



MERMAID MARINE
AUSTRALIA LTD

Eagle Jetty, 20 Mews Road

FREMANTLE WA 6160

T (+61) 8 9431 7431 F (+61) 8 9431 7432

E corporate@mermaidmarine.com.au

W www.mermaidmarine.com.au

ABN 21 083 185 693

17 October 2007

The Listing Manager
Australian Stock Exchange
Exchange Centre
Level 6
20 Bridge Street
SYDNEY NSW 200

Dear Sir/Madam

RE: MANAGING DIRECTOR'S LONG TERM INCENTIVE PLAN

The Board of Directors of Mermaid Marine Australia Limited, (the Company) advise that following its annual review of the performance and remuneration of the Company's Managing Director, Mr. Jeff Weber, it has resolved to establish the Mermaid Marine Australia Limited Managing Director's Share Option Plan – October 2007 (Plan) and recommend to shareholders at the next Annual General Meeting of the Company that shareholder approval be given to grant up to 970,040 share options in the Company to Mr Weber, subject to the terms and conditions of the Plan rules, a full copy of which are attached to this notice and are summarized below:

- The options will be issued for nil consideration
- The options become exercisable from 11 October 2010 subject to the Performance Hurdle that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries Index over a minimum period of three years commencing on 11 October 2007 and ending on 11 October 2010 and a maximum period of five years commencing on 11 October 2007 and ending on 11 October 2012.
- The options will expire on 11 October 2012; and
- The exercise price for each option will be \$1.83.

By order of the Board
MERMAID MARINE AUSTRALIA LIMITED

PETER RAYNOR
Company Secretary

DAMPIER SUPPLY BASE

PO Box 822, KARRATHA WA 6714

Mermaid Road, DAMPIER WA 6713

T (+61) 8 9183 6600 F (+61) 8 9183 6660

BROOME SUPPLY BASE

PO Box 3401, BROOME WA 6725

1 Port Drive, BROOME WA 6725

T (+61) 8 9192 2200 F (+61) 8 9192 2281

Mermaid Marine Australia Limited
Managing Director's Share Option Plan
Rules

Established October 2007

Table of Contents

1.	Purpose	1
2.	Definitions and Interpretation	1
2.1	Definitions	1
2.2	Interpretation	2
3.	Operation of the Plan	3
3.1	General	3
3.2	Binding Rules	3
4.	Offer of Options	3
4.1	Eligibility	3
4.2	Terms and conditions of Options	3
4.3	Participant bound by terms and conditions, Rules and Constitution	3
4.4	Options register	4
4.5	No payment for Options	4
4.6	Option certificate	4
4.7	No quotation on ASX	4
5.	Restrictions on Transfer of Options	4
5.1	No transfer	4
5.2	Exception in respect of Vested Options	4
6.	Price of Shares	4
7.	Exercise of Options	5
7.1	Manner of exercise of Options	5
7.2	Multiples	5
7.3	Exercise conditions	5
7.4	Vesting of Options on change of control	5
7.5	Issue of Shares on exercise of Option	5
7.6	Shares rank equally	5
7.7	Quotation on ASX	6
8.	Lapse of Options	6
8.1	Resignation	6
8.2	Retirement, redundancy or permanent disability	6
8.3	Death	6
8.4	Cessation of employment for any other reason	7
8.5	End of period otherwise determined by the Board	7
8.6	End of exercise period	7
8.7	Cessation of employment - interpretation	7
8.8	Default under Rules	7
9.	Capital Reconstructions and New Issues	7
9.1	Alterations to capital and reconstructions	7
9.2	New issues	8
10.	Powers of the Board	8

10.1	Powers of the Board	8
10.2	Commencement of Plan	8
10.3	Suspension or termination of Plan	8
11.	Contracts of Employment and Other Employment Rights	8
11.1	Rules not part of employment contract etc	8
11.2	Termination of employment	9
12.	Connection with Other Plans	9
13.	Notices	9
14.	Plan Costs	9
15.	Overriding Restrictions	9
15.1	General	9
15.2	Limit on aggregate number of Shares	10
16.	Amendment of the Rules	10
16.1	General	10
16.2	Limitation on amendments	10
17.	Governing Law	10

1. Purpose

- (a) The Plan is established by the Company to provide its Managing Director with a means of receiving options to subscribe for Shares.
- (b) The purpose of the Plan is to provide the Managing Director with an opportunity to share in the growth in value of the Company and to encourage him/her to improve the longer-term performance of the Company and its returns to shareholders.

2. Definitions and Interpretation

2.1 Definitions

In these Rules, unless the context otherwise requires:

ASX means ASX Limited (ACN 008 624 691).

Board means the board of directors of the Company or a committee appointed by the board of directors of the Company for the purposes of the Plan.

Certificate means, in relation to an Option, the certificate or holding statement (in a form approved by the Board) issued to the Managing Director which discloses the number of Options entered in the register of Option holders in respect of the Managing Director.

Change of Control Event means:

- (a) a person's voting power (defined in accordance with the Corporations Act) in the Company increases from less than 50% to 50% or more (whether under a takeover bid or otherwise); or
- (b) the Board resolving that it considers that a person who previously had not been in a position to do so, is in the position, directly or indirectly, and either alone or with associates, to remove one-half or more of the Directors.

Company means Mermaid Marine Australia Limited (ACN 083 185 693).

Company Group means the Company and each Subsidiary of the Company.

Constitution means the constitution of the Company, as amended from time to time.

Corporations Act means the Corporations Act 2001 (Cth).

Employee Incentive Scheme means an employee share or option scheme extended to employees and/or directors of the Company and its Related Bodies Corporate, and includes the Plan.

Exercise Conditions means, in relation to an Option, the exercise conditions set out in clause 4.2(c).

Exercise Price means the price set out in clause 4.2(e).

Listing Rules means the official listing rules of ASX.

Market Value of a Share means, at a particular date, the weighted average of the closing prices of Shares traded on ASX during the 5 trading days immediately preceding that date (but if no Shares were sold on ASX during that 5 day period the Market Value of a Share is

to be the amount determined which is equal to the closing price of Shares traded on ASX on the last trading day on which Shares were traded).

Managing Director means the Managing Director of the Company.

Nominee means in respect of the Managing Director:

- (a) a person who is the spouse, parent, brother, sister or child (**close relative**) of the Managing Director;
- (b) a superannuation fund maintained for the benefit of the Managing Director which is approved by the Board in its absolute discretion;
- (c) a body corporate in which the Managing Director or a close relative of the Managing Director has a controlling interest (including any interest that gives control).

Option means an option to subscribe for a Share or Shares under this Plan.

Option Holder means the holder of an Option (whether the holder is the Managing Director or a Nominee).

Performance Hurdles means the conditions or events which must be satisfied before Options can be exercised, set out in clause 4.2(c).

Plan means the Option Plan established and operated in accordance with these Rules.

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

Rules means these Rules, as amended from time to time.

Scheme means a compromise or arrangement between the Company and its members under Part 5.1 of the Corporations Act, which if implemented will result in:

- (a) the amalgamation of the Company with any other body corporate; or
- (b) one person (by themselves, or together with persons who are their associates for the purposes of Chapter 6 of the Corporations Act) becoming, whether directly or indirectly, legally or beneficially entitled to 50% or more of the issued share capital of the Company.

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

Subsidiary has the meaning given to that term in the Corporations Act.

Total Shareholder Return means the return earned on an investment in the Company over the specified period, assuming that all relevant distributions during that period are re-invested in Company securities.

Vested Option means an Option in respect of which all Exercise Conditions have been satisfied or which is otherwise immediately exercisable in accordance with these Rules.

2.2 Interpretation

In these Rules, unless the context otherwise requires:

- (a) a gender includes all genders;
- (b) the singular includes the plural and conversely;

- (c) a reference to a person includes the legal personal representatives, successors and assigns of that person and also corporations and other entities recognised by law;
- (d) a reference to any law or to the Listing Rules includes that law or the Listing Rules as amended, re-enacted or replaced and any law that supersedes that law; and
- (e) headings are for convenience only and do not affect the interpretation of these Rules.

3. Operation of the Plan

3.1 General

This Plan must be operated in accordance with these Rules.

3.2 Binding Rules

These Rules bind the Company, each Subsidiary of the Company, the Managing Director, and (if applicable) any Nominee.

4. Offer of Options

4.1 Eligibility

Subject to these Rules, the Company may make an offer of Options to the Managing Director on the terms set out in this Plan.

4.2 Terms and conditions of Options

The following terms and conditions attach to any Options offered under this Plan.

- (a) the Options are issued for nil consideration;
- (b) the Options become exercisable from 11 October 2010 subject to the Performance Hurdle;
- (c) the Performance Hurdle is that the Company's Total Shareholder Return must exceed the performance of the ASX Small Ordinaries Index over a minimum period commencing on 11 October 2007 and ending on 11 October 2010 and a maximum period commencing on 11 October 2007 and ending on 11 October 2012;
- (d) the Options will expire on 11 October 2012; and
- (e) the exercise price for each Option is \$1.83.

4.3 Participant bound by terms and conditions, Rules and Constitution

If within 28 days after the offer of Options under the Plan to the Managing Director, the Managing Director does not waive or refuse his or her offer of the Options in writing, then the Managing Director (and, if applicable, the Managing Director's Nominee) shall be taken to have accepted that offer of the Options and be bound by the terms and conditions notified to him or her in accordance with Rule 4.2, these Rules and the Constitution.

4.4 Options register

The Company must maintain an options register in accordance with the Corporations Act, in respect of each Participant and Option Holder.

4.5 No payment for Options

Unless otherwise determined by the Board, no payment is required for the issue of Options under the Plan.

4.6 Option certificate

The Company must issue a Certificate to an Option Holder in respect of the Options issued to that Option Holder. The Company must comply with the Constitution, the Listing Rules and the Corporations Act with respect to the issue of the Certificate.

4.7 No quotation on ASX

Options will not be quoted on ASX.

5. Restrictions on Transfer of Options

5.1 No transfer

Participants and Option Holders must not sell, transfer, mortgage, charge or otherwise deal with or encumber any Options, except as permitted by Rule 5.2, or with the prior approval of the Board.

5.2 Exception in respect of Vested Options

- (a) Subject to Rule 8.5, unless the Board determines otherwise from time to time, the Managing Director may transfer a Vested Option to a Nominee.
- (b) Any Nominee who is transferred Vested Options is bound by the terms and conditions notified to the Managing Director in accordance with Rule 4.2, these Rules and the Constitution.
- (c) The Managing Director must ensure that the Nominee complies with the terms and conditions notified to the Managing Director in accordance with Rule 4.2, these Rules and the Constitution.

6. Price of Shares

An Option Holder holding Vested Options may contact the Company's company secretary (during the usual business hours of the Company's registered office) and request to be provided with the current market price of the Shares. Within 24 hours of receiving such request, the Company's company secretary will endeavour to provide to that Option Holder the final price quoted on ASX for the previous day on which Shares were traded on ASX.

7. Exercise of Options

7.1 Manner of exercise of Options

The exercise of any Option issued under the Plan may only be effected in such form and manner as the Board may prescribe.

7.2 Multiples

Option Holders must exercise Options in multiples of 100 (or any other number stipulated by the Board), unless the Option Holder exercises all Options able to be exercised by the Option Holder at that time. The exercise of some Options only does not affect the Option Holder's right to exercise other Options at a later time. If the Option Holder exercises less than all the Options represented by a Certificate then the Company will cancel the Certificate and issue a new Certificate for the balance.

7.3 Exercise conditions

Subject to Rule 7.4, an Option issued under the Plan may only be exercised if, at the time of exercise:

- (a) the Option is a Vested Option;
- (b) the Option has not lapsed under Rule 8; and
- (c) the Exercise Price (as adjusted under Rule 9, if applicable) has been paid.

7.4 Vesting of Options on change of control

All Options will automatically become Vested Options and may be exercised, whether or not any or all applicable Exercise Conditions have been satisfied, in the following circumstances:

- (a) upon the occurrence of a Change of Control Event;
- (b) from the date on which the Company in general meeting approves a Scheme.

7.5 Issue of Shares on exercise of Option

Following exercise of an Option, the Company must, within 14 days, issue to the person exercising the Option the number of Shares in respect of which the Option has been exercised, credited as fully paid.

7.6 Shares rank equally

Unless the Option terms provide otherwise, Shares issued on the exercise of Options will rank equally in all respects with all existing Shares from the date of allotment, including in relation to:

- (a) voting rights; and
- (b) entitlements to participate in:
 - (i) distributions and dividends; and
 - (ii) future rights issues and bonus issues,

where the record date for determining entitlements falls on or after the date of allotment.

7.7 Quotation on ASX

The Company must apply for quotation on the official list of ASX of Shares issued on the exercise of Options as soon as practicable after the issue of those Shares, so long as Shares are quoted on ASX at that time.

8. Lapse of Options

8.1 Resignation

Subject to Rule 8.7, if the Managing Director's employment or office with the Company ceases due to his or her resignation:

- (a) all Options issued to the Managing Director or the Managing Director 's Nominee that are Vested Options at the date of cessation of employment or office may be exercised by the Managing Director (or the Managing Director 's Nominee) up to their applicable expiry date after which those Vested Options will automatically lapse; and
- (b) all other Options issued to the Managing Director or the Managing Director 's Nominee will lapse on the date of cessation of employment or office.

8.2 Retirement, redundancy or permanent disability

Subject to Rule 8.7, if the Managing Director's employment or office with the Company ceases due to his or her retirement after the age of 55 (or such younger age as may be determined by the Board), redundancy or permanent disability:

- (a) all Options issued to the Managing Director or the Managing Director 's Nominee that are Vested Options at the date of cessation of employment or office may be exercised by the Managing Director (or the Managing Director 's Nominee) up to their applicable expiry date, after which those Vested Options will lapse; and
- (b) all other Options issued to the Managing Director or the Managing Director 's Nominee will lapse on the date of cessation of employment or office.

8.3 Death

Subject to Rule 8.7, if the Managing Director's employment or office with the Company ceases due to his or her death:

- (a) all Options issued to the Managing Director or the Managing Director 's Nominee that are Vested Options at the date of cessation of employment or office may be exercised by the duly appointed legal personal representative of the Managing Director (or the Managing Director 's Nominee) up to their applicable expiry date , after which those Vested Options will lapse; and
- (b) all other Options issued to the Managing Director or the Managing Director 's Nominee will lapse on the date of cessation of employment or office.

8.4 Cessation of employment for any other reason

Subject to Rule 8.7, if the Managing Director's employment or office with the Company ceases for any reason other than those referred to in Rules 8.1, 8.2 and 8.3:

- (a) all Options issued to the Managing Director or the Managing Director's Nominee that are Vested Options at the date of cessation of employment or office may be exercised by the Managing Director (or the Managing Director's Nominee) up to the expiry date of the Options, after which those Vested Options will lapse; and
- (b) all other Options issued to the Managing Director or the Managing Director's Nominee will lapse on the date of cessation of employment or office.

8.5 End of period otherwise determined by the Board

Subject to Rule 8.7, if the Board determines a further period in which Options may be exercised, the Options will lapse at the end of that period.

8.6 End of exercise period

If an Option has not lapsed earlier in accordance with this Rule 8, it will lapse at the latest time at which the Option may be exercised, as specified in Rule 4.2.

8.7 Cessation of employment - interpretation

For the purposes of these Rules, the Managing Director will be deemed not to have ceased employment with, or to hold an office with, the Company if:

- (a) immediately after the Managing Director leaves the employment or office of that company the Managing Director is employed by, or holds an office with, another Subsidiary of the Company or the Company; or
- (b) immediately after the Managing Director leaves the employment or office of that company the Managing Director is employed by a joint venture company in which the Company or a Subsidiary of the Company holds a substantial interest at the time of employment, and which has been approved by the Board as an associated company for the purposes of the Plan.

8.8 Default under Rules

Subject to Rule 8.7, if the Managing Director is in default of any provision of these Rules, and upon receiving written notice from the Company in respect of such default, fails to remedy such default within 14 days after the receipt of such notice (the **Remedy Period**), then all the Options issued to the Managing Director or the Managing Director's Nominee will lapse on the expiry of the Remedy Period.

9. Capital Reconstructions and New Issues

9.1 Alterations to capital and reconstructions

Subject to the Listing Rules, if the Company makes any new issue of securities or alterations to its capital by way of a rights issue, bonus issue or other distribution of capital, reduction of capital or reconstruction of capital then the Board may make adjustments to

the rights attaching to the Options (including, without limitation, to the number of Shares which may be acquired on exercise of the Options and the Exercise Price) on any basis it sees fit in its absolute discretion.

9.2 New issues

Subject to the Listing Rules, unless the Board otherwise determines an Option Holder is only entitled to participate (in respect of Options issued under the Plan) in a new issue of Shares to existing shareholders of the Company generally if the Option Holder has validly exercised the Option Holder's Options and becomes a shareholder of the Company prior to the relevant record date, and is then only entitled to participate in relation to Shares of which the Option Holder is the registered holder.

10. Powers of the Board

10.1 Powers of the Board

The Plan will be managed by the Board, which will have power to:

- (a) determine appropriate procedures and make regulations for the administration of the Plan consistent with these Rules;
- (b) resolve and bind the Company and the Option Holder absolutely regarding any question of fact, interpretation, effect or application arising in connection with the Plan;
- (c) determine matters falling for determination under these Rules in its absolute discretion having regard to the interests of and for the benefit of the Company;
- (d) exercise the discretions conferred on it by these Rules or which may otherwise be required in relation to the Plan.

10.2 Commencement of Plan

The Plan will take effect on and from 11 October 2007.

10.3 Suspension or termination of Plan

- (a) The Plan may be suspended or terminated at any time by resolution of the Board.
- (b) In the event of a suspension or termination, these Rules will continue to operate with respect to any Options issued under the Plan prior to that suspension or termination.

11. Contracts of Employment and Other Employment Rights

11.1 Rules not part of employment contract etc

- (a) This Plan does not form part of any contract of employment or services between the Company, or any Related Body Corporate of the Company, and the Managing Director.

- (b) Nothing in these Rules confers on the Managing Director the right to receive any Options.
- (c) It is a condition of these Rules that the Plan may be terminated at any time at the discretion of the Board and that no compensation under any employment or services contract will arise as a result.

11.2 Termination of employment

This Plan:

- (a) does not confer on the Managing Director the right to continue as an employee or officer of the Company or any Related Body Corporate of the Company;
- (b) does not affect any rights which the Company, or any Related Body Corporate of the Company, may have to terminate the employment or office of the Managing Director; and
- (c) may not be used to increase damages in any action brought against the Company, or any Related Body Corporate of the Company, in respect of that termination.

12. Connection with Other Plans

Unless the Board otherwise determines, participation in the Plan does not affect, and is not affected by, participation in any other incentive or other plan operated by the Company unless the terms of that other plan provide otherwise.

13. Notices

Any notice or direction given under these Rules is validly given if it is handed to the Managing Director or sent by ordinary prepaid post to the Managing Director's last known address or given in any reasonable manner which the Board from time to time determines.

14. Plan Costs

Unless otherwise determined by the Board, the Company must pay all costs, charges and expenses relating to the establishment and operation of the Plan.

15. Overriding Restrictions

15.1 General

Notwithstanding any Rule, Options and Shares may not be issued, transferred or dealt with under the Plan if to do so would contravene the Corporations Act, the Listing Rules or any other applicable laws or where the compliance with any applicable law would in the opinion of the Board be unduly onerous or impractical.

15.2 Limit on aggregate number of Shares

An offer of Options may only be made under the Plan if the number of Shares that may be acquired on exercise of the Options, when aggregated with:

- (a) the number of Shares which would be issued if each outstanding offer or option to acquire unissued Shares, being an offer made or option acquired pursuant to an Employee Incentive Scheme, was to be accepted or exercised (as the case may be); and
- (b) the number of Shares issued during the previous 5 years pursuant to an Employee Incentive Scheme,

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 outside Australia at the time of receipt of the offer;
 - (d) an offer that did not require disclosure to investors because of section 708 of the Corporations Act; or
 - (e) an offer made under a disclosure document,
- does not exceed 5% of the total number of issued Shares as at the time of the offer.

16. Amendment of the Rules

16.1 General

Subject to Rule 17.2 and the Listing Rules, the Board may amend, add to, delete or otherwise vary these Rules at any time in any manner it thinks fit in its absolute discretion (**amendment**).

16.2 Limitation on amendments

No amendment to the provisions of these Rules may be made which reduces the rights of the Managing Director in respect of Options acquired by him or her prior to the date of the amendment, other than an amendment introduced primarily:

- (a) for the purpose of complying with or conforming to present or future State, Territory or Commonwealth legislation or the Listing Rules;
- (b) to correct any manifest error or mistake; or
- (c) for the purpose of enabling the Managing Director to receive a more favourable taxation treatment in respect of their participation in the Plan.

17. Governing Law

These Rules are governed by and shall be construed in accordance with the laws of Western Australia.