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**Carnegie Wave Energy Limited
Employee Share Option Plan 2016**

Date: 4 November 2016

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Table of Contents

Rule	Page No
1. Definitions and interpretations	1
1.1 Definitions.....	1
1.2 Interpretation.....	3
2. Objectives.....	4
3. The Plan	4
3.1 Administration of Plan.....	4
3.2 Directors.....	5
3.3 Term of Plan	5
3.4 Participation	5
4. Maximum number of Options.....	5
5. Offers of Options	6
5.1 Quotation.....	6
5.2 Offers to Eligible Persons	6
5.3 Eligibility to Participate.....	6
5.4 Offers by the Board	6
6. Acceptance of Offer.....	6
6.1 Renunciation.....	6
6.2 Acceptance of Offer	7
6.3 Acceptance time period.....	7
6.4 Board's right to reject	7
6.5 Issue of Options.....	7
6.6 Participant agrees to be bound	7
7. Terms and Conditions of Issue	7
7.1 Standard terms and conditions.....	7
7.2 Number of Options	7
7.3 No consideration	8
7.4 Quotation.....	8
7.5 Exercise Price.....	8
7.6 Exercise conditions.....	8
7.7 Expiry	8
7.8 Transfer of rights.....	8
7.9 Security Interests.....	8
7.10 Dividend and voting rights	8
7.11 Participation generally	8
7.12 Pro rata issue of securities.....	9
7.13 Adjustment for bonus issues.....	9
7.14 Reorganisation	9
7.15 Notice of Adjustments.....	9
7.16 Cumulative Adjustments	9
8. Exercise of Options.....	9
8.1 Exercise.....	9
8.2 Part exercise.....	10
8.3 Issue of Shares	10
8.4 Beneficial owner of Shares.....	10
8.5 Equal rank.....	11

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Table of Contents

Rule	Page No
9. Cessation of Employment	11
9.1 Effect of Cessation of Employment.....	11
9.2 Special Circumstances	11
9.3 Transfer of Options	12
10. Taxation	12
11. Listing Rules	12
12. Amendments to the Plan	12
12.1 Amendment by Board.....	12
12.2 Amendments requiring consent of Participants.....	12
12.3 Amendments requiring Shareholder approval	13
12.4 Termination and suspension	13
13. Governing Law	13

Carnegie Wave Energy Limited
ACN 009 237 736

Employee Share Option Plan

The Board is empowered to operate the Carnegie Wave Energy Limited Employee Share Option Plan 2016 (**Plan**) on the following terms and in accordance with the Listing Rules (where applicable). This document sets out the Rules of the Plan.

1. Definitions and interpretations

1.1 Definitions

For the purposes of these Rules, the following terms have the following meanings:

Application means an application in the form set out in Annexure A or in such other form as the Board may from time to time prescribe, accepting an Offer from the Board to apply for Options in the Plan, made pursuant to these Rules.

Application Date means the date on which a completed Application is approved by the Company in accordance with the requirements of these Rules.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term in the *Income Tax Assessment Act 1936* (Cth).

Associated Body Corporate means:

- (a) a Related Body Corporate of the Company;
- (b) a body corporate that has voting power in the Company of not less than 20%;
or
- (c) a body corporate in which the Company has voting power of not less than 20%.

ASX means ASX Limited (ACN 008 624 691) and its subsidiaries, or the Australian Securities Exchange operated by ASX Limited, as the context requires.

Board means the Directors, from time to time, acting as a board.

Business Day has the same meaning as in the Listing Rules.

Class Order means ASIC Class Order [CO14/1000] as amended or replaced.

Company means Carnegie Wave Energy Limited (ACN 009 237 736).

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

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

Eligible Person means:

- (a) a full-time or part-time employee of the Company or an Associated Body Corporate;

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- (b) a Director of the Company or an Associated Body Corporate;
 - (c) contractor or casual employee engaged or employed by the Company or an Associated Body Corporate who is determined by the Board to:
 - (i) work a pro rata equivalent of 40% or more of a comparable full-time position; and
 - (ii) otherwise be eligible to receive Options under the Plan; and
 - (d) any other person determined by the Board to be an Eligible Person for the purposes of the Plan.

Exercise Price means the issue price per Share payable in cash upon exercise of an Option being such price determined by the Directors in their absolute discretion and set out in the Offer.

Expiry Date means, in respect of an Option, the date that the Option will lapse if not otherwise exercised as determined by the Board in its absolute discretion and as set out in the Offer.

Incentive Scheme means an arrangement under which offers of financial products of the Company or an Associated Body Corporate are made to persons that are designed to support interdependence between the Company or the Associated Body Corporate (as applicable) and those persons for their long-term mutual benefit.

Listing Rules means the Listing Rules of the ASX as amended from time to time.

Nominee means:

- (a) an immediate family member of the Eligible Person;
- (b) a company whose members comprise no persons other than the Eligible Person or immediate family members of the Eligible Person; or
- (c) a corporate trustee of a self-managed superannuation fund (within the meaning of the *Superannuation Industry (Supervision) Act 1993*) where the Eligible Person is a director of the trustee,

being a permitted Nominee under Rule 6.1.

Offer means the offer of Options made in accordance with Rule 5.

Option means an option to subscribe for a Share issued in accordance with these Rules.

Option Exercise Notice means a notice for the exercise of Options in accordance with the Rules in the form set out in Annexure B to these Rules or in such other form as the Board from time to time prescribes.

Optionholder means the holder of an Option.

Participant means a person who, at the relevant time, holds one or more Options issued under this Plan.

Plan means the Carnegie Wave Energy Limited Employee Share Option Plan 2016 established in accordance with these Rules.

Related Body Corporate has the same meaning as given to that term in the Corporations Act.

Rules means the rules of the Carnegie Wave Energy Limited Employee Share Option Plan 2016 as set out in this document as amended from time to time.

Security Interest means any mortgage, pledge, charge, lien, encumbrance, assignment, security interest, preferential right, set-off or any other security arrangement.

Share means a fully paid ordinary share in the Company.

Shareholder means the holder of a Share.

1.2 Interpretation

In these Rules unless the context otherwise requires:

- (a) headings are for convenience only and do not affect its interpretation;
- (b) an obligation or liability assumed by, or a right conferred on, 2 or more parties binds or benefits all of them jointly and each of them severally;
- (c) the expression "person" includes an individual, the estate of an individual, a corporation, an authority, an association or joint venture (whether incorporated or unincorporated), a partnership and a trust;
- (d) a reference to any party includes that party's executors, administrators, successors and permitted assigns, including any person taking by way of novation;
- (e) a reference to any document (including this Plan) is to that document as varied, novated, ratified or replaced from time to time;
- (f) a reference to any statute or to any statutory provision includes any statutory modification or re-enactment of it or any statutory provision substituted for it, and all ordinances, by-laws, regulations, rules and statutory instruments (however described) issued under it;
- (g) words importing the singular include the plural (and vice versa) and words indicating a gender include every other gender;
- (h) reference to parties, rules, schedules, exhibits or annexures are references to parties, rules, schedules, exhibits and annexures to or of this Plan and a reference to this Plan includes any schedule, exhibit or annexure to this Plan;
- (i) where a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (j) a reference to "\$" or "dollar" is to Australian currency.
- (k) these Rules, the offer and grant of any Option, and the issue or transfer of any Option shall at all times be subject to the Listing Rules, the Corporations Act, and any other applicable laws;
- (l) a reference to an offer, issue or distribution to Shareholders generally is a reference to an offer, issue or distribution to the generality of the

Shareholders, whether or not such offer, issue or distribution is extended to the holders of other securities issued by the Company and whether or not such offer, issue or distribution excluded persons in particular places outside Australia or other minority groups who may for a particular reason be precluded from participating; and

- (m) where any calculation or adjustment to be made pursuant to these Rules produces a fraction of a cent or a fraction of a share, the fraction shall be rounded to the nearest whole number, favourable to the Eligible Person.

2. Objectives

The objectives of the Plan are to:

- (a) attract and retain quality Eligible Persons for the benefit of the Company;
- (b) align the interests of Eligible Persons and the Company;
- (c) provide an incentive and reward for Eligible Persons for their contributions to the Company; and
- (d) establish a method by which Eligible Persons can participate in the future growth and profitability of the Company by providing Eligible Persons with the opportunity to share in the success of the Company by acquiring an ownership interest therein.

3. The Plan

3.1 Administration of Plan

- (a) The Board has the power to:
 - (i) administer the Plan awarding Options to acquire Shares in the Company to Eligible Persons;
 - (ii) determine appropriate procedures for the administration of the Plan consistent with the Rules;
 - (iii) delegate such functions and powers as it may consider appropriate for the efficient administration of the Plan to a person or persons;
 - (iv) resolve conclusively all questions of fact, interpretation or application in connection with the Plan and the Offer; and
 - (v) act or refrain from acting under or in connection with the Plan or any Options and in the exercise of any power or discretion granted to it by the Plan, except as otherwise expressly provided in the Plan.
- (b) The Board has the power to determine in its absolute discretion and in compliance with the Listing Rules:
 - (i) the selection of persons to whom the Options will be offered under the Plan;
 - (ii) the number of Options which may be offered to Eligible Persons;

- (iii) any performance criteria that may apply before the Options may be exercised;
- (iv) the award of Options to Participants who are resident outside of Australia, and make rules, and determine procedures and documentation, for the operation of the Plan which are not inconsistent with these Rules to apply to Participants who are resident outside of Australia.

3.2 Directors

Options may not be offered to Directors or their Associates except where approval is given by the Shareholders in general meeting in accordance with the requirements of the Listing Rules.

3.3 Term of Plan

The initial duration of the Plan will be for 3 years from the date of this Plan. No issue of Options will be made pursuant to the Plan after that time unless the operation of the Plan is extended for such period(s) as the Company determines in general meeting as long as each and any extension of the Plan must be for a period not greater than 3 years.

3.4 Participation

Participation in the Plan is subject to the Rules.

4. Maximum number of Options

Offers may only be made under the Plan in reliance on the Class Order if the Board has reasonable grounds to believe that the total number of Shares that may be acquired on exercise of the Options offered under that Offer, when aggregated with the number of Shares issued or that may be issued as a result of offers made at any time during the previous 3 year period under:

- (a) the Plan or any other Incentive Scheme in reliance on the Class Order; or
- (b) an ASIC exempt arrangement of a similar kind to an Incentive Scheme,

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

- (c) an offer to a person situated at the time of receipt of the offer outside Australia;
- (d) an offer that did not need disclosure to investors because of section 708 of the Corporations Act. Section 708 exempts the requirement of a disclosure document for the issue of securities in certain circumstances to investors who are deemed to have sufficient investment knowledge to make informed decisions, including professional investors, sophisticated investors and senior managers of the Company; or
- (e) an offer made under a disclosure document,

would exceed 5% (or such other maximum permitted under any ASIC class order providing relief from the disclosure regime of the Corporations Act) of the total number of issued Shares in the Company as at the time of making the offer.

5. Offers of Options

5.1 Quotation

The Company must only make an Offer in reliance on the Class Order if:

- (a) its Shares are quoted on ASX; and
- (b) its Shares have not been suspended from trading for more than 5 trading days in the last 12 months.

5.2 Offers to Eligible Persons

The Board may from time to time make Offers in writing to Eligible Persons inviting them to take up Options under the Plan.

5.3 Eligibility to Participate

Eligibility to participate in the Plan will not involve any right to participate in the Plan, and participation will be solely determined by the Board.

5.4 Offers by the Board

Each Offer made by the Board must:

- (a) specify the number of options and the terms and conditions of the issue of the Options the subject of the Offer, including any vesting conditions that may apply to the Options; and
- (b) have attached an Application and copy of these Rules.

6. Acceptance of Offer

6.1 Renunciation

- (a) Upon receipt of an Offer, an Eligible Person may, by notice in writing to the Board, nominate a Nominee in whose favour the Eligible Participant wishes to renounce the Offer.
- (b) The Board may, in its discretion, resolve not to allow a renunciation of an Offer in favour of a Nominee without giving any reason for that decision.
- (c) If the Board resolves to allow a renunciation of an Offer in favour of a Nominee, the Eligible Person will procure that the permitted Nominee accepts the Offer made to that Eligible Person and that both the Eligible Person and the Nominee agree to be bound by the Rules.

6.2 Acceptance of Offer

An Eligible Person who receives an Offer and wishes to accept it must deliver a completed Application to the Company in accordance with the instructions set out in the Offer.

6.3 Acceptance time period

An Eligible Person (or permitted Nominee) may only accept an Offer within the time period specified in the Offer.

6.4 Board's right to reject

- (a) The Board may accept or reject any Application in its absolute discretion.
- (b) Before accepting or rejecting the Acceptance Form, the Board may require the Eligible Person to provide any information that the Board requests concerning the Eligible Person's entitlement to lodge an Application under this Plan.
- (c) The Board must promptly notify the Eligible Person if an Application has been rejected, in whole or in part.

6.5 Issue of Options

- (a) Upon receipt by the Company of a completed Application approved by the Board, the Company must issue Options to that Eligible Person (or permitted Nominee) in accordance with the accepted Offer and the Eligible Person (or permitted Nominee) shall become a Participant.
- (b) The Company must, within 10 Business Days of the Application Date, issue the Participant with a certificate evidencing the issue of the Options.

6.6 Participant agrees to be bound

Participants agree to be bound by these Rules, the terms and conditions in the Offer and the Constitution of the Company, as amended from time to time.

7. Terms and Conditions of Issue

7.1 Standard terms and conditions

- (a) All Options issued under the Plan will be issued on the terms and conditions in this Rule 7, and any other terms and conditions that may be specified in the Offer.
- (b) To the extent of any inconsistency between the terms and conditions of the Options as stated in an Offer, and the terms and conditions as stated in this Rule 7, the terms and conditions as stated in the Offer will prevail.

7.2 Number of Options

- (a) Subject to Rule 4, the number of Options (if any) to be offered to an Eligible Person from time to time will be determined by the Board in its discretion and in accordance with the Rules and applicable law.

- (b) Each Option will entitle the holder to subscribe for one Share at the Exercise Price.

7.3 No consideration

Options issued under the Plan will be issued for nil cash consideration.

7.4 Quotation

- (a) The Options will not be quoted on ASX.
- (b) The Company will apply to the ASX for quotation of all Shares issued under the Plan within the period required by ASX.

7.5 Exercise Price

In respect of any Offer, the Board may determine the Exercise Price (if any) for an Option offered under that Offer in its absolute discretion.

7.6 Exercise conditions

An Option may be made subject to exercise conditions as determined by the Board in its discretion and as specified in the Offer for the Option.

7.7 Expiry

In respect of any Offer, the Board may determine the Expiry Date for an Option offered under the Offer in its absolute discretion.

7.8 Transfer of rights

Subject to the Listing Rules, Options may not be transferred, assigned or novated by a Participant except:

- (a) with the consent of the Board (which may be withheld in its absolute discretion); or
- (b) by force of law upon death to the Participant's legal personal representative or upon bankruptcy to the Participant's trustee in bankruptcy; and

7.9 Security Interests

Subject to Rule 7.8, Participants will not grant a Security Interest in or over or otherwise dispose of or deal with any Option or any interest in them until the underlying Shares are issued to that Participant, and any such Security Interest or disposal or dealing will not be recognised in any manner by the Company.

7.10 Dividend and voting rights

Options will not confer upon the Participant the right to dividends or to notice of, or to vote and attend at, meetings of Shareholders unless and until any Option has been exercised and Shares have been issued to the Participant.

7.11 Participation generally

- (a) There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital which may

be offered to Shareholders from time to time prior to the Expiry Date without exercising the Options.

- (b) The Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 3 Business Days after the issue is announced. This will give Participants the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

7.12 Pro rata issue of securities

If the Company makes a pro rata issue of securities (except a bonus issue) to the Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the Exercise Price shall be reduced as determined by the Board in its sole discretion in accordance with the Listing Rules.

7.13 Adjustment for bonus issues

In the event of a bonus issue of Shares being made pro-rata to Shareholders, (other than an issue in lieu of dividends), the number of Shares issued on exercise of each Option will include the number of bonus Shares that would have been issued if the Option had been exercised prior to the record date for the bonus issue. No adjustment will be made to the Exercise Price per Share of the Option.

7.14 Reorganisation

If at any time the capital of the Company is reorganised (including by way of a consolidation, subdivision, reduction or cancellation), the terms of the Options will be changed in a manner consistent with the Corporations Act and the Listing Rules at the time of the reorganisation.

7.15 Notice of Adjustments

Whenever the number of Shares comprised in an Option or the Option Exercise Price is adjusted pursuant to these Rules, the Company will give notice of the adjustment with calculations on which the adjustment is based to the Participant and to the ASX in accordance with the Listing Rules.

7.16 Cumulative Adjustments

Effect will be given to Rule 7.15 in such manner that the effect of the successive applications of them is cumulative, with the intention being that the adjustments they progressively effect will reflect previous adjustments.

8. Exercise of Options

8.1 Exercise

Options granted to a Participant may only be exercised by delivery to the Company's secretary (at a time when the Options may be exercised) of:

- (a) the certificate for the Options or, if the certificate for the Options has been lost, mutilated or destroyed, a declaration to that effect, accompanied by an indemnity in favour of the Company against any loss, costs or expenses which might be incurred by the Company as a consequence of its relying on the declaration that the certificate has been lost, mutilated or destroyed;

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- (b) an Option Exercise Notice addressed to the Company and signed by the Participant stating that the Participant exercises the Options and specifying the number of Options which are exercised; and
 - (c) payment to the Company of an amount equal to the Exercise Price multiplied by the number of Options which are being exercised, unless there is no exercise price payable in respect of the Options to be exercised.

8.2 Part exercise

- (a) The giving of an Option Exercise Notice for part only of the number of Options held by any Participant from time to time does not prevent the Participant at any time thereafter subject to Rule 7.10, during the term of those Options from exercising all or part of the balance of such Options in whole or in part.
- (b) If a Participant exercises less than the total number of Options referred to in the Option Certificate then that Participant:
 - (i) must surrender the Option Certificate to the Company; and
 - (ii) the Company will cancel that Option Certificate and re-issue an Option Certificate to the Participant for the unexercised balance of the Options.

8.3 Issue of Shares

If the items specified in Rule 8.1 are delivered in accordance with that Rule, the Company will:

- (a) within 10 Business Days of delivery of the documents referred to in Rule 8.1 issue to the Participant the Shares credited as being fully paid in respect of which the Options are exercised together with any additional Shares an entitlement to which has arisen under the Plan in consequence of the exercise of the Options; and
- (b) cancel the certificate delivered pursuant to Rule 6.5(b) and, if any Options which have not lapsed remain unexercised, deliver to the Participant a replacement certificate reflecting the number of those Options which remain unexercised;
- (c) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (d) do all such acts, matters and things to obtain the grant of quotation of the Shares by ASX by no later than 5 Business Days after the date of exercise of the Option.

8.4 Beneficial owner of Shares

From and including the date of issue to a Participant of any Shares in accordance with these Rules, the Participant will:

- (a) be the beneficial owner of those Shares; and

- (b) subject to the Corporations Act and the Constitution, be entitled to deal with those Shares as beneficial owner.

8.5 Equal rank

A Share acquired on exercise of an Option will rank equally in all respects with Shares already on issue on the date of exercise of the Option, except for entitlements which had a record date before the date of issue of that Share.

9. Cessation of Employment

9.1 Effect of Cessation of Employment

Any Options issued pursuant to the Plan will be granted on the condition that the whole of the Options issued to an Eligible Person automatically lapse and are forfeited, (except that the Eligible Person may retain any Options which have already vested pursuant to the terms and conditions of the Offer) unless the Board determines otherwise within 30 days, if that Eligible Person:

- (a) voluntarily resigns from employment with the Company otherwise than to take up employment with a Related Body Corporate of the Company;
- (b) is dismissed from employment with the Company for any one or more of the following reasons:
 - (i) wilful misconduct bringing disrepute on the Company or a Related Body Corporate;
 - (ii) repeated disobedience, after prior written warning;
 - (iii) incompetence in the performance of any duties for which the Eligible Person was employed, after prior written warning;
 - (iv) fraud or any other dishonesty in respect of the property or affairs of the Company or a Related Body Corporate; or
 - (v) any other reason, based on which the Board believes it is fair and reasonable to warrant the lapsing and forfeiture of the Options.

9.2 Special Circumstances

Options issued to an Eligible Person will not lapse and be forfeited where an Eligible Person ceases employment with the Company in the following circumstances:

- (a) death or total and permanent disability;
- (b) bona fide retirement;
- (c) bona fide redundancy; and
- (d) any other reason, based on which the Board believes it is fair and reasonable to warrant the Eligible Person maintaining his/her right to exercise the Options.

9.3 Transfer of Options

Should an Eligible Person, in the opinion of the Board, satisfy the requirements of Rule 9.2 the Eligible Person will have a period of 1 year to exercise the Option from the date the Company receives notice of the specified event and acknowledges in writing that such event satisfies the requirements of Rule 9.2. For the purposes of this Rule the time constraint imposed by Rule 9.1 is to be ignored.

10. Taxation

- (a) Neither the Company nor its directors, officers, employees, representatives or agents take any responsibility or assume any liability for the taxation liabilities of Eligible Persons.
- (b) To the extent permitted under any applicable law or regulation, subdivision 83A-C of the *Income Tax Assessment Act 1997* (Cth) applies to Options granted under the Plan.
- (c) Eligible Persons acknowledge that these Rules do not take into account the specific circumstances of any particular Eligible Person and do not constitute tax advice.

11. Listing Rules

The terms and conditions of the Plan must at all times comply with the Listing Rules. If there is any inconsistency between the terms and conditions of the Plan and the Listing Rules then the Listing Rules will prevail.

12. Amendments to the Plan

12.1 Amendment by Board

The Board may amend the Rules if in the opinion of the Board such amendment:

- (a) is of a formal, minor or technical nature; or
- (b) is made to correct a manifest error.

12.2 Amendments requiring consent of Participants

Without the consent of the relevant Participant(s), no amendment may be made to the terms and conditions of the Rules and the relevant Offer of any granted Option which reduces the rights of the Participants in respect of that Option, other than an amendment introduced primarily:

- (a) under Rule 12.1;
- (b) for the purpose of complying with or conforming to present or future State or Commonwealth legislation governing or regulating the maintenance or operation of the Plan or like plans; or
- (c) to take into consideration possible adverse tax implications in respect of the Plan arising from, amongst others, adverse rulings from the Commissioner of Taxation, changes to tax legislation (including an official announcement by

the Commonwealth of Australia) and/or changes in the interpretation of tax legislation by a court of competent jurisdiction.

12.3 Amendments requiring Shareholder approval

Any amendment to the Rules that does not satisfy Rule 12.1 requires the prior approval both of the Shareholders in a general meeting and ASX if required.

12.4 Termination and suspension

The Plan may be terminated or suspended at any time by resolution of the Board and notification thereof to ASX, if required. Participants who hold an Option issued pursuant to the Plan, before termination or suspension of the Plan under this Rule, will continue to be entitled to exercise such Option in accordance with the Rules and the Company will be bound to comply with the Rules in respect of such Options.

13. Governing Law

- (a) The Plan, the Rules and the operation of the Plan is governed by the laws of the State of Western Australia.
- (b) Each Optionholder irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of the State of Western Australia.

Annexure A - Application

Carnegie Wave Energy Limited
ACN 009 237 736

Carnegie Wave Energy Limited
Employee Share Option Plan 2016

Application for Options

I _____ of

hereby apply for _____ Options to subscribe for an equal number of Shares in the capital of the Company at an exercise price of \$_____ per Share and I agree that upon issue of those Options I will hold those Options and deal with them only in accordance with the terms and conditions of the said Employee Share Option Plan of Carnegie Wave Energy Limited (a copy which is attached hereto), subject to and accordance with the Constitution of the Company.

Dated this _____ day of _____

Signed: _____

Name: _____

Notes

1. The Exercise Price is determined by the Directors at the time of making the Offer in accordance with the Rules of the Plan.
2. Options are issued free.

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Annexure B - Option Exercise Notice

Carnegie Wave Energy Limited
ACN 009 237 736

Carnegie Wave Energy Limited
Employee Share Option Plan 2016

Option Exercise Form

To: The Directors

Carnegie Wave Energy Limited (Company)
Suite 5, 4B Mews Road
Fremantle WA 6160

I/We (Mr Mrs Ms) _____

of _____

hereby exercise my/our Options to subscribe for _____

(in words) _____ (in figures) fully paid Ordinary Shares in the capital of the Company
at an Exercise Price of \$_____ per fully paid Ordinary Share and enclose payment in
full of \$_____.

I/We request you issue to me/us and I/we agree to accept the Shares subject to the Constitution
of the Company. If this application is signed by an attorney, the attorney hereby declares that
s/he has no notice of revocation of the power under authority of which this application is
signed. (Companies should sign under seal).

Signature of Applicant

Dated this _____ day of _____

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