otherwise in accordance with the EIRP.

### **6.2 Performance Rights**

The Board has utilised its discretion within the rules of the EIRP and determined that in the current market conditions the use of Retention Rights is not appropriate at this point in time. Accordingly Mr Cameron will not be issued Retention Rights.

During the financial year 2015-2016, in order to assist the Company's financial position and assist it in its budgetary constraints, Mr Cameron agreed to voluntarily forego his annual Director's fees of \$5,000.00 for performing the role of a member of the Board's Risk and Audit Committee and Mr Cameron is no longer separately remunerated for performing the role of a member of the Board's Risk and Audit Committee. In recognition of this the Board approved, subject to Shareholder approval, the issue of 880,000 Performance Rights.

### **6.3 General Terms of Performance Rights**

Given the speculative nature of the Company's activities, it is considered the performance of a Director and the performance and value of the Company are closely related. As such, the Rights granted will generally only be of benefit to Mr Cameron if he performs to the level whereby the value of the Company increases sufficiently in accordance with the offer conditions in Schedule B of Schedule 2. In addition, other than in certain circumstances described in paragraph 21 of Schedule 2, Mr Cameron must remain a Director of the Company until 30 June 2018 for the Performance Rights to vest.

If Mr Cameron ceases to be a Director prior to 30 June 2018 (other than in certain circumstances including a change in control of the Company) the Rights will immediately lapse.

### **6.4 Proposed Shareholder Approval**

Shareholder approval is sought for the issue of 880,000 Performance Rights to Mr Rodney Cameron.

Mr Cameron is a related party for the purpose of Chapter 2E of the Corporations Act.

The issue of Rights to Mr Cameron will constitute the giving of a financial benefit to a related party under section 229(3)(e) of the Corporations Act and consequently, approval under section 208 of the Act is sought.

Listing Rule 10.14 also requires the approval of Shareholders before securities (which include rights to acquire Shares) can be issued to Mr Cameron under the Employee Incentive Rights Plan.

If Resolution 6 is passed, Listing Rule 10.12 (exception 4) exempts the Company from any requirement for approval under Listing Rule 10.11 for the grant of the Rights to Mr Cameron.

If Resolution 6 is passed, approval under Listing Rule 7.1 is not required as the issue of securities to Mr Cameron under the Employee Incentive Rights Plan will have been approved by Shareholders at this 2016 Annual General Meeting.

### **6.5 Information required by Listing Rule 10.15 and Section 219 of the Corporations Act**

For the purposes of Listing Rule 10.15 and section 219 of the Corporations Act information regarding the Rights is provided as follows:

#### ***Terms and Conditions of the Rights***

The terms and conditions of the Rights are detailed in Schedule 2.

#### ***Maximum Number of Rights to be Issued***

880,000 Performance Rights.

The number of Rights proposed to be issued has been calculated on the basis of the formula in sections 9 and 10 of the Employee Incentive Rights Plan. As outlined above The Board has utilised its discretion within the rules of the EIRP and determined that in the current market conditions the use of Retention Rights is not appropriate at this point in time. The Board believes that this provides additional alignment between Mr Cameron and shareholders.

#### ***Eligible Participants***

Non-executive and Executive Directors are eligible to receive Rights under the Employee Incentive Rights Plan.

### **Consideration Paid for the Rights**

The Rights (and any Shares issued or acquired when the Rights vest) would be issued for nil consideration and as such, no funds will be raised by the issue of the Rights.

No loan has or will be granted in relation to the issue of the Rights.

### **Issue of Rights**

If Resolution 6 is passed, the Company will issue the Rights no later than one month after the date of the Meeting.

### **Directors' Remuneration**

The total current annual base remuneration of Mr Cameron is \$55,000 and has not been increased since his appointment.

Mr Cameron is also entitled to reimbursement of all reasonable travelling, accommodation and other expenses properly incurred in the course of the Company's business. Other than as set out in this Notice, Mr Cameron does not receive any other emoluments.

The exact amount of Mr Cameron's annual base remuneration in future years is not currently known but it is anticipated that it will be similar to that received by him for the current year.

### **Directors' Current Interest**

Mr Cameron current shareholding (held directly or indirectly) is 4,000,000 shares. He does not hold (directly or indirectly) any Options and or Rights.

### **Valuation of the Rights**

A valuation of the Rights proposed to be issued under Resolution 6 has been obtained and, on the basis of the assumptions set out below, the technical value of the Rights is as follows:

<b>Tranche</b>	<b>Number of Rights</b>	<b>Fair Value per Right</b>	<b>Total Fair Value of Rights</b>
Performance Rights	880,000	\$0.0098	\$8,624

This valuation imputes a total value of \$8,624 to the Rights. This value may go up or down after the date of valuation as it will depend on the future price of the Monte Carlo process used, together with the following assumptions:

- the risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the Rights, being 1.55%;
- the underlying security spot price used for the purposes of this valuation is based on the price of the Shares as at 30 June 2016, being \$0.022;
- the recent volatility of the share price using Hoadley's volatility calculator, using data extracted from Bloomberg, being 80%;
- for the purposes of the valuation, no future dividend payments have been forecast;
- the valuation has been undertaken based upon meeting the 100% of the performance targets;
- for the purposes of the valuation it is assumed that the Rights will not vest any earlier than 30 June 2018; and
- for the purposes of determining the number of rights to be granted to Mr Cameron under the EIRP it is assumed there is a 50% probability that the Performance Rights will vest.

The Board believes, having taken appropriate expert advice on the matter, that this valuation model is appropriate in the circumstances. The Board has not used any other valuation or model in proposing the terms or number of the Rights.

The Board has decided to issue the number of Rights proposed because independent expert advice it has received indicates that the Rights proposed to be granted to Mr Cameron is appropriate in the circumstances.

### ***Dilutionary Effect***

The following table demonstrates the dilution of all other Shareholders' holdings in the Company upon the vesting of Mr Cameron Rights issued under Resolution 6:

Shares on issue at date of this Notice	1,141,891,882
Shares issued assuming vesting of all Rights under Resolution 4	880,000
Total Shares on issue assuming vesting of all Rights under Resolution 4	1,142,771,882
Dilutionary effect (approximately)	0.08%

Mr Cameron currently holds, directly or indirectly, 4,000,000 Shares, no Options and no Rights.

If the Rights to be issued under this Resolution 6 vest and Shares are issued or acquired, he will hold 4,880,000 Shares. Subject to no further Shares being issued between the date of this Notice and the date that those Rights vest, Mr Cameron's holding will represent 0.43% of the issued capital of the Company.

If the Rights to be issued under this Resolution 6 and the Options currently held by Mr Cameron (nil) vest or are exercised and Shares are issued or acquired, he will hold 4,880,000 Shares. Subject to no further Shares being issued between the date of this Notice and the date that his Rights vest, Mr Cameron's holding will represent 0.43% of the issued capital of the Company.

The following table demonstrates the dilution of all other Shareholders' holdings in the Company upon the vesting of Mr Cameron Rights proposed to be issued under Resolution 6:

Shares on issue at date of this Notice	1,141,891,882
Shares issued assuming vesting of Rights	880,000
Total Shares on issue assuming vesting of Rights	1,142,771,882
Dilutionary effect (approximately)	0.08%

### ***Other Information***

Under the accounting standard AASB Share Based Payments, the Company would recognise the fair value of Rights granted to Mr Cameron as an expense over three years of \$8,642 in its income statement with a corresponding adjustment to equity. This amount is further adjusted for non-market vesting conditions. This valuation is not and should not be taken to be audited financial information.

For the 12 months prior to 4 October 2016, the Company's shares traded on the ASX in a range from \$0.019 to \$0.036. As at the close of 4 October 2016, the Company's shares were quoted at \$0.026.

## **6.6 Voting Exclusion and Proxies**

In accordance with Listing Rule 14.11 and sections 224(1) and 250BD Corporations Act:

- Mr Cameron and an associate of Mr Cameron;
- a Director; and

- Key Management Personnel or their closely related parties in contravention of section 250BD of the Corporations Act,

are excluded from voting on this Resolution.

The Chairman intends to vote all undirected proxies in favour of Resolution 6.

## **6.7 Recommendation**

No Director, other than Mr Cameron, has an interest in the outcome of Resolution 6. Each Director recommends that this Resolution 6 be approved because they consider that the issue of the Rights to Mr Cameron will provide appropriate incentive to maximise the return to Shareholders over the long term to assist in developing a unity of purpose for both the Board and the Shareholders.

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## **7. Resolution 7 - Approval for the Grant of Rights Under the Employee Incentive Rights Plan to Mr John Ellice-Flint**

### **7.1 Background**

The Board has chosen to issue Rights to the executive Chairman, Mr John Ellice-Flint, as a key component of the incentive portion of his remuneration in order to retain his services and to provide an incentive linked to the performance of the Company. As such, the Board believes that the number of Rights to be granted to Mr Ellice-Flint is commensurate with his value to the Company. The Employee Incentive Rights Plan (EIRP) provides for Rights to be issued in two classes of Retention Rights and Performance Rights with differing vesting requirements. If the Rights vest, Mr Ellice-Flint will either be issued Shares in the Company, or the trustee of the Blue Energy EST will acquire Shares for the purpose of allocating them to Mr Ellice-Flint. Mr Ellice-Flint will not be able to sell or otherwise dispose of the Shares issued or allocated to him on vesting of the Rights until the Company notifies him otherwise in accordance with the EIRP.

### **7.2 Performance Rights**

The Board has utilised its discretion within the rules of the EIRP and determined that in the current market conditions the use of Retention Rights is not appropriate at this point in time. Accordingly Mr Ellice-Flint will not be issued Retention Rights.

Mr Ellice-Flint's remuneration has not increased since his appointment.

### **7.3 General Terms of Performance Rights**

Given the speculative nature of the Company's activities, it is considered the performance of the executive Chairman and the performance and value of the Company are closely related. As such, the Rights granted will generally only be of benefit to Mr Ellice-Flint if he performs to the level whereby the value of the Company increases sufficiently in accordance with the offer conditions in Schedule B of Schedule 2. In addition, other than in certain circumstances described in paragraph 21 of Schedule 2, Mr Ellice-Flint must remain an employee of the Company until 30 June 2018 for the Performance Rights to vest.

If Mr Ellice-Flint ceases to be an employee prior to 30 June 2018 (other than in certain circumstances including a change in control of the Company) the Rights will immediately lapse.

### **7.4 Proposed Shareholder Approval**

Shareholder approval is sought for the issue of 6,400,000 Performance Rights to Mr John Ellice-Flint.

Mr Ellice-Flint is a related party for the purpose of Chapter 2E of the Corporations Act.

The issue of Rights to Mr Ellice-Flint will constitute the giving of a financial benefit to a related party under section 229(3) (e) of the Corporations Act and consequently, approval under section 208 of the Act is sought.

Listing Rule 10.14 also requires the approval of Shareholders before securities (which include rights to acquire Shares) can be issued to Mr Ellice-Flint under the Employee Incentive Rights Plan.

If Resolution 7 is passed, Listing Rule 10.12 (exception 4) exempts the Company from any requirement for approval under Listing Rule 10.11 for the grant of the Rights to Mr Ellice-Flint.

If Resolution 7 is passed, approval under Listing Rule 7.1 is not required as the issue of securities to Mr Ellice-Flint under the Employee Incentive Rights Plan will have been approved by Shareholders at this 2016 Annual General Meeting.

## **7.5 Information Required by Listing Rule 10.15 and Section 219 of the Corporations Act**

For the purposes of Listing Rule 10.15 and section 219 of the Corporations Act information regarding the Rights is provided as follows:

### ***Terms and Conditions of the Rights***

The terms and conditions of the Rights are detailed in Schedule 2.

### ***Maximum number of Rights to be Issued***

6,400,000 Performance Rights.

The number of Rights proposed to be issued has been calculated on the basis of the formula in sections 9 and 10 of the Employee Incentive Rights Plan. As outlined above The Board has utilised its discretion within the rules of the EIRP and determined that in the current market conditions the use of Retention Rights is not appropriate at this point in time. The Board believes that this provides additional alignment between Mr Ellice-Flint and shareholders.

### ***Eligible Participants***

Non-executive and Executive Directors are eligible to receive Rights under the Employee Incentive Rights Plan.

### ***Consideration Paid for the Rights***

The Rights (and any Shares issued or acquired when the Rights vest) would be issued for nil consideration and as such, no funds will be raised by the issue of the Rights.

No loan has or will be granted in relation to the issue of the Rights.

### ***Issue of Rights***

If Resolution 7 is passed, the Company will issue the Rights no later than one month after the date of the Meeting.

### ***Executive Chairman's Remuneration***

The total current annual base remuneration of Mr Ellice-Flint is \$200,000 plus superannuation and has not been increased since his appointment.

Mr Ellice-Flint is also entitled to reimbursement of all reasonable travelling, accommodation and other expenses properly incurred in the course of the Company's business. Other than as set out in this Notice, Mr Ellice-Flint does not receive any other emoluments.

The exact amount of Mr Ellice-Flint's annual base remuneration in future years is not currently known but it is anticipated that it will be similar to that received by him for the current year.

### ***Executive Chairman's Current Interest***

Mr Ellice-Flint current shareholding (held directly or indirectly) is 111,095, 241 shares. Subject to Shareholders approving Resolution 8 he will also hold (directly or indirectly) 41,236,500 Options. The Tranche 3 Options, if their vesting date is extended under Resolution 8, have an

exercise price of \$0.0625 and vest if and when the Company achieves a market capitalisation of \$300 million by 30 June 2017.

### **Valuation of the Rights**

A valuation of the Rights proposed to be issued under Resolution 7 has been obtained and, on the basis of the assumptions set out below, the technical value of the Rights is as follows:

<b>Tranche</b>	<b>Number of Rights</b>	<b>Fair Value per Right</b>	<b>Total Fair Value of Rights</b>
Performance Rights	6,400,000	\$0.0098	\$62,720

This valuation imputes a total value of \$62,720 to the Rights. This value may go up or down after the date of valuation as it will depend on the future price of the Monte Carlo process used, together with the following assumptions:

- the risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the Rights, being 1.55%;
- the underlying security spot price used for the purposes of this valuation is based on the price of the Shares as at 30 June 2016, being \$0.022;
- the recent volatility of the share price using Hoadley's volatility calculator, using data extracted from Bloomberg, being 80%;
- for the purposes of the valuation, no future dividend payments have been forecast;
- the valuation has been undertaken based upon meeting the 100% of the performance targets;
- for the purposes of the valuation it is assumed that the Rights will not vest any earlier than 30 June 2018; and
- for the purposes of determining the number of rights granted to Mr Ellice-Flint under the EIRP it is assumed there is a 50% probability that the Performance Rights will vest.

The Board believes, having taken appropriate expert advice on the matter, that this valuation model is appropriate in the circumstances. The Board has not used any other valuation or model in proposing the terms or number of the Rights.

The Board has decided to issue the number of Rights proposed because independent expert advice it has received indicates that the Rights proposed to be granted to Mr Ellice-Flint is appropriate in the circumstances.

### **Dilutionary Effect**

The following table demonstrates the dilution of all other Shareholders' holdings in the Company upon the vesting of Mr Ellice-Flint Rights issued under Resolution 7:

Shares on issue at date of this Notice	1,141,891,882
Shares issued assuming vesting of all Rights under Resolution 7	6,400,000
Total Shares on issue assuming vesting of all Rights under Resolution 7	1,148,291,882
Dilutionary effect (approximately)	0.56%

Mr Ellice-Flint currently holds, directly or indirectly, 111,095,241 Shares.

If the Rights to be issued under this Resolution 7 vest and Shares are issued or acquired, he will hold 117,495,241 Shares. Subject to no further Shares being issued between the date of

this Notice and the date those Rights vest, Mr Ellice-Flint's holding will represent 10.23% of the issued capital of the Company.

If the Rights to be issued under this Resolution 7 and the Options in Resolution 8 subject to AGM approval held by Mr Ellice-Flint vest or are exercised and Shares are issued or acquired, he will hold 158,731,741 Shares. Subject to no further Shares being issued between the date of this Notice and the date that his Rights and Options (subject to approval of Resolution 8) vest, Mr Ellice-Flint's holding will represent 13.34% of the issued capital of the Company.

The following table demonstrates the dilution of all other Shareholders' holdings in the Company upon the vesting of Mr Ellice-Flint's Rights proposed to be issued under Resolution 7 and if Mr Ellice-Flint exercises his Options:

Shares on issue at date of this Notice	1,141,891,882
Shares issued assuming vesting of Rights and exercise of Options	47,636,500
Total Shares on issue assuming vesting of Rights and exercise of Options	1,189,528,382
Dilutionary effect (approximately)	4.17%

### ***Other Information***

Under the accounting standard AASB Share Based Payments, the Company would recognise the fair value of Rights granted to Mr Ellice-Flint as an expense of \$62,720 over three years in its income statement with a corresponding adjustment to equity. The fair value of Options (refer Resolution 8) as an expense of \$2,392 would be recognised in the same manner. This amount is further adjusted for non-market vesting conditions. This valuation is not and should not be taken to be audited financial information.

For the 12 months prior to 4 October 2016, the Company's shares traded on the ASX in a range from \$0.019 to \$0.035. As at the close of 4 October 2016, the Company's shares were quoted at \$0.026.

## **7.6 Voting Exclusion and Proxies**

In accordance with Listing Rule 14.11 and sections 224(1) and 250BD Corporations Act:

- Mr Ellice-Flint and an associate of Mr Ellice-Flint;
- a Director; and
- Key Management Personnel or their closely related parties in contravention of section 250BD of the Corporations Act,

are excluded from voting on this Resolution.

The Chairman intends to vote all undirected proxies in favour of Resolution 7.

## **7.7 Recommendation**

No Director, other than Mr Ellice-Flint, has an interest in the outcome of Resolution 7. Each Director recommends that this Resolution 7 be approved because they consider that the issue of the Rights to Mr Ellice-Flint will provide appropriate incentive to maximise the return to Shareholders over the long term to assist in developing a unity of purpose for both the Board and the Shareholders.

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## **8. Resolution 8 – Approval for the Grant of Performance Options to Mr John Ellice-Flint**

### **8.1 Background**

At a general meeting of the Company held on 5 April 2012, Shareholders appointed Mr John Ellice-Flint a Director and approved the terms of his employment contract and the grant of Performance Options pursuant to the employment agreement.

Tranche 3 of the Performance Options granted to Mr Ellice-Flint in 2012 contained a vesting condition relating to the market capitalisation of the Company, being the achievement of a \$300 million market capitalisation within 3 years of the commencement date under the employment agreement of 5 April 2012. If 50% of the market capitalisation target was achieved within that qualifying period, the qualifying period was to be automatically extended by 24 months. These vesting conditions were not satisfied and Tranche 3 of the Performance Options lapsed.

Tranche 3 of the Performance Options had an exercise price of \$0.0625.

Subject to shareholder approval, the Board has agreed to effectively extend the Tranche 3 Options by the grant of new Performance Options on the same terms as the Tranche 3 Options but with an alternative vesting date of 30 June 2019,

## 8.2 Market Capitalisation Vesting Conditions

Resolution 8 relates to the approval for grant of new Performance Options to Mr Ellice-Flint on the same terms as the previous Tranche 3 Performance Options granted in 2012 but with the inclusion of an alternative final vesting test date of 30 June 2019 in the following terms:

### *Terms and Conditions of the proposed Performance Options*

Tranche	Number	Vesting Conditions	Exercise price	Expiry date
Performance Options	41,236,500	Company achieves to a market capitalisation of \$300 million	6.25 cents	30 June 2019

Any Performance Options which have not been exercised will lapse immediately if Mr Ellice-Flint resigns or the Company terminates his employment for cause. Otherwise, the Performance Options will remain unchanged (except if there is a takeover bid or other change in control). If there is a takeover bid or other change in control of the Company which would, if successful result in the delisting of the Company from ASX or the Shares ceasing to be quoted on ASX, either:

- the Company will procure an offer to Mr Ellice-Flint for the effective exchange of the Performance Options for securities in the bidder on terms that the Directors in their discretion consider equitable to Mr Ellice-Flint; or
- all Performance Options will immediately vest on a time elapsed pro-rata basis and be capable of exercise (regardless of whether the performance hurdles have been met) within 30 days if the bid or other change of control event is or becomes unconditional.

The Performance Options are not transferrable.

If there is a reorganisation of the capital of the Company, the terms of the Performance Options will be adjusted to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

If the capital of the Company is reconstructed, the number of Performance Options and/or the exercise price of the Performance Options will be correspondingly reconstructed in a manner consistent with the Listing Rules that will not result in any additional benefits being conferred on Mr Ellice-Flint that are not conferred on Shareholders.

The full terms of the Performance Options to be granted are set out in Schedule 3.

## 8.3 Proposed Shareholder Approval

Shareholder approval is sought for the issue of 41,236,500 Performance Options to Mr John Ellice-Flint.

Mr Ellice-Flint is a related party for the purpose of Chapter 2E of the Corporations Act.

The issue of Performance Options to Mr Ellice-Flint will constitute the giving of a financial benefit to a related party under section 229(3) (e) of the Corporations Act and consequently, approval under section 208 of the Act is sought.

Listing Rule 10.11 also requires the approval of Shareholders before securities (which include options to acquire Shares) can be issued to Mr Ellice-Flint.

If Resolution 8 is passed, approval under Listing Rule 7.1 is not required as the issue of Performance Options to Mr Ellice-Flint will have been approved by Shareholders at this 2016 Annual General Meeting.

#### **8.4 Rationale for New Performance Options and Vesting Conditions**

The rationale for the proposed grant of new options with an updated vesting condition is because of a previous change in the Company's strategy of a sole focus on growing certified reserves, to a strategy of a joint focus on growing both certified reserves and market capitalisation. Accordingly the Board considers it appropriate, in the current economic and trading conditions impacting on the gas sector, and as those Performance Options of Mr Ellice-Flint linked to both certified reserves and market capitalisation have expired, to grant a new tranche of Performance Options.

The Board has decided to grant Mr Ellice-Flint's Performance Options to provide an appropriate incentive for Mr Ellice-Flint to maximise the return to Shareholders over the long term and to assist in developing a unity of purpose for both Mr Ellice-Flint and the Shareholders.

#### **8.5 Information Required by Listing Rule 10.13 and Section 219 of the Corporations Act**

For the purposes of Listing Rule 10.13 and section 219 of the Corporations Act information regarding the Rights is provided as follows:

##### ***Name of the person to whom Options are being granted***

The Performance Options will be granted to Mr John Ellice-Flint or his nominee.

##### ***Maximum number of Performance Options to be Issued***

41,236,500 Performance Options

##### ***Date of issue***

In Resolution 8 is passed, the Company will grant the Performance Options no later than one month after the date of the Meeting.

##### ***Issue Price and terms of issue for the Performance Options***

The Performance Options would be issued for nil consideration and as such, no funds will be raised by the issue of the Rights.

No loan has or will be granted in relation to the issue of the Performance Options.

The terms and conditions of the Performance Options are detailed in Schedule 3.

##### ***Issue of Performance Options***

If Resolution 8 is passed, the Company will issue the Performance Options no later than one month after the date of the Meeting.

##### ***Executive Chairman's' Remuneration and current interest in Share***

Mr Ellice-Flint's remuneration and current interests in Shares is described above on page 21 of the explanatory memorandum.

### ***Dilutionary Effect***

The following table demonstrates the dilution of all other Shareholders' holdings in the Company upon the exercise of Mr Ellice-Flint Performance Options issued under Resolution 8:

Shares on issue at date of this Notice	1,141,891,882
Shares issued assuming vesting of all Rights under Resolution 7	41,236,500
Total Shares on issue assuming vesting of all Rights under Resolution 7	1,183,128,382
Dilutionary effect (approximately)	3.49%

The potential dilutionary effect of the Performance Options and Rights (subject to resolution 7) collectively, is described above on page 22 and 23 of this explanatory memorandum.

### ***Valuation of Performance Options***

A valuation of the Performance Options proposed to be granted under Resolution 8 has been obtained and, on the basis of the assumptions set out below, the technical value of the Performance Options is as follows:

<b>Tranche</b>	<b>Number of Options</b>	<b>Fair Value per Option</b>	<b>Total Fair Value of Options</b>
Performance Options	41,236,500	0.0058cents	\$2,391.72

This valuation imputes a total fair value of \$2,391.72 to the Performance Options. This value may go up or down after the date of valuation as it will depend on the future price of the Monte Carlo process used, together with the following assumptions:

- the risk free rate is the Commonwealth Government three year bond rate with a maturity date as at 30 June 2016, being 1.55%;
- the underlying security spot price used for the purposes of this valuation is based on the price of the Shares as at 30 June 2016, being \$0.022;
- the recent volatility of the share price using Hoadley's volatility calculator, using data extracted from Bloomberg, being 80%;
- for the purposes of the valuation, no future dividend payments have been forecast;
- the valuation has been undertaken based upon meeting the 100% of the Vesting Conditions; and
- for the purposes of the valuation it is assumed that the Options will not vest any earlier than 30 June 2019.

The Board believes, having taken appropriate expert advice on the matter, that this valuation model is appropriate in the circumstances. The Board has not used any other valuation or model in proposing the terms or number of the Performance Options.

### ***Other Information***

For the 12 months prior to 4 October 2016, the Company's shares traded on the ASX in a range from \$0.019 to \$0.035. As at the close of 4 October 2016, the Company's shares were quoted at \$0.026.

## **8.6 Voting Exclusion and Proxies**

In accordance with Listing Rule 14.11 and section 224(1) Corporations Act, Mr Ellice-Flint and his nominee, and their associates are excluded from voting on Resolution 8.

Further, Key Management Personnel or their Closely Related Parties must not vote in contravention of section 250BD of the Corporations Act.

The Chairman intends to vote all undirected proxies in favour of Resolution 8.

## **8.7 Recommendation**

No Director, other than Mr Ellice-Flint, has an interest in the outcome of Resolution 8. Each Director recommends that Resolution 8 be approved because they consider that the proposed changes to the vesting conditions are necessary to give further incentive to Mr Ellice-Flint to increase Shareholder value.

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## **Action to be Taken by Shareholders**

Shareholders should read this Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a representative (a "proxy") to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, to sign and return the Proxy Form to the Company in accordance with the instructions provided below.

- delivered by post to the Share Registry of the Company, Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria 3001; or
- sent by fax to the Share Registry of the Company, Computershare Investor Services Pty Limited on 1800 783 447 (within Australia) or + 61 3 9473 2555 (outside Australia); or
- online by visiting [www.investorvote.com.au](http://www.investorvote.com.au) and logging in using the control number found on the front of your accompanying proxy form. You may also scan the QR code on the front of the accompany proxy form with your mobile device and insert your post. Intermediary Online subscribers (Institutions/Custodians) may lodge their proxy instruction online by visiting [www.intermediaryonline.com](http://www.intermediaryonline.com).

To be effective, proxy forms must be received by the Company at its registered office or deposited at or faxed to the share registry no later than 48 hours prior to the meeting.

Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

## Schedule 1 - Definitions

In this Explanatory Memorandum and Notice terms defined in the Employee Incentive Rights Plan or Corporations Act have the same meaning when used in this document and:

**“Annual Report”** means the Company’s annual report for the period ending 30 June 2012.

**“ASIC”** means the Australian Securities and Investments Commission.

**"ASX"** means ASX Limited ACN 008 624 691 or the securities exchange operated by it (as the case requires).

**“Board”** means the board of Directors of the Company.

**"Company"** means Blue Energy Limited ACN 054 800 378.

**"Corporations Act"** means the *Corporations Act 2001* (Cth).

**“Director”** means a director of the Company.

**“EST”** means Eastern Standard Time, being the time in Brisbane, Queensland.

**“Employee Incentive Rights Plan”** means the plan set out in Schedule 2.

**"Explanatory Memorandum"** means the explanatory memorandum to this Notice.

**“Listing Rules”** means the Listing Rules of ASX.

**“Meeting”** has the meaning given in the introductory paragraph of this Notice.

**"Notice"** means this notice of meeting.

**“Options”** means options to acquire Shares.

**“Performance Right”** means a right which converts into one Share and which vests based on achievement of specified performance objectives.

**“Performance Option”** means an option exercisable over one Share and which vests based on achievement of specified performance objectives.

**"Proxy Form"** means the proxy form attached to the Notice.

**“Resolution”** means a resolution for the consideration of Shareholders at the Meeting.

**“Remuneration Report”** means the report of that name set out in the Annual Report.

**“Retention Right”** means a right which converts into one Share and which vests based on completion of a period of service.

**“Rights”** means Incentive Rights (being either Retention Rights or Performance Rights) under the Employee Incentive Rights Plan.

**"Schedule"** means a schedule to this Notice.

**“Share”** means a fully paid ordinary share in the capital of the Company.

**“Shareholder”** means a registered holder of a Share.

Words importing the singular include the plural and conversely.

## **Schedule 2 – Terms and Conditions of the Blue Energy Employee Incentive Rights Plan**

### **1. Purpose**

This Blue Energy Limited Incentive Rights Plan (the Plan) is governed by the rules contained in this document (the Rules or Plan Rules).

The purposes of the Plan include to:

- ensure that employees have commonly shared goals related to producing relatively high returns for shareholders,
- assist employees to become shareholders in Blue Energy Limited (Blue Energy),
- provide a component of remuneration to enable Blue Energy to compete effectively for the calibre of talent required for it to be successful, and
- help retain employees, thereby minimising turnover and stabilising the workforce.

The Plan has been designed to deliver a combination of cash and Shares based on achievement of service and performance criteria.

### **2. Dictionary**

Explanations of terms and abbreviations used in these Rules are contained in Schedules A and B.

In the event of a conflict between the Plan Rules, the ASX Listing Rules and/or the Corporations Act, ASX Listing Rules and/or the Corporations Act shall prevail.

### **3. Administration**

This Plan will be administered by the Board of Blue Energy, but it may delegate responsibility to a committee of the Board in relation to all Participants or to the Managing Director in relation to Participants other than the Managing Director. The Board is authorised, subject to the provisions of these Rules, to establish such guidelines for the administration of the Plan as are deemed appropriate, and to make determinations under the Plan as may be deemed necessary or advisable from time to time. Such determinations shall be conclusive and binding on all Participants.

### **4. Eligibility**

All full-time and permanent part-time employees and all Directors of Blue Energy and its subsidiary companies are eligible to become Participants in the Plan.

Casual employees and independent contractors are not eligible to participate.

### **5. Offers**

The Plan will operate through a series of Offers of Incentive Rights. The Board will in its absolute discretion determine in respect of each Offer those Eligible Employees to whom Offers will be made.

Each Offer may contain terms and conditions that vary between Offers. The terms and conditions that apply to an Offer are to be determined by the Board and once determined are deemed to form part of Schedule B to these Rules.

### **6. Participants**

Eligible Employees who are offered and accept Incentive Rights will be referred to as Participants in the Plan. They will remain Participants until all Incentive Rights they have been granted have either lapsed or been paid out after vesting.

Being made an Offer or Offers under the Plan does not guarantee nor confer any entitlement to receive any other Offer under the Plan.

The form of the Offer of Incentive Rights to selected employees shall be determined by the Board in its discretion from time to time.

### **7. Incentive Rights**

Two types of Incentive Rights may be offered to Participants being:

- Retention Rights which vest based on completion of a period of service, and
- Performance Rights which vest based on achievement of specified performance objectives.

## 8. Offer of Retention Rights

When Offers are made to selected Eligible Employees they will be advised of the number of Retention Rights, if any, that they are offered. The number of Retention Rights offered to a Participant will be calculated by applying the following formula unless otherwise determined by the Board:

$$\text{Number of Retention Rights} = \text{Participant's Base} \times \text{Target Retention LTI\%} \div \text{Right Value}$$

For example: for a Participant in an Executive Team member with a Target Retention LTI% of 10% and a Right Value of \$0.20 (see later example calculations) the number of Retention Rights would be calculated as follows and would be rounded to the nearest 1,000 unless otherwise determined by the Board:

$$\begin{aligned} \text{Number of Retention Rights} &= \text{Participant's Base} \times \text{Target Retention LTI\%} \div \text{Right Value} \\ &= \$300,000 \times 10\% \div \$0.20 \\ &= \$30,000 \div \$0.20 \\ &= 150,000 \end{aligned}$$

Target Retention LTI%s for categories of Eligible Employees are specified in Schedule B in relation to each Offer.

## 9. Offers of Performance Rights

When Offers are made to selected Eligible Employees they will be advised of the number of Performance Rights, if any, that they are offered. The number of Performance Rights offered to a Participant will be calculated as follows and would be rounded to the nearest 1,000 unless otherwise determined by the Board:

$$\text{Number of Performance Rights} = \text{Participant's Base} \times \text{Target Performance LTI\%} \div \text{Adjusted Right Value}$$

For example: for a Participant in a Direct Report role with a Base of \$300,000, a LTI% of 40% and an Adjusted Right Value of \$0.10 (see later example calculations) the number of Performance Rights would be calculated as follows:

$$\begin{aligned} \text{Number of Performance Rights} &= \text{Participant's Base} \times \text{Target Performance LTI\%} \div \text{Adjusted Right Value} \\ &= \$300,000 \times 40\% \div \$0.10 \\ &= \$120,000 \div \$0.10 \\ &= 1,200,000 \end{aligned}$$

If the Target Performance LTI% is divided into multiple tranches of Performance Rights then the Target Performance LTI% will be adjusted for each tranche to reflect the portion of the Target Performance LTI% to be provided in that tranche.

Target Performance LTI%s for categories of Eligible Employees are specified in Schedule B in relation to each Offer.

## 10. Right Value and Adjusted Right Value

For purposes of determining the number of Incentive Rights to be allocated under the Plan the Right Value and Adjusted Right Value will be calculated as indicated below.

The Right Value will be taken as the Offer Share Price reduced by the expected dividends over the minimum vesting period under the Offer. Unless otherwise determined by the Board, the minimum expected dividends will be calculated by multiplying the most recent annual amount of dividends by the minimum term, expressed in years, of the Measurement Period.

Thus, if the Offer Share Price was \$0.20, annual dividends were nil cents p.a. and the minimum vesting period were 3 years then the Right Value would be \$0.20 calculated as follows:

$$\begin{aligned} \text{Right Value} &= \text{Offer Share Price} - (\text{Annual Dividend} \times \text{Minimum Vesting Period}) \\ &= \$0.20 - (\$0.00 \times 3) \\ &= \$0.20 - \$0.00 \\ &= \$0.20 \end{aligned}$$

The Adjusted Right Value will be determined by multiplying the Right Value by the probability of vesting as determined by the Board having regard to the vesting conditions attached to the Performance Rights. Unless otherwise determined by the Board the probability of vesting will be 50%. The Adjusted Right Value would be calculated as follows:

$$\begin{aligned}
 \text{Adjusted Right Value} &= \text{Right Value} \times \text{Probability of Vesting} \\
 &= \$0.20 \times 50\% \\
 &= \$0.10
 \end{aligned}$$

## 11. Withdrawal of Offers

The Board may at its absolute discretion withdraw an offer at any time including after it has been accepted by a Eligible Employee provided that the Company has not granted the Incentive Rights that were the subject of the Offer.

Situations in which such withdrawals may occur include when the Board becomes aware that the employment of an Eligible Employee will cease in the near term.

## 12. Acceptance of Offers of Incentive Rights

The form in which Offers may be accepted shall be determined by the Board in its discretion from time to time. In accepting an Offer the Participant will be agreeing to be bound by these Rules.

Offers may be accepted or rejected but may not be partially accepted.

## 13. Incentive Rights May Not Be Transferred or Encumbered

An Incentive Right may not be transferred or otherwise dealt with (including for purposes of this Rule, be disposed of, encumbered, made subject to any interest in favour of any other person) and lapses immediately on purported transfer or dealing unless the Board, in its absolute discretion, approves the transfer or dealing or the transfer is effected by operation of law on death or legal incapacity to the Participant's legal personal representative.

## 14. Granting of Incentive Rights

The Company will use reasonable endeavours to grant the Incentive Rights subject to an offer and acceptance, unless otherwise withdrawn in accordance with clause 11, with 1 month of the offer been accepted

## 15. Measurement Periods

The Measurement Period applicable to each tranche in each Offer will be specified in Schedule B. The Measurement Periods will relate to periods where service and performance conditions must be satisfied for Retention Rights and Performance Rights, respectively, to vest.

## 16. Performance Measures

Performance Measures are service and/or performance conditions that need to be satisfied for Incentive Rights to vest. They are specified in Schedule B, along with the relationship between various potential levels of performance and levels of vesting that may occur. Performance conditions will be determined for each tranche of each Offer by the Board and may vary between Offers.

## 17. Vesting of Incentive Rights

Following the end of the Measurement Period, the Board will determine for each tranche of Incentive Rights to which the Measurement Period applies, the extent to which they vest. The steps involved are as follows:

Step	Process
1	Determine actual performance in relation to the Performance Measure.
2	Determine the vesting percentage from the Vesting Scale relevant to the tranche of Incentive Rights. For example: if Blue Energy's TSR were 20% per annum compound then the vesting percentage would be 37.5% (see Schedule B 31.1, Item 4 table 1).
3	If vesting occurs in relation to a tranche then a cash award of \$1,000 (pre PAYE tax) will be payable to the Participant in relation to that tranche. It will be paid via Payroll with PAYG tax deducted. For example, if vesting occurs in relation to 2 tranches then the Participant would receive a \$2,000 cash award.
4	Determine the number of Incentive Rights of each type that are held in relation to the Offer after taking into account Rules 17 and 19.
5	Determine the number of Incentive Rights of each type to vest by multiplying the vesting percentage by the number of Incentive Rights of each type held.
6	Calculate the Vested Rights Value for each tranche by multiplying the relevant number of vested rights in the tranche by the relevant Vesting Share Price.

Step	Process
7	If the Vested Rights Value for a tranche is more than \$1,000 then the Participant will be entitled to Restricted Shares. The number of Restricted Shares will be determined by dividing the excess of the Vested Rights Value for the tranche over \$1,000 by the relevant Vesting Share Price.

## 18. Lapsing of Incentive Rights

If Incentive Rights in a tranche have not vested and there is no opportunity for those Incentive Rights to vest at a later date then they lapse. Typically this will be following testing of Incentive Rights if they fail to vest.

## 19. Restricted Shares

The Company will either issue Restricted Shares to Participants or arrange for them to be acquired for the Participant's benefit by the trustee of the Blue Energy EST. When Shares are to be acquired by the Blue Energy EST, the Participant's employer or Blue Energy will contribute the then market value of the Shares to be acquired to the trustee of the Blue Energy EST and the trustee shall apply those funds to acquire Shares by on-market purchase or subscription to a new issue as directed by the Board of Blue Energy.

Restricted Shares means that they may not be sold or otherwise disposed of by Participants until first advised by the Company, which the Company shall do at the first opportunity to do so, when Shares may be sold without breaching the insider trading provisions of the Corporations Act or the Company's share trading policy.

## 20. Bonus Issues, Rights Issues and Capital Reorganisation

In cases of bonus share issues by the Company the number of Incentive Rights held by a participant shall be increased by the same number as the number of bonus shares that would have been received by the Participants had the Incentive Rights been fully paid ordinary shares in Blue Energy.

In the case of general rights issues (other than Incentive Rights) to Blue Energy shareholders there will be no adjustment to the Incentive Rights. However, the Board may consider issuing options:

- of a number up to the number of shares to which the Participant would have been entitled had the Incentive Rights been fully paid ordinary shares in Blue Energy, and
- the exercise price of such options will be equal to the amount payable by Blue Energy shareholders to exercise a right to acquire a share.

In the case of all other issues of securities there will be no adjustment to the Incentive Rights.

In the case of other capital reconstructions the Board may make such adjustments to the Incentive Rights as it considers appropriate with a view to ensuring that holders of Incentive Rights are neither advantaged nor disadvantaged.

## 21. Termination of Employment or ceasing to be a Director

The following table indicates the treatment of unvested Incentive Rights at the date of termination of employment or the date of ceasing to be a Director

Termination Circumstance	Unvested Retention Rights	Unvested Performance Rights
Dismissal (termination for cause), removal as a director or failure to be re-elected by shareholders	All are forfeited.	All are forfeited.
Resignation	All are forfeited unless and to the extent otherwise determined by the Board.	All are forfeited unless and to the extent otherwise determined by the Board.
Death Total Permanent Disablement (termination for illness)	Retention Rights granted in the financial year of termination of employment are forfeited in the same proportion as the remainder of the financial year	Performance Rights granted in the financial year of termination of employment are forfeited in the same proportion as the remainder of the financial year bears to the full financial year.

Termination Circumstance	Unvested Retention Rights	Unvested Performance Rights
Retirement with the approval of the Board	bears to the full financial year. Retention Rights that do not lapse at the termination of employment will continue to be held by Participants with a view to testing for vesting at the end of the Measurement Period.	Performance Rights that were granted in a year prior to the year of termination of employment and were first tested for vesting not later than the date of termination of employment, will be forfeited.
Company initiated termination without cause e.g. retrenchment and redundancy	If the share price at the date of testing is less than the share price at the date of termination of employment then all unvested Retention Rights lapse. If the share price at the date of testing is not less than the share price at the date of termination of employment then Retention Rights granted in the financial year of termination and prior years that have not been forfeited will vest. Retention Rights vesting will be dealt with pursuant to Rules 16 and 18.	Performance Rights that do not lapse at the termination of employment will continue to be held by Participants with a view to testing for vesting at the end of the Measurement Period. If the share price at the date of testing is less than the share price at the date of termination of employment then all unvested Performance Rights lapse. If the share price at the date of testing is not less than the share price at the date of termination of employment then Performance Rights granted in the financial year of termination and prior years that have not been forfeited will be tested once for vesting at the end of the Measurement Period. If they do not vest at that time then they will be forfeited. Performance Rights vesting will be dealt with pursuant to Rules 16 and 18.

## 22. Change-In-Control Including Takeover

In the event of a change-in-control including a takeover the vesting conditions attached to the tranche at the time of the Offer will cease to apply and the following approach will apply to determining the extent, if any, of vesting.

In the event of a change-in-control including a takeover, unvested Incentive Rights will vest in the proportion that the Company's share price has grown since the date of grant of the Incentive Rights or such greater proportion as determined in the discretion of the Board. Maximum vesting is 100%.

In determining whether the Share Price has increased the current Blue Energy Share Price (offer price in the case of a takeover offer) is to be compared to the Offer Share Price for that tranche.

For example, if the Offer Share Price for a tranche were \$0.12 and the successful takeover offer were at \$0.18 then 50% ( $(\$0.18 - \$0.12) \div \$0.12$ ) would be the percentage of the unvested Incentive Rights to vest. Any Incentive Rights that do not vest would lapse.

## 23. Fraud, Gross Misconduct, Etc

In the event that the Board forms the opinion that a Participant has committed an act of fraud, defalcation or gross misconduct in relation to Blue Energy, the Participant will forfeit all unvested Incentive Rights.

## 24. Plan Limits

In the case of an offer of new Shares for issue, the number of Shares, the subject of the offer when aggregated with:

- a) the number of Shares in the same class which would be issued were each outstanding offer with respect to the Shares, units of Shares and options to acquire unissued Shares under any employee incentive scheme to be accepted or exercised (as the case may be); and
- b) the number of Shares in the same class issued during the previous 5 years pursuant to the Plan or any other employee incentive scheme extended only to Employees or directors of a Group Company,

but disregarding any offer made, or option acquired or Share issued by way of or as a result of:

- c) an offer to a person situated at the time of the receipt of the offer outside Australia; or

- d) an offer that was an excluded offer or Invitation within the meaning of the Corporations Act as it stood prior to the commencement of Schedule 1 to the Corporate Law Economic Reform Program Act 1999; or
- e) an offer that did not need disclosure to investors because of Section 708 of the Corporations Act;
- f) or an offer that did not require the giving of a Product Disclosure Statement because of Section 1012D of the Corporations Act; or
- g) an offer made under a disclosure document or Product Disclosure Statement,

must not exceed 5% of the total number of issued Shares in that class of the Company at the time of the offer.

## **25. Board Determinations and Amendment of the Plan**

A determination by the Board or a Committee or a delegate of the Board may be evidenced by minutes of a meeting of the Board or Committee or a record of a determination by the delegate (as applicable). Any such minute or determination shall be prima facie evidence of the determination in the absence of manifest error.

The Board may at any time by written instrument, or by resolution of the Board, amend or repeal all or any of the provisions of the Rules, including this rule.

No amendment to or repeal of the Rules is to reduce the existing rights of any Participant in respect of any Offers that had commenced prior to the date of the amendment or repeal, other than with the consent of the Participant or where the amendment is introduced primarily:

- for the purpose of complying with or conforming to a present or future State, Territory or Commonwealth legal requirement governing, regulating or effecting the maintenance or operation of the Plan or like plans;
- to correct any manifest error or mistake;
- to address possible adverse tax implications for Participants generally or Blue Energy arising from:
  - a ruling of any relevant taxation authority;
  - a change to tax legislation or the application or termination of the legislation or any other statute or law (including an official announcement by any relevant taxation or government authority);
  - a change in interpretation of tax legislation by a court of competent jurisdiction or by any relevant taxation authority; or
  - to enable Blue Energy to comply with the Corporations Act, Companies Act or the Listing Rules.

## **26. Not Exclusive Method of Incentive**

This Plan shall not be an exclusive method of providing incentive compensation for employees of Blue Energy, nor shall it preclude Blue Energy from authorising or approving other forms of incentive compensation.

## **27. No Right to Continued Employment**

Neither the establishment of the Plan nor receipt of an Offer nor the payment of an award nor the vesting of Rights or any other action under the Plan shall be held to confer upon any Participant the right to continue in the employment of Blue Energy or affect any rights Blue Energy may have to terminate the employment of the Participant.

## **28. Relationship to Other Plans**

Participation in the Plan shall not affect or be affected by participation in or payment under any other plan of Blue Energy, except as otherwise determined by the Board.

## **29. Governing Law**

These Rules are governed by the laws of Queensland, Australia.

### 30. SCHEDULE A – DICTIONARY

The terms and abbreviations used in these Rules have the following meanings.

ASX	ASX Limited ACN 008 624 691 (aka Australian Securities Exchange).
Base or Base Package	In relation to an employee means the annualised value of salary, superannuation, other benefits and fringe benefits tax comprising the fixed remuneration, as determined by the Board.
Blue Energy	Blue Energy Limited ACN 054 800 378.
Blue Energy EST	Blue Energy employee share trust.
Board	The Board of Blue Energy.
Company	Blue Energy
Change in control	When 50% or more of the ordinary shares are held by a person or group of associated persons or 50% or more of the votes that may be cast at a general meeting are under the control of a person or group of associated persons.
Corporations Act	Corporations Act 2001 (Cth).
Current Share Price	Blue Energy' market share price at the relevant time, as determined by the Board.
Director	A director of Blue Energy
Eligible Employees	Those employees of Blue Energy who are eligible to become Participants under Rule 4.
Incentive Rights	Includes both Retention Rights and Performance Rights. Each Incentive Right converts to 1 Share.
Listing Rules	The Listing Rules of ASX.
Managing Director	The Managing Director for the time being of Blue Energy.
Measurement Period	In relation to Offers of Incentive Rights means the period or periods specified in Schedule B in relation to the Offer.
Offer	An offer of Incentive Rights under the Plan.
Offer Share Price	The volume weighted average share price at which Blue Energy's shares were traded on the ASX over the twenty (20) trading days prior to and including the 30 June preceding the Offer or such other date determined by the Board.
Participant	See rule 6.
PAYG	Pay As You Go tax instalment system.
Performance Measure	One or more types of performance measurement, as determined by the Board.
Performance Rights	These are Performance Rights where vesting is based on satisfaction of performance criteria. Each Performance Right converts to 1 Share.
Plan	Blue Energy Limited Incentive Rights Plan.
Rules or Plan Rules	These rules that govern the Plan.
Tranche	Refers to a portion of a grant of Incentive Rights that relates to a specific Performance Measure, as determined by the Board.
TSR	Total shareholder return being the percentage change over a period in shareholder value due to share price movement and dividends assuming that they are reinvested into Blue Energy shares as determined by the Board.
Shares	Means fully paid ordinary shares in Blue Energy.
Schedule	These are the schedules attached to and forming part of these Plan Rules.
Vesting Share Price	The volume weighted average share price at which Blue Energy's shares were traded on the ASX over the twenty (20) trading days prior to and including the last day of the measurement period.
\$	Australian Dollars.

## 31. SCHEDULE B – OFFER CONDITIONS

### 31.1 2016 Offers

1.	Measurement Periods	<ul style="list-style-type: none"> <li>• Retention Rights: 1 July 2015 to 30 June 2018</li> <li>• Performance Rights:               <ul style="list-style-type: none"> <li>a. First test: 1 July 2015 to 30 June 2018,</li> <li>b. Retest: 1 July 2018 to 30 June 2019</li> </ul> </li> </ul> <p>NB: Retest only applies if nil vesting occurs at the first test.</p>																					
2.	LTI% Tranches	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="background-color: #cccccc;">Incentive Rights</th> <th colspan="3" style="background-color: #cccccc;">Target</th> </tr> <tr> <th style="background-color: #cccccc;">Managing Director</th> <th style="background-color: #cccccc;">Executive Team</th> <th style="background-color: #cccccc;">Key Management</th> </tr> </thead> <tbody> <tr> <td>Retention LTI%</td> <td>Up to 10%</td> <td>Up to 10%</td> <td>Up to 10%</td> </tr> <tr> <td>Performance LTI%</td> <td>Up to 60%</td> <td>Up to 40%</td> <td>Up to 20%</td> </tr> </tbody> </table>	Incentive Rights	Target			Managing Director	Executive Team	Key Management	Retention LTI%	Up to 10%	Up to 10%	Up to 10%	Performance LTI%	Up to 60%	Up to 40%	Up to 20%						
Incentive Rights	Target																						
	Managing Director	Executive Team	Key Management																				
Retention LTI%	Up to 10%	Up to 10%	Up to 10%																				
Performance LTI%	Up to 60%	Up to 40%	Up to 20%																				
3.	Vesting Scale for Retention Rights	<p>Service Vesting Scale is as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #cccccc;">Performance Level</th> <th style="background-color: #cccccc;">Period of Service</th> <th style="background-color: #cccccc;">Vesting%</th> </tr> </thead> <tbody> <tr> <td>&lt; Target</td> <td>Employment ceases before 30 June 2019</td> <td>0%</td> </tr> <tr> <td>Target</td> <td>Employment ceases on or after 30 June 2019</td> <td>100%</td> </tr> </tbody> </table> <p>If Retention Rights have not been forfeited on termination of employment under Rule 20 then for purposes of the above vesting scale, employment will be deemed to cease on 30 June 2019.</p>	Performance Level	Period of Service	Vesting%	< Target	Employment ceases before 30 June 2019	0%	Target	Employment ceases on or after 30 June 2019	100%												
Performance Level	Period of Service	Vesting%																					
< Target	Employment ceases before 30 June 2019	0%																					
Target	Employment ceases on or after 30 June 2019	100%																					
4.	Absolute TSR Vesting Scale	<p>At the end of the first test Measurement Period the following vesting scale will be applied to Performance Rights based on the TSR achieved by the Company during the Measurement Period.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #cccccc;">Performance Level</th> <th style="background-color: #cccccc;">Compound Annual Rate of the Company's TSR Over the Measurement Period</th> <th style="background-color: #cccccc;">Vesting%</th> </tr> </thead> <tbody> <tr> <td>&lt;Threshold</td> <td>&lt;15%</td> <td>0%</td> </tr> <tr> <td>Threshold</td> <td>15%</td> <td>25%</td> </tr> <tr> <td>&gt;Threshold &amp; &lt;Target</td> <td>&gt;15% &amp; &lt;25%</td> <td>Pro rata</td> </tr> <tr> <td>Target</td> <td>25%</td> <td>50%</td> </tr> <tr> <td>&gt;Target &amp; &lt;Stretch</td> <td>&gt;25% &amp; &lt;50%</td> <td>Pro rata</td> </tr> <tr> <td>Stretch</td> <td>≥50%</td> <td>100%</td> </tr> </tbody> </table> <p>At the retest date the foregoing scale will also apply.</p>	Performance Level	Compound Annual Rate of the Company's TSR Over the Measurement Period	Vesting%	<Threshold	<15%	0%	Threshold	15%	25%	>Threshold & <Target	>15% & <25%	Pro rata	Target	25%	50%	>Target & <Stretch	>25% & <50%	Pro rata	Stretch	≥50%	100%
Performance Level	Compound Annual Rate of the Company's TSR Over the Measurement Period	Vesting%																					
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Target	25%	50%																					
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Stretch	≥50%	100%																					

## Schedule 3 – Terms of the Performance Options to be issued to Mr John Ellice-Flint

### Part I Forfeiture and Vesting Conditions

Entitlement	Forfeiture Condition	Exercise Price	Expiry Date
41,236,500 Performance Options	Company achieves \$300 million market capitalisation on or before the Expiry Date. The market capitalisation will be determined by the closing valuation on the ASX on at least 5 consecutive trading days.	\$0.0625	5 years from date of this agreement.

### Part II Terms of Vesting Performance Options

#### Termination

Cause of Termination of Employment	Exercised Options /Vested Options	Unvested Options
Resignation	Retain Shares obtained under exercised Performance Options. Unexercised vested Performance Options lapse immediately.	Lapse immediately
Termination for cause	Retain Shares obtained under exercised Performance Options. Unexercised vested Performance Options lapse immediately.	Lapse immediately
Termination without cause	Retain Shares obtained under exercised Performance Options. Retain unexercised vested Performance Options.	Retain unvested Performance Options with Qualifying Requirements unchanged
Removal as a Director	Retain Shares obtained under exercised Performance Options. Retain unexercised vested Performance Options.	Retain unvested Performance Options with Qualifying Requirements unchanged
Termination for downgrading or diminishing of role and responsibilities	Retain Shares obtained under exercised Performance Options. Retain unexercised vested Performance Options.	Retain unvested Performance Options with Qualifying Requirements unchanged
Termination for Company's breach	Retain Shares obtained under exercised Performance Options. Retain unexercised vested Performance Options.	Retain unvested Performance Options with Qualifying Requirements unchanged
Termination due to death or disability	Retain Shares obtained under exercised Performance	Retain unvested Performance Options

	Options. Retain unexercised vested Performance Options.	with Qualifying Requirements unchanged, but in any event lapse 12 months after termination
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## Takeover

In the event that a takeover bid or another change of control event is initiated which, if successful, would result in the delisting of the Company or its securities ceasing to have official quotation:

- a) The Company will use their reasonable endeavours to procure that an offer is made on like terms (having regard to the nature and value of the Performance Options) and incorporated into a new plan or agreement with the bidder that will preserve your rights and value.
- b) In the event that a new plan or agreement cannot be procured on terms the Directors, in their absolute discretion, consider equitable, then all unvested Performance Options will become vested, on a time elapse pro-rata basis, and exercisable within 30 days if the bid or other change of control event is or becomes unconditional.

## Other Terms

- a) Performance Options will not confer an entitlement to receive dividends declared and paid by the Company, nor an entitlement to vote at general meetings of the Company.
- b) Performance Options will not confer an entitlement to participate in new issues of Shares without the holder first exercising the option.
- c) Subject to the Company's constitution, each Share issued on the exercise of a Performance Option will rank equally in all respects with other issued Shares.
- d) The Company will not apply to ASX for official quotation of the Performance Options.
- e) The Company will apply for official quotation by ASX of the Shares issued upon exercise of Performance Options within the time period required by the ASX Listing Rules.
- f) Performance Options will not be assignable or transferable except to a Company controlled by the holder or to a trust in which the holder or members of the holder's immediate family are a principal beneficiary or (in the case of death) to the holder's personal representative.
- g) In the event of a reorganisation of the capital of the Company, the rights of the holder will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
- h) If the capital of the Company is reconstructed, the number of Performance Options and/or the exercise price of the Performance Options will be correspondingly reconstructed in a manner that will comply with the Listing Rules and will not result in any additional benefits being conferred on the holder that are not conferred on shareholders.



