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Australian Stock Exchange Limited  
2 The Esplanade  
Perth WA 6000

22 February 2005

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## **EMPLOYEE SHARE OPTION PLAN - PLAN RULES**

### **1. Invitation to Employees**

- (a) The Board may, from time to time, determine who is entitled to participate in the Option Plan and may issue invitations to apply for the grant of Options to the Employee or a Relative or Associate nominated by the Employee.
- (b) On issue of invitations to apply for Options, the Company must send the Employee an Application which must be signed by the Employee and returned to the Company within 5 Business Days.
- (c) On the Company receiving the signed Application, the Company must grant the relevant number of Options to the Optionholder and issue the Optionholder with an Option Certificate.

### **2. Option Entitlement**

Each Option gives the Optionholder the right to subscribe for 1 Ordinary Share at the Exercise Price.

### **3. Option Period**

- (a) Each Option expires at 5.00pm on the Expiry Date.
- (b) Options automatically lapse if not exercised before expiry.

### **4. Option Exercise**

- (a) Subject to any restrictions imposed under Rule 7, the Optionholder may exercise some or all Options. The Optionholder may only exercise Options by lodging with the Company during the Exercise Period:
  - (i) the Option Certificate;
  - (ii) a duly completed and signed Exercise Notice; and
  - (iii) the subscription monies for the relevant Ordinary Shares being, subject to these Rules, the number of Options exercised multiplied by the Exercise Price.
- (b) On allotment and issue to the Optionholder of the Ordinary Shares specified in an Exercise Notice, the Option Certificate lodged with the Company by the Optionholder under Rule 4(a) must:

- (i) if all the Outstanding Options have been exercised, be cancelled by the Company; and
- (ii) if only some of the Outstanding Options have been exercised, be appropriately endorsed by the Company and then returned to the Optionholder or cancelled and a new certificate for the remaining Options issued to the Optionholder.

## **5. Option Allotment Date**

The Company must allot and issue to the Optionholder the number of Ordinary Shares which corresponds with the number of Options specified in the Exercise Notice on or before the date of the next Board meeting following the valid exercise of Options and in any event not later than 15 Business Days after the date of exercise of the Options.

## **6. Option Assignment**

The Optionholder cannot assign Options or any interest or right in respect of those Options. This does not prevent the exercise of the Options by the estate of a deceased Optionholder.

## **7. Exercise Price and Exercise Restrictions**

- (a) The Exercise Price will be the price fixed by the Board prior to the grant of the Options.
- (b) Unless a greater Exercise Price is fixed under Rule 7(a), the Exercise Price is the Initial Price.
- (c) In no circumstances may the Exercise Price be less than \$0.20.
- (d) The Options may be subject to such other restrictions on exercise as may be fixed by the Board prior to grant of the Options including, without limitation, length of service by the Employee with the Group and threshold prices at which Ordinary Shares in the Company are traded on the Australian Stock Exchange Limited. Any restrictions so imposed by the Board must be set out on the Option Certificate.
- (e) The Board may in its absolute discretion, waive satisfaction of restrictions on exercise fixed under Rule 7(d) either unconditionally or subject to compliance with any other exercise restriction that is less onerous than that previously fixed.

## **8. Adjustment to Number of Outstanding Options**

Any adjustment to the number of Outstanding Options under a reorganisation of the Company's share capital must be made in accordance with the Listing Rules.

## **9. Adjustments to Exercise Price**

Any adjustment to the Exercise Price under a reorganisation of the Company's share capital must be made in accordance with the Listing Rules.

## **10. Bonus and Cash Issues**

- (a) On a Bonus Date, each Option immediately confers on the Optionholder the right:
  - (i) to receive on exercise of those Outstanding Options not only the allotment of 1 Ordinary Share for each of the Outstanding Options exercised but also an allotment or issue of such additional shares or other securities as if the

Optionholder participated in that bonus issue in respect of a holding of Ordinary Shares of a number equal to the Ordinary Shares that would have been allotted to the Optionholder had he or she exercised those Outstanding Options immediately before that Bonus Date; and

- (ii) to have profits or reserves, as the case may be, applied in paying up in full those additional shares or other securities.
- (b) Other than as allowed under Rule 10(a), the Options do not entitle the Optionholder to participate in any new issue of securities of the Company or any other company, except in the capacity as a shareholder following exercise of the Options.

#### **11. Pari Passu Ranking**

- (a) Subject to Rule 11(b), any Ordinary Shares allotted pursuant to Options will:
  - (i) in the case of the Ordinary Shares originally under option, rank pari passu in all respects with other ordinary shares of the Company on issue at the relevant Exercise Date; and
  - (ii) in the case of any additional shares or other securities under option by virtue of any bonus issue referred to in Rule 10, rank pari passu with the other shares or other securities issued by virtue of the bonus issue.
- (b) The Company must apply for official quotation on the Australian Stock Exchange Limited of Ordinary Shares allotted and issued pursuant to the exercise of any Options as soon as practicable after allotment and issue and in any event within 10 Business Days after allotment and issue.

#### **12. Takeover and Winding up**

- (a) If a takeover bid causes or is likely to cause a change in control of the Company, the Board has the discretion to give Optionholders an immediate right to exercise their Options. This discretion may only be exercised to ensure, where possible, that Optionholders are able to exercise the Outstanding Options within the time available to accept the takeover offer.
- (b) If notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, every Outstanding Option will be exercisable (but so that any exercise under this Rule 12(b) will only be valid if, at the time of such resolution being passed, that Option would not have lapsed under any of the other Rules) at any time between the date of the notice and the date the resolution is duly passed or defeated or the meeting concluded or adjourned indefinitely, whichever occurs first. If such resolution is duly passed all Options will, to the extent that they have not been exercised, immediately lapse.

#### **13. Stamp Duty**

Any stamp duty payable on the issue and allotment of Ordinary Shares acquired on the exercise of the Options must be borne by the allottee of the Ordinary Shares.

#### **14. Option Cancellation**

An Option issued to an Optionholder in respect of an Employee will expire on the earlier of the following:

- (a) the date shown as the Expiry Date on the face of the Option Certificate;

- (b) the date that the Employee is dismissed by the Company or a Related Body Corporate for fraud, defalcation or misconduct;
- (c) the date that the Employee resigns from the service of the Company or a Related Body Corporate, if the Employee resigns within 2 years after the Grant Date;
- (d) the date 7 days after the Employee resigns from the service of the Company or a Related Body Corporate, if the Employee resigns more than 2 years after the Grant Date;
- (e) the date 3 months after the date the Employee retires, if the Employee retires upon or after attaining the age of 65 or otherwise with the consent of the Board;
- (f) the date 3 months after the Employee is retrenched from the service of the Company or a Related Body Corporate;
- (g) the date 1 year after the death or total and permanent disability (evidenced to the satisfaction of the Board) of the Employee.

#### **15. Limit on Capital**

- (a) Subject to Rules 15(b) and 15(c), the number of Shares underlying the Options granted under this Plan when aggregated with:
  - (i) the number of Ordinary Shares that would be issued if all options granted under all employee share option plans of the Company were exercised; and
  - (ii) the number of Ordinary Shares issued by the Company during the preceding 5 years under any employee share plan and employee share option plan,
 must not exceed 5% of the issued Ordinary Shares at the time of grant of the Options.
- (b) Ordinary Shares or Options that may be issued without the need to issue a disclosure document in accordance with Section 708 of the Corporations Act (for example, issues to an Executive) will be excluded from the calculation of the number of Options granted to employees under existing plans under Rule 15(a).
- (c) Rule 15(a) does not restrict the Company from granting Options under this Plan where a prospectus has been lodged with the Australian Securities and Investments Commission in respect of the grant of those Options.

#### **16. ASIC Requirements**

The Company must use its reasonable endeavours to satisfy the conditions imposed by the Australian Securities and Investments Commission from time to time in a class order or exemption from or modification to the requirements of the Corporations Act relieving the Company from the obligation to lodge a prospectus in accordance with Chapter 6D of the Corporations Act.

#### **17. Termination of the Plan**

The Plan terminates on whichever first occurs of the following:

- (a) an order being made or an effective resolution being passed for the winding up of the Company other than for the purpose of amalgamation or reconstruction; or

- (b) the Company determining, in its discretion, that the Plan be wound up.

## 18. Interpretation

- (a) The Board's interpretation of the meaning and effect of these Rules will be conclusive and binding on the Optionholder.
- (b) These Rules are to be interpreted subject to the Listing Rules.

## 19. Definitions

In these Rules, unless the context otherwise requires:

**Application** means an application for the grant of Options in such other form as may be determined by the Board from time to time;

**Associate** has the meaning given to it in the Income Tax Assessment Act 1936 (Cth);

**Board** means the board of directors of the Company;

**Bonus Date** means any date after the Grant Date and before the exercise or the expiry of the Outstanding Options, on which entitlements are ascertained for holders of Ordinary Shares to participate in any bonus issue by way of capitalisation of profits or reserves;

**Business Day** means those days other than a Saturday, Sunday or Western Australia public holiday and any day which the Australian Stock Exchange Limited has declared not to be a Business Day;

**Company** means Advanced Nanotechnology Pty Ltd (ACN 079 845 855);

**Employee** means an employee of any member of the Group who the Board determines is entitled to participate in the Plan under Rule 1(a) and includes an Executive;

**Executive** means any person the Board determines is an "executive officer", as that term is defined in Section 9 of the Corporations Act, of any member of the Group;

**Exercise Date** means the date shown as an exercise date on the face of the Certificate or, if that date is not a Business Day, the next Business Day;

**Exercise Notice** means a notice from the Optionholder to the Company exercising a specified number of Options;

**Exercise Period** means a period during which an Option is exercisable and which is shown as an exercise period on the face of the Certificate;

**Exercise Price** means the price payable when the Optionholder exercises the Options being the price shown as the exercise price on the face of the Certificate;

**Expiry Date** means the date shown as the expiry date on the face of the Certificate;

**Grant Date** means the date shown as the grant date on the face of the Certificate;

**Group** means the Company and its subsidiaries;

**Initial Price** means, subject to Rule 9, the volume weighted average price of Ordinary Shares on the Australian Stock Exchange Limited for the 5 Business Days preceding the

Grant Date (or if no Ordinary Shares are traded on any of those days, the 5 Business Days on which Ordinary Shares are traded preceding the Grant Date);

**Listing Rules** means the listing rules of the Australian Stock Exchange Limited;

**Options** means the options referred to in the Option Certificate;

**Option Certificate** or **Certificate** means a certificate issued by the Company in respect of the Options;

**Optionholder** means the person registered in the Company's option register as the holder of the Options;

**Ordinary Shares** means fully paid ordinary shares in the capital of the Company;

**Outstanding Options** means the Options not yet exercised from time to time;

**Relative** has the same meaning as in the Income Tax Assessment Act, 1936 (Cth);

**Shareholder** means a shareholder of the Company; and

**Subsidiary** has the meaning given to it in the Corporations Act.

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