

Terms of Issue of Convertible Notes

1. Note Issue

1.1 The Company may issue:

- (a) up to a maximum of 318,181,818 Notes comprising Tranche 1 Notes, Tranche 2 Notes and Tranche 3 Notes; and
- (b) so many further Notes in lieu of Interest as necessary for the Company to satisfy its obligations under these Terms,

in each case those Notes having the Face Value.

1.2 The issue of Notes pursuant to these Terms of Issue is subject to these Terms, the Listing Rules and, as necessary, the granting of Shareholder Approval.

2. Form, denomination, title and information

2.1 Form

The Notes are convertible, redeemable notes of the Company, constituted by the Note Trust Deed and issued in registered form by entry in the Register.

2.2 Entry in Register

The Company must ensure that each Holder's details are entered in the Register of Holders in accordance with the Note Trust Deed, as required pursuant to the Corporations Act.

2.3 Terms

Each Note is:

- (a) issued fully paid and with a Face Value of \$0.11;
- (b) entitled to bear the Interest Rate on its Face Value in accordance with clause 4;
- (c) subject to clauses 5.4 to 5.6, convertible into Ordinary Shares at the rate of one Ordinary Share per Note; and
- (d) where not converted, redeemable in accordance with clause 6.

2.4 Title and transfer

Title to all Notes will be determined, and the Notes may be transferred, as provided in the Note Trust Deed. Except as provided for in the Note Trust Deed or required by law, the Company will not recognise any person other than the registered Holder as having any title to, or interest in, a Note.

2.5 Security

The Notes and the Company's obligations in respect of the same will be secured by the Security granted in accordance with the terms of the Note Trust Deed, subject only to the terms of the Priority Deed.

2.6 Evidence of holdings

The Company must provide to each Holder such statements of the holdings of the Notes of the Holder as the Company is required to give under the Corporations Act. Note certificates will not be issued unless, in the case of Placement Notes, requested by the Placement Noteholder at any time or are required to be made available by law, or, in the case of Non-Placement Notes, if the Company determines that certificates should be made available or are required to be made available by law.

2.7 Note Trust Deed

Holders are entitled to the benefit of, and are bound by the provisions of, the Note Trust Deed. The Note Trust Deed is available for inspection by Holders at the office of the Note Trustee

2.8 No other rights

The Notes confer no rights on a Holder:

- (a) to vote at any meeting of Shareholders of the Company, although Holders may attend meeting of Shareholders at the discretion of the chairman of the relevant meeting of Shareholders;
- (b) to subscribe for new securities or to participate in any bonus issues of securities of the Company; or
- (c) to otherwise participate in the profits or property of the Company, except as set out in these Terms of Issue or the Note Trust Deed.

2.9 Provision of information by Holders

- (a) If requested by the Company, the Holders must provide certain information required by the Company or the Note Trustee in order to comply with any applicable law.
- (b) That information may include personal information. The Holders permit the Company and the Note Trustee to collect, hold and use that personal information for the limited purpose of assisting in meeting the service needs of the Holders, and to facilitate distribution payments and corporate communications to the Holders.
- (c) Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (Cth) (as amended), the Corporations Act, and certain rules such as the ASX Settlement Operating Rules.
- (d) Holders acknowledge that:
 - (1) any personal information collected will be provided to the Note Trustee to be used primarily for the purpose of providing Trustee services and for the ancillary purposes detailed in the Privacy Policy;
 - (2) should they not provide the personal information required, neither the Company nor the Note Trustee may be able to carry out certain of their obligations under these Terms and the Note Trust Deed; and
 - (3) the Trustee and the Company may disclose personal information of the Holders such as their names and contact details, to their respective Related Bodies Corporate, their professional advisors, regulators, and as otherwise required by law.



3. Status

3.1 The Notes are direct and secured debt obligations of the Company.

4. Interest

4.1 Notes bear Interest

Each Note shall bear Interest at the Interest Rate on its Face Value which subject to clause 4.5, is payable by the Company in accordance with these Terms of Issue.

4.2 Interest calculated

Interest shall accrue daily on the basis of a 365 day year from the Issue Date until the Maturity Date, unless the Note is Redeemed or Converted before the Maturity Date in accordance with these Terms of Issue. Subject to clause 4.5, Interest shall be payable by the Company in arrears in respect of each Interest Period on each Interest Payment Date.

4.3 Interest Record Date

Notwithstanding clause 4.2, the entitlement to be paid Interest on an Interest Payment Date shall only accrue to those persons registered in the Register as Holders on the relevant Interest Record Date.

4.4 Interest payable

Interest calculated in accordance with clause 4.2 shall be paid by the Company to the person entitled to the Interest (determined by clause 4.3) no later than 20 Business Days after the relevant Interest Payment Date. In the event that the Company has not paid Interest as required by this clause 4.4 or as contemplated under clause 4.5, then further Interest shall accrue at the Overdue Rate in accordance with clause 4.6.

4.5 Issue of Shares in lieu of Interest payment

- (a) Subject to clause 4.5(e), the Company may elect, at its discretion to issue further Notes (the **Interest Notes**) at the Face Value in lieu of any Interest due on an Interest Payment Date (the **Interest Notes Value**), and the issue of those Interest Notes will be in full and final satisfaction of the Interest otherwise due and payable on the relevant Interest Payment Date, up to the Interest Notes Value. Any Interest Notes will be issued on the same terms and conditions as all other Notes, save for Notes issued to the Placement Note Holders, which shall be, and have the benefit of the rights and entitlements attaching to, Placement Notes.
- (b) Upon the Company making the election under clause 4.5(a), the Company will:
- (c) Determine the whole number of Interest Notes which will be paid to the Holder in accordance with clause 4.5(d) and subscribe for on behalf of, and issue to, the Holder that number of Notes.
- (d) The number of Interest Notes that will be issued in accordance with clause 4.5(a) will be so many Shares as is determined in accordance with the following formula:

$$A = B/C$$

Where:

- A = the number of Interest Notes to be issued in lieu of Interest payable on any Interest Payment Date (rounded up to the nearest whole number),
- B = the amount of Interest due on the relevant Interest Payment Date that the Company elects to pay by issuing Interest Notes, and
- C = \$0.11 (being the Issue Price/Face Value per Note).
- (e) Subject to the Placement Note Holders holding at least 68,181,818 Placement Notes at the relevant time, where the Company elects to issue Interest Notes in lieu of any Interest due on any Interest Payment Date other than the 31 March 2017 or 30 September 2017, then the Placement Note Holder Manager may elect that the Company does not issue Interest Notes to them in lieu of any Interest owing to them at that time, but rather that the Company must (subject to the balance of this clause) pay the amount of Interest due to them on the relevant Interest Payment Date in Immediately Available Funds. The Company shall then be obliged to pay that Interest in Immediately Available Funds on the relevant Interest Payment Date unless the Company can prove to the Placement Note Holder Manager's satisfaction (acting reasonably), that payment of that Interest in Immediately Available Funds would result in the Company not having sufficient cash reserves to meet the Company's budgeted Approved Project Expenditure for the next 12 month period when expenditure on New Business Development Opportunities is excluded.

For the purposes of this clause:

- (1) **Approved Project Expenditure** means any expenditure on the Company's:
- (A) Kincora project assets;
 - (B) corporate administration and overheads; and
 - (C) other existing project interests to the extent of Government imposed minimum expenditure requirements (the Issuer will use all reasonable endeavours to minimize these commitments).
- (2) **New Business Development Opportunities** expenditure is expenditure on projects that are not included in Approved Project Expenditure.

4.6 Overdue Rate

- (a) Without limiting any of the Trustee's or any Holder's rights under this deed, the Terms of Issue or under any Security, the Company must pay interest at the Overdue Rate on each amount (including Interest) which is not paid when due under this deed (**Overdue Amount**).
- (b) Interest on any Overdue Amount accrues daily from and including the day when the amount first becomes due until the date of actual payment and in each case interest may be capitalised by the Trustee at the end of each thirty day period after the due date.

5. Conversion

5.1 Conversion Notice

- (a) Subject to this clause 5, a Holder may request Conversion of all or part of the Notes held by it by giving a Conversion Notice to the Company at any time during the Conversion Period.

- (b) A request for Conversion under clause 5.1(a) must be for at least, the lesser of the number of Notes which have an aggregate Face Value of \$50,000 or the balance of the relevant Holders holding of Notes.
- (c) Once given by a Holder, a Conversion Notice cannot be withdrawn without the written consent of the Company, which it may choose to provide at any time (and any such consent may either be given in writing to the Holder, or in the case of a consent applying to all Holders or a class of Holders generally, by notice to ASX). If a Conversion Notice is withdrawn in accordance with this clause 5.1(c), it must not be acted upon and will be of no further force or effect despite any other provisions in this clause 5.
- (d) A Conversion Notice must be accompanied by such evidence of the authority of the person signing it as is reasonably acceptable to the Company and may be treated by the Company as not being a valid Conversion Notice unless and until such evidence is actually received by the Company.
- (e) A Conversion Notice must include:
 - (1) such information as may be required by the Company in relation to the Holder's voting power in the Company to enable the Company to determine the maximum number of Ordinary Shares that the Holder is able to acquire on the Conversion Date without contravening section 606 of the Corporations Act (or without exceeding such lesser percentage voting power in the Company as the Holder may specify in the Conversion Notice as being the percentage voting power that it does not wish to exceed as a result of Conversion of the Notes which are subject to the Conversion Notice) (the **Maximum Number**); and
 - (2) a warranty that the information referred to in clause 5.1(e)(1) is correct and the Company may rely on such information without further enquiry (or, if it so chooses, may require additional substantiation of such information).
- (f) If on the Conversion Date in respect of a Conversion Notice the Company determines in good faith, that the number of Ordinary Shares that would be required to be issued as a result of the Conversion of the Notes the subject of the Conversion Notice exceeds the Maximum Number (the **Balance Shares**), then the Company will Convert that number of the Notes that is the Maximum Number and:
 - (1) the issue of the Balance Shares will be subject to Shareholder Approval and the Company will use its reasonable endeavour to have Shareholder Approval granted at the next general meeting of the Company (which must be held as soon as possible and in any within 40 Business Days of the relevant Conversion Date); or
 - (2) if Shareholder Approval is not obtained for the issue of the Balance Shares,
 - (A) the Conversion Notice will be deemed to relate only to the maximum number of those Notes as can be Converted into in a number of Ordinary Shares that does not exceed the Maximum Number; and
 - (B) the balance of the Notes will be treated as having never been the subject of a Conversion Notice.
- (g) A Holder must not deal with, transfer, dispose of or encumber any Notes the subject of a Conversion Notice once that Conversion Notice has been given. Subject to the



Corporations Act, the Listing Rules and the ASX Settlement Operating Rules, the Company may refuse to register a transfer of any Notes the subject of a Conversion Notice and may arrange for the Notes to be subject to a holding lock or make other arrangements to ensure that the Notes are not dealt with by the Holder.

- (h) Where the Company has received a valid Conversion Notice in respect of any particular Notes, any additional Conversion Notice subsequently received will be taken to apply only to the Notes which were not the subject of the prior Conversion Notice. The Directors may apply such adjustments (if any) as the Directors consider to be reasonably necessary to reflect this.
- (i) If the Company issues a Redemption Notice then a Holder may not give a Conversion Notice in respect of any Notes to be Redeemed pursuant to the Redemption Notice after the Conversion Cut-off Time prior to the specified Redemption Date, unless the Company fails to Redeem the Notes on that date in accordance with the applicable Redemption Notice, in which case the Holder may give a Conversion Notice at any time prior to the Redemption of its Notes.
- (j) A Conversion Notice may be given by Holder subject to the fulfilment of one or conditions precedent (**Conditional Conversion Notice**), and such a Conditional Conversion Notice will not have any force or effect until such time as the conditions precedent to which it is subject have been fulfilled. For the avoidance of doubt a Conditional Conversion Notice may be withdrawn at any time prior to the fulfilment of the conditions precedent to which it is subject.

5.2 Payment of Interest on Conversion

- (a) If a Holder elects to Convert Notes in accordance with this clause 5:
 - (1) on a date being an Interest Payment Date, the Company will pay to the Holder an amount of Interest being:
 - (A) all Interest owing on that Interest Payment Date;
 - (B) all accrued and Unpaid Interest; and
 - (2) on a day that falls between Interest Payment Dates, then because interest is payable in arrears, on the next Interest Payment Date immediately following the relevant Conversion Date, the Company will pay to the Holder an amount of Interest calculated in accordance with the following formula:

R = (I/180 x MP)

Where

- R = the amount of Interest to be paid by the Company;
- I = the total amount of Interest which would have been payable to that Holder in respect of the relevant Notes on the Interest Payment Date following the Conversion Date, had the Notes not been Converted; and
- MP = the number of days commencing on the Interest Payment Date which immediately preceded the date of Conversion and ending on the Conversion Date.

5.3 Conversion process



- (a) Where a Note is to be Converted under these Terms of Issue, on the Conversion Date the Company must cause:
 - (1) to be issued and allotted to the relevant Holder the number of Ordinary Shares equal to the number of Notes the subject of the relevant Conversion Notice (the **Conversion Ratio**) (subject to amendments to the Conversion Ratio from time to time in accordance with clauses 5.4 to 5.6);
 - (2) the Notes the subject of the Conversion Notice to be cancelled; and
 - (3) the Holder to be entered into the register of members of the Company as the holder of Ordinary Shares issued under clause 5.3(a)(1).
- (b) By delivering a Conversion Notice, the relevant Holder irrevocably and unconditionally:
 - (1) directs that the Company issue the number of Shares equal to the number of Notes the subject of the Conversion Notice, and acknowledges and agrees that it has no right to further payment in respect of the Face Value of the Notes that are to be Converted; and
 - (2) consents to be a member of the Company and agrees to be bound by the constitution of the Company.
- (c) Any issue of Shares under this clause 5.3 will have effect on and from, and will be deemed to have been made on, the Conversion Date.
- (d) Shares issued on Conversion must rank equally with all other fully paid Shares other than in respect of any dividend or other entitlement for which the applicable record date falls prior to the Conversion Date.
- (e) Following the issue of Shares in accordance with this clause 5, the Company must:
 - (1) as soon as practicable, apply for quotation for the Shares on the ASX and do all things reasonably necessary to ensure that the Shares are quoted as soon as practicable on such terms and conditions as are usual for quotation of securities;
 - (2) within 30 days of the Conversion Date, provide ASX with a notice in relation to the Shares in accordance with section 708A(5)(e) and which complies with section 708A(6) of the Corporations Act (**Cleansing Notice**); and
 - (3) take all steps to procure the delivery to the person to whom the Shares have been issued, a holding statement evidencing that the Shares have been issued and allotted to that person with effect from the Conversion Date.

5.4 Adjustments to Conversion Ratio for pro rata issue

If at any time prior to the earlier to occur of Conversion, Redemption or Maturity Date of any Note, the Company makes a pro rata offer (excluding a bonus issue) to Shareholders, the Conversion Ratio will be adjusted using the formula as follows:

$$NR = OR + \frac{E[P - (S+O)]}{N+1}$$

Where:

NR = the new Conversion Ratio of the Notes.

OR = the old Conversion Ratio of the Note prior to the pro rata offer.

E = the number of shares into which one Note is Convertible.

P = average market price per share weighted by reference to volume of the underlying Shares during the 5 trading days ending on the day before the ex-rights date or ex-entitlements date.

S = the subscription price of a share under the pro rata issue.

O= the dividend due but not yet paid on the existing underlying shares (except those to be issued under the pro rata issue).

N = the number of shares with rights or entitlements that must be held to receive a right to 1 new share.

5.5 Adjustments to Conversion Ratio for bonus issue

If a bonus issue of shares is made by the Company, then:

- (a) the number of shares issued to each Holder on Conversion will be increased by the number of bonus shares that a Holder would have received if the Note had been exercised prior to the record date for the bonus issue; and
- (b) no change will be made to the Conversion Ratio.

5.6 Adjustments to Conversion Ratio for reorganisation of capital

- (a) The Company may only reorganise its capital:
 - (1) in accordance with the Listing Rules; and
 - (2) if, in respect of the Notes, the number of Notes or the Face Value, or both, is reorganised so that the Holders will not receive a benefit that Shareholders do not receive.
- (b) This clause does not prevent a rounding up of the number of shares to be received on Conversion if the rounding up is approved at the meeting of shareholders which approves the reorganisation.
- (c) Unless the Listing Rules require otherwise, the Conversion Ratio must be adjusted as follows:
 - (1) Reduction in capital

If the issued capital of the Company is reduced, the entitlement of a Holder to Convert its Notes to shares at the Conversion Ratio will be reduced in the same proportion and manner as the issued capital is so reduced (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the reduction of capital) but in all other respects the Conversion Rights will remain unchanged.
 - (2) Consolidation of capital

If the issued capital of the Company is consolidated, the entitlement of a Noteholder to Convert its Notes to shares at the Conversion Ratio will be reduced in the same proportion and manner as the issued capital is so consolidated (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the consolidation of capital) but in all other respects the Conversion Rights will remain unchanged.

(3) Subdivision of capital

If the issued capital of the Company is subdivided, the entitlement of a Holder to Convert its Notes to shares at the Conversion Ratio will be increased in the same proportion and manner as the issued capital is so subdivided (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the subdivision of capital) but in all other respects the Conversion Rights will remain unchanged.

- (d) If the Company reorganises its capital so that the Conversion Ratio or the Face Value or both are adjusted in accordance with this clause, the Company must advise the Trustee and the Holders of the adjustment.

5.7 Determination and notification of adjustments

- (a) The Company must promptly determine all adjustments to the Conversion Ratio required under clauses 5.4 to 5.6 and must promptly notify ASX of that determination.
- (b) The Company's determination is, in the absence of manifest error, final and binding on the Note Trustee and each Holder.

5.8 Cancellation of Notes on Conversion

On Conversion of Notes in accordance with this clause 5, those Notes shall, on such Conversion, be cancelled and may not be reissued.

6. Redemption and purchase

6.1 Redemption on Event of Default

Upon the occurrence of an Event of Default, the Company must Redeem each Note for its Redemption Amount if the Note Trustee or a Placement Note Holder gives the Company a notice in writing within 45 days of the Event of Default requiring the Notes to be Redeemed.

6.2 Redemption on Maturity Date

- (a) Subject to these Terms of Issue, all Notes held by Holders on the Maturity Date which:
- (1) have not been otherwise Redeemed or Converted in accordance with these Terms of Issue; and
 - (2) are not the subject of an outstanding Conversion Notice, or Company Redemption Notice

(Noteholding Balance),

shall be Redeemed as at the Maturity Date in accordance with this clause 6.2.

- (b) The Company shall provide written notice to each Holder on the Register, not less than 15 Business Days prior to the Maturity Date, advising each Holder of
- (1) the forthcoming Maturity Date; and
 - (2) the effect of clause 6.2.

- (c) With effect from the Maturity Date:
- (1) the Company shall Redeem and cancel each of the Notes comprising the Noteholding Balance on, or as soon as reasonably practicable after, the Maturity Date; and
 - (2) the Company shall pay to the Holder the Redemption Amount, such payment to be made as soon as reasonably practical after the Maturity Date, but in any event not later than 20 Business Days after the Maturity Date.
- (d) For the purposes of this clause 6.2, the maximum number of Notes that a Holder is entitled to have Redeemed as at the Maturity Date is that Holder's Noteholding Balance.

6.3 Redemption on Company Redemption Event

- (a) Subject to these Terms of Issue and specifically, the Company complying with this clause 6.3, the Company may Redeem all (but not some) of the Notes at any time for their Redemption Amount upon the occurrence of a Takeover Event occurs (**Company Redemption Event**).
- (b) If the Company elects to exercise its redemption rights in connection with a Company Redemption Event, the Company must send to Holders on the Register on the date of the Company Redemption Event, the Redemption Event Advice as soon as is reasonably practicable after the happening of the Company Redemption Event.
- (c) The Company may within 20 Business Days of the date of issue of the Redemption Event Advice to Holders, provide notice in writing to all of the Holders (**Company Redemption Event Notice**) providing that the Company intends to Redeem all of the Notes on issue as at the date of provided in the Company Redemption Event Notice to the Holder.
- (d) As soon as is reasonably practicable after providing the Company Redemption Event Notice, but in any event no earlier than 30 Business Days after, and no later than 40 Business Days after, the Company providing the Redemption Event Notice, the Company shall:
 - (1) Redeem and cancel each of the Notes to which the Company Redemption Event Notice relates (which are not the subject of a Conversion Notice) for the relevant Redemption Amount; and
 - (2) pay the relevant Redemption Amount to each Holder who has been provided with a Company Redemption Event Notice, such payment to be made as soon as reasonably practicable, but in any event not later than [40] Business Days after providing the Company Redemption Event Notice to Holders.
- (e) Notwithstanding the issue of the Company Redemption Event Notice, a Holder may give a Conversion Notice in respect of some or all of its Notes which are subject to the Company Redemption Event Notice up to the date which is 15 Business Days following the date the Company provided the Company Redemption Event Notice (or such later date as the Company may agree with the relevant Holder), and only Notes for which Conversion Notices have not been so given will be Redeemed pursuant to the Company Redemption Event. For the avoidance of doubt, any Conditional Conversion Notice which is expressed to be subject to or conditional upon a Takeover Event, shall be deemed to have been withdrawn (with no conversion or redemption of the relevant Notes having occurred) in the event that the Takeover Event does not eventuate.

6.4 Redemption at the option of the Holders of the Placement Notes

- (a) A Placement Note Holder may require the Company to Redeem some or all of those Notes held by that Placement Note Holder at that time in any of the circumstances set out in clause 6.10 (each a **Holder Redemption Event**).
- (b) The Placement Note Holder must send to the Company within 20 Business Days of the date of the Holder Redemption Event, a Holder Redemption Event Notice requiring the Company to Redeem some or all of the Notes registered in the name of the Placement Note Holder as at the date of the Holder Redemption Event.
- (c) Subject to clause 6.4(d) as soon as is reasonably practicable after receiving the Holder Redemption Event Notice, and in any event no later than 60 days after receiving the Holder Redemption Event Notice, the Company shall, subject any other agreement entered into with the relevant Placement Note Holder:
 - (1) Redeem and cancel each of the Placement Notes to which the receiving the Holder Redemption Event Notice relates for the relevant Redemption Amount; and
 - (2) pay the relevant Redemption Amount to that Placement Note Holder.
- (d) In the event that a Placement Note Holder issues a Holder Redemption Event Notice, the Company may satisfy its obligations in respect of the same in whole or in part by procuring a purchaser or purchasers for the relevant Placement Notes within 60 days of receiving the Holder Redemption Event Notice. In these circumstances the relevant Placement Note Holder shall do all things reasonably necessary to give effect to that sale PROVIDED THAT the amount that the relevant Placement Note Holder will receive under those agreements is not less than the Redemption Amount that it would otherwise have been paid by the Company in accordance with clause 6.4(c)(1), and the Placement Note Holder is satisfied (acting reasonably) that such amount will be paid no later than payable under clause 6.4(c)(2). Upon completion of the sale of the relevant Placement Notes the Company shall have no further obligations to the relevant Placement Note Holder in respect of the Placement Notes the subject of the relevant sale.

For the purposes of this clause “the relevant Placement Note Holder shall do all things reasonably necessary” shall mean that the relevant Placement Note Holder shall entering into one or more purchase agreements, pursuant to which the obligations of the Placement Note Holder shall be limited to:

- (1) providing warranties and representations as to:
 - (A) their title to the Notes the subject of those agreements;
 - (B) their capacity to enter into the agreements;
 - (C) there being no encumbrances over the relevant Notes;
- (2) executing and presenting a note transfer instrument; and
- (3) if they have been issued, any note certificates, or if they have been lost, then a customary indemnity as to such lost certificates.

6.5 Effect of Notice

A Redemption Notice, Company Redemption Event Notice or Holder Redemption Event Notice issued under this clause 6 is irrevocable and on the Redemption Date specified in the Redemption Notice, Company Redemption Event Notice or Holder Redemption Event Notice as the case may be,

and the Company must, subject to clause 6.6, Redeem each Note at its Redemption Amount. The accidental or inadvertent failure to give notice to an individual Holder (other than the Placement Note Holder) will not invalidate any Redemption Notice or Company Redemption Event Notice given under this clause 6.

6.6 Conversion

Notwithstanding the issue of a Redemption Notice, a Holder may give a Conversion Notice (which may be expressed to be subject to Takeover Event completing) in respect of any of its Notes which are the subject of the Redemption Notice up to the Conversion Cut-off Time before the relevant Redemption Date (or such later time as the Company may agree with the relevant Holder), and only Notes for which Conversion Notices have not been so given or are treated as having not been given will be Redeemed on the specified Redemption Date.

6.7 Failure to Redeem

If the Company fails to Redeem any Notes when due, an Event of Default will occur and Interest will continue to accrue on the Notes at the Overdue Rate in accordance with clause 4.6 and must be paid to the relevant Holders upon Redemption of the Notes.

6.8 Purchase

- (a) The Company and any of the Company's Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.
- (b) Notes purchased under this clause 6.8 may be held, resold or cancelled at the discretion of the purchaser (and, if the Notes are to be cancelled, the Company), subject to compliance with any applicable law or requirement of ASX.

6.9 Cancellation

Notes Redeemed in accordance with these Terms, or purchased by the Company or a Subsidiary of the Company which the purchaser and the Company elect to cancel, will be cancelled by the Company and may not be resold.

6.10 Holder Redemption Event

Each of the following is a Holder Redemption Event for the purposes of clause 6.4:

- (a) Where any necessary Shareholder Approval has been obtained, entities related to Stephen Bizzell have not subscribed for at least \$1,000,000 worth of securities issued by the Company, comprising of:
 - (1) at least \$500,000 Tranche 2 Notes issued by the Company, by 16 December 2016; and
 - (2) the balance, if any, of Shares issued pursuant to a *pro rata* entitlement offer, by 30 April 2017.
- (b) Where any necessary Shareholder Approval has been obtained, entities related to Nicholas Mather have not subscribed for at least \$1,000,000 worth of securities issued by the Company, comprising of:
 - (1) at least \$500,000 Tranche 2 Notes issued by the Company, by 16 December 2016; and

- (2) the balance, if any, of Shares issued pursuant to a *pro rata* entitlement offer, by 30 April 2017.
- (c) If by 30 April 2017 and provided that the Placement Note Holders have subscribed for a minimum of 68,181,818 Placement Notes, any of the following have not been satisfied or have occurred (as relevant):
 - (1) the Company has not appointed a CEO / Managing Director (**New CEO/MD**) who is satisfactory to Placement Note Holder Manager, acting reasonably;
 - (2) Nicholas Mather has not stepped down as executive Chairman and instead assumed the role of non-executive Chairman following the appointment of the New CEO/MD;
 - (3) entities related to Stephen Bizzell and Nicholas Mather holding Shares in the Company (including DGR) having in any way supported (including by way of voting in favour of, or failing to vote against) any action or resolution to remove any director nominated to the Company by the Placement Note Holder Manager;
 - (4) the number of permitted Company directors being increased to 7 or more (unless the Placement Note Holder Manager has provided its prior written consent to such increase); or
 - (5) less than 131,818,181 Non-Placement Notes being subscribed for by parties other than the Placement Note Holder Manager and its nominee(s).
- (d) Provided that the Placement Note Holders have subscribed for a minimum of 68,181,818 Placement Notes by 30 April 2017:
 - (1) at any time, entities related to Stephen Bizzell and Nicholas Mather holding Shares in the Company (including DGR) having in any way supported (including by way of voting in favour of, or failing to vote against) any action or resolution to remove any director nominated to Armour by the Placement Note Holder Manager; or
 - (2) at any time, the number of permitted Armour directors being increased to 7 or more (unless the Placement Note Holder Manager has provided its prior written consent to such increase).
- (e) Without the prior consent of the Note Trustee and the Placement Note Holder Manager, there is, or is proposed, at any time:
 - (1) the sale of the main undertaking of the Company that would require approval of the ordinary shareholders of the Company in accordance with Listing Rule 11.2; or
 - (2) the sale of all, or a material part, of the Company's (or the relevant Subsidiary's) interest in the Kincora assets, without the prior written approval of the Placement Note Holder.
- (f) At any time, an Event of Default (howsoever described) under the DGR Facility occurs.
- (g) Any of the following has not occurred by 30 April 2017:
 - (1) (**Kincora Pipeline Connection**) the Company entering into a legally binding and unconditional agreement with APA Group for the connection of the Kincora Pipeline (PPL3) to the RBP, on terms satisfactory to the Placement Noteholder Manager (acting reasonably), with such agreement to include (unless otherwise

approved by the Placement Noteholder Manager, acting reasonably) one-off charges not exceeding \$64,000 for re-commissioning of existing equipment;

- (2) **(I-Pig)** the Placement Noteholder Manager confirming by notice in writing to Armour that it is satisfied (acting reasonably) with:
 - (A) the results of the I-Pig;
 - (B) the results of the analysis of the I-Pig by a suitably qualified expert, as contemplated under the MRA (**Expert's Analysis**); and
 - (C) Origin's response in relation to the Expert's Analysis.
- (3) **(Origin Consent)** Origin providing all consents and approvals required under the MRA in connection with the commencement and approval of the PPL 3 Construction Works (as defined in the MRA), on terms satisfactory to the Placement Noteholder Manager (acting reasonably);
- (4) **(APA Consent)** APA consenting to the commissioning of any connection works required for the re-connection of the Kincora Pipeline (**PPL3**) to the RBP following its relocation, on terms satisfactory to the Placement Noteholder Manager (acting reasonably);
- (5) **(HAZOP Report)** the Company preparing a HAZOP Report on terms satisfactory to the Placement Noteholder Manager (acting reasonably); and
- (6) **(Third Parties)** Those third parties designated by the Placement Noteholder Manager to the Company in writing to be key consultants or contractors to be engaged by the Company in the course of the restart works described above and on-going Kincora PPL3 operations:
 - (A) approving the HAZOP Report;
 - (B) confirming that they are satisfied with safety and other risks; and
 - (C) being engaged by the Company, andeach on terms satisfactory to the Placement Noteholder Manager (acting reasonably).

7. Enforcement

7.1 Consequences of a default

- (a) Subject to clause **Error! Reference source not found.** and the Note Trust Deed, if an Event of Default has occurred (including the Company being Wound Up) and the Company has issued a Redemption Notice or a Company Redemption Event Notice or if the Company is in default of payment or performance of any of its other obligations in respect of the Notes, or the Note Trust Deed, the Note Trustee may take any action permitted by the Note Trust Deed to enforce the Notes.
- (b) Subject to the Note Trust Deed, the Note Trustee is not bound to take any action referred to in clause 7.1(a) to enforce the rights of the Holders against the Company in respect of the Notes or to take any other action pursuant to or in connection with the Note Trust Deed or the Notes unless it shall have been so directed in writing by the Holders of at least 10% of the aggregate of the principal amount of all Notes not having been Redeemed or Converted at that time (ignoring any Notes held by the Company, or any of the Company's Subsidiaries and not cancelled).

7.2 Conversion right to remain exercisable

The right to Convert remains exercisable in accordance with these Terms of Issue notwithstanding any action taken by the Note Trustee under this clause 7 to enforce any provision of these Terms of Issue or the Note Trust Deed, at any time up to the date the Notes are Redeemed.

8. Payments

8.1 Payment of principal

Payments of the Redemption Amount in respect of a Note (including all Interest payable on Redemption of the Note) will be made to the person registered at 10.00am on the relevant Redemption Date as the Holder of that Note.

8.2 Payment of Interest

Interest payable in respect of a Note (other than Interest on Redemption of the Note) will be made to the person registered at the relevant Interest Record Date for that payment as the Holder of that Note.

8.3 Manner of payment

- (a) Amounts payable to a Holder in respect of the Notes will be paid by direct credit to an account nominated by the Holder at an Australian financial institution by notice to the Registry not less than eight calendar days before the date for payment.
- (b) Where a payment cannot be made in accordance with clause 8.3(a) because a Holder has not provided account details, or the Company determines that the account details are incorrect or the relevant account has been closed or is not an account to which the relevant payment can be made, the Company is under no obligation to make the relevant payment until the required account details have been provided.
- (c) Where a payment is due on a day that is not a Business Day, or cannot be made in accordance with clause 8.3(a) on the due date because a financial institution is not open for business (or is not open for business in the place where the account is kept) on that date, the Company is under no obligation to make the relevant payment until the next Business Day on which payment can be made.
- (d) The Holder is not entitled to any interest or other amount in respect of a delay in payment under clauses 8.3(b) or 8.3(c).

8.4 Payments net of deductions

- (a) The Company may deduct from any Interest or other amount payable to a Holder the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount.
- (b) The Company will pay the full amount deducted to the relevant revenue authority within the time allowed for such payment without incurring a penalty under the applicable law and will, if required by any Holder, deliver to that Holder the relevant receipt issued by the revenue authority without unreasonable delay after it is received by the Company.

8.5 Foreign Resident Tax Withholding – Australian resident tax company/not land company as Company

The Company warrants and declares that on the date of making this Offer and on the date five days prior to issue of any Convertible Notes or New Options, that it is a resident of Australia for Australian tax purposes and has lodged income tax returns in Australia.

8.6 Payments generally

Payments in respect of the Notes and the Security will be made in accordance with the provisions relating to payment set out in clause 5.2 (**Payments**) of the Note Trust Deed or its Security as the case may be.

9. Further issues

- (a) The Company must not issue or guarantee any other bonds, notes or other form or type of securities, or incur or guarantee any indebtedness for moneys borrowed or raised pursuant to any other financial accommodation, in any case where it would be an Equal Ranking Obligation or be secured against the Charged Property in priority to an Equal Ranking Obligation except:
 - (1) bonds, notes, debt securities or indebtedness issued to replace, or extend the maturity of any Equal Ranking Obligation (**Replacement Facilities**);
 - (2) indebtedness in respect of accrued but uncapitalised interest, fees and other charges;
 - (3) after no Notes remain on issue; or
 - (4) with the approval of a Special Resolution and consent of the Placement Note Holder Manager.
- (b) For the purposes of clause 9(a)(1), Replacement Facilities:
 - (1) may not exceed the amount of the replaced Equal Ranking Obligation; and
 - (2) may not be on terms that are any more onerous than those of the terms of the relevant replaced Equal Ranking Obligation.
- (c) Nothing in these Terms of Issue other than clauses 9(a) and 9(b) limits the ability of the Company to issue or incur further or Junior Ranking Obligations in such party's absolute discretion from time to time.

10. Placement Note Holder Manager requirements and Placement Note Holder rights

The provisions of clauses **Error! Reference source not found.** and **Error! Reference source not found.** of the Trust Deed are incorporated into these terms *mutatis mutandis*.

11. Time limit for claims

A claim against the Company for a payment under the Notes is void unless made within five years after the date on which payment first became due and payable.

12. Amendments**12.1 Amendments without consent**

At any time and from time to time, but subject to the Note Trust Deed and compliance with all applicable laws, the Company and Note Trustee may without the consent of the Holders, amend these Terms of Issue or the Note Trust Deed if the Note Trustee and Placement Note Holder Manager are of the opinion that such amendments are:

- (a) of a formal or technical or minor nature and not materially prejudicial to the interests of the Holders as a whole;
- (b) made to cure any ambiguity or correct any manifest error;
- (c) necessary or expedient for the purpose of enabling the Notes to be offered for subscription or for sale under the laws for the time being in force in any place,

and (in the case of each of clauses 12.1(b) and 12.1(c) above) the Company has provided to the Note Trustee and Placement Note Holder Manager an opinion of independent legal advisers or counsel of recognised standing in Queensland that such amendment is otherwise not materially prejudicial to the interests of Holders as a whole;

- (d) necessary to comply with the provisions of any statute or the requirements of any statutory authority and the Company has provided to the Note Trustee and Placement Note Holder Manager an opinion of independent legal advisers or counsel of recognised standing in Queensland that such amendment is otherwise not materially prejudicial to the interests of Holders as a whole; or
- (e) not, and not likely to become, taken as a whole and in conjunction with all other amendments to be made contemporaneously with that amendment, materially prejudicial to the interests of Holders generally and the Company has provided to the Note Trustee and Placement Note Holder Manager an opinion of independent legal advisers or counsel of recognised standing in Queensland that it is open to the Note Trustee to form the opinion that such amendment is otherwise not materially prejudicial to the interests of Holders as a whole.

12.2 Amendments with consent

At any time and from time to time, but subject to the Note Trust Deed, compliance with the Corporations Act and all other applicable laws, the Company may amend these Terms, the Security or the Note Trust Deed if a Special Resolution is passed in favour of such amendment and (if the amendment alters or conflicts with any of the personal rights or obligations of the Note Trustee) the Company has obtained the Note Trustee's prior written consent to such amendment.

12.3 Notices

Notices under these Terms are to be given in accordance with the provisions of the Note Trust Deed.

13. Governing law and jurisdiction

13.1 Governing law

The Notes and these Terms are governed by the laws of Queensland, Australia.

13.2 Submission to jurisdiction

The Company, the Note Trustee and each Holder submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in Queensland, Australia in connection with matters concerning the Notes or these Terms of Issue. The Company, the Note Trustee and each Holder waive any right they have to object to an action being brought in those courts, or to claim that the action has been brought in an inconvenient forum, or to claim those courts do not have jurisdiction.

14. Interpretation

14.1 Clause 1 of the Trust Deed shall apply to these Terms of Issue as if it was set out in full in these Terms of Issue except to the extent that any definition in that clause contradicts or conflicts with a definition set out in clause 14.2 immediately below.

14.2 Definitions

The following defined terms apply in these Terms of Issue:

APA Group means Australian Pipeline Limited, the responsible entity of Australian Pipeline Trust and APT Investment Trust (ASX:APA).

ASX means ASX Limited ABN 98 008 624 691 or the market it operates.

Board means the board of Directors.

Business Day has the same meaning as in the Listing Rules, but where used in connection with any Redemption of or payment on the Notes, excludes a day on which major trading banks are not open for business in Brisbane.

Change in Law means:

- (a) any amendment to, clarification of, or change (including any announced prospective change), in the laws or treaties or any regulations of Australia or any political subdivision or taxing authority of Australia affecting taxation;
- (b) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (**Administrative Action**); or
- (c) any amendment to, clarification of, or change in, an Administrative Action that provides for a position that differs from the current generally accepted position, in each case, by any legislative body, court, Government Agency or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known.

Company Redemption Event has the meaning given to it in clause 6.3(a).

Company Redemption Event Notice means a notice provided by the Company in accordance with clause 6.3(c).

Conversion means a Holder ceasing to hold Notes and receiving the same number of Ordinary Shares in accordance with clause 5 and **Convert** and **Converted** have corresponding meanings.

Conversion Cut-off Time means 5.00pm on:

- (a) the 11th Business Day prior to a Conversion Date or Redemption Date; or
- (b) with respect to a Company Redemption Event, 30 Business Days after the relevant Company Redemption Event Notice.

Conversion Date means the date on which Notes are to be Converted pursuant to a Conversion Notice, being:

- (c) in the case of a Conversion Notice received after the issue of a Redemption Notice and prior to the Conversion Cut-off Time for the relevant Redemption Date (or such later time as the Company may agree with the relevant Holder), that Redemption Date or such other date as may be reasonably determined by the Company having regard to its obligations to Holders; and
- (d) in any other case, the date being 11 Business Days after the receipt of the relevant Conversion Notice.

Conversion Notice means a notice, in any form prescribed by the Company or otherwise containing information required to be contained under clause 5.1(e), given by a Holder to the Company under clause 5.1.

Conversion Period means, for a Note, the period commencing on the Issue Date and ending on the Maturity Date.

Conversion Ratio has the meaning given in clause 5.3.

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

Director means a Director of the Company. References to the Directors are to the Board of the Company acting by resolution or through any person to whom it has delegated the relevant matter.

Equal Ranking Obligations means any obligation in relation to any claims arising out of the DGR Bridging Facility against the DGR Security.

HAZOP Report means a report or similar risk ranking matrix in respect of all works required for the restart of the Kincora and Newstead infrastructure and the Roma Shelf producing wells addressing, at a minimum and without limitation, at least all the issues that were raised or identified by Origin Energy when the Kincora and Newstead infrastructure was shut down in 2012.

Holder in relation to any Note, a person whose name is for the time being registered in the Register as the holder of that Note.

Holder Redemption Event has the meaning given to it in clause 6.3(a).

Holder Resolution means:

- (a) a resolution passed at a meeting of Holders duly called and held under the Meeting Provisions:
 - (1) by more than 50% of the persons voting on a show of hands (unless paragraph (2) applies); or
 - (2) if a poll is duly demanded, then by a majority consisting of more than 50% of the votes cast; or
- (b) if the meeting is by postal ballot or written resolution, then by Holders representing (in aggregate) more than 50% of the principal amount of all of the outstanding Notes.

Interest means interest accruing in respect of each Note, calculated in accordance with clause 4.

Interest Payment Date means each of the following:

- (a) 31 March 2017
- (b) 30 September 2017
- (c) 31 March 2018
- (d) 30 September 2018
- (e) 31 March 2019;
- (f) the Redemption Date; and
- (g) the Conversion Date.

Interest Period means:

- (a) the period beginning on the Issue Date until (but excluding) the first Interest Payment Date; and
- (b) each subsequent period beginning on an Interest Payment Date until (but excluding) the next Interest Payment Date.

Interest Rate means 15% per annum.

Interest Record Date means in respect of an Interest Payment Date, the day which is eight Business Days prior to the relevant Interest Payment Date, subject to any contrary requirement in the Listing Rules.

I-Pig means the intelligent pig inline inspection of the Kincora Pipeline (PPL3), as contemplated by the terms of the MRA.

Issue Date means in respect of any issue of Notes, the date to be agreed between the Company and the Trustee.

Issue Price means \$0.11 per Note.

Junior Ranking Obligations means:

- (a) any obligation in relation to claims of any unsecured, subordinated creditor of the Company, except to the extent otherwise required by law; and

(b) all the Ordinary Shares.

MRA means the PPL 3 Management and Relocation Agreement dated 15 September 2015.

Maturity Date means 30 September 2019.

Meeting Provisions means the provisions for meetings of the Holders set out in Attachment [3] of the Note Trust Deed.

Notes or Convertible Notes means the convertible redeemable notes issued by the Company or to be issued by the Company on these Terms of Issue including both the Tranche 1 Notes, Tranche 2 Notes, Tranche 3 Notes and Tranche 4 Notes, and Note or Convertible Note has a corresponding meaning.

Note Trust Deed means the trust deed dated on or about 9 December 2016 between the Company and the Note Trustee as amended from time to time.

Note Trustee or Trustee means the trustee of the Trust from time to time (being initially the person named as party to the Note Trust Deed).

Ordinary Dividend means a regular interim or final dividend paid by the Company to its Shareholders.

Ordinary Share or Share means an ordinary share of the Company or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company.

Ordinary Shareholder or Shareholder means a registered holder of the Ordinary Shares.

Origin means Origin Energy Limited (ASX:ORG).

Outstanding means in relation to a Note means that the Note has not been Redeemed or Converted or otherwise cancelled.

Overdue Amount has the meaning given to it in clause 4.6.

Overdue Rate means 20%.

Priority Deed means the deed entered into between the Company, the Trustee and DGR pursuant to which it is agreed that the DGR Security and the Security rank equally proportionately with each other in the event of a Winding Up of the Company.

RBP means the Roma Brisbane Pipeline.

Redemption means the Redemption of a Note, (other than in connection with its Conversion) by payment of its Redemption Amount in accordance with these Terms of Issue. The terms **Redeem, Redeems** and **Redeemed** shall have a corresponding meaning.

Redemption Amount means in respect of any Note to be Redeemed:

(a) other than pursuant to clause 6.4 of the Note Terms, the aggregate of the following amounts:

(1) the Face Value;

- (2) the aggregate of any accrued (but unpaid) Interest up to but not including the Redemption Date in respect of the Note; and
- (b) pursuant to clause 6.4 of the Note Terms, the aggregate of all the amounts listed in paragraph (a) of the aggregate of the following amounts:
 - (1) 110% of the Face Value; and
 - (2) the aggregate of any accrued (but unpaid) Interest up to but not including the Redemption Date in respect of the Note.

Redemption Date means the date set out in the relevant notice issued pursuant to clause 6 and in the absence of such a date, the date the Notes are to be Redeemed.

Redemption Event Advice means the written notice provided by the Company advising Holders on the Register of Holders from time to time, of the occurrence of a Company Redemption Event.

Redemption Notice means a notice provided by the Company in accordance with clause 6.2.

Register means the register of Holders established and maintained in accordance with the Note Trust Deed and, where appropriate, includes:

- (a) a subregister conducted by or for the Company pursuant to the Corporations Act, the Listing Rules or ASX Settlement Operating Rules; and
- (b) any branch register.

Registry means Link Market Services Pty Ltd or such other person appointed by the Company to maintain the Register on the Company's behalf from time to time.

Related Body Corporate has the meaning given to it in the Corporations Act and **Related Bodies Corporate** shall have a corresponding meaning.

Related Party has the meaning given to it in the Corporations Act.

Security means a General Security Deed granted by the Company and its Subsidiaries (Armour Energy (Surat Basin) Pty Ltd, Armour Energy (Victoria) Pty Ltd, Ripple Resources Pty Ltd and AEGPAS Pty Ltd) to the Trustee over all of their assets to secure the Company's obligations under the Note Trust Deed.

Special Resolution means:

- (a) a resolution passed at a meeting of the Holders duly called and held under the Meeting Provisions:
 - (1) by at least 75% of the persons voting on a show of hands (unless paragraph (2) applies); or
 - (2) if a poll is duly demanded, then by a majority consisting of at least 75% of the votes cast; or
- (b) a resolution passed by postal ballot or written resolution by Holders representing (in aggregate) at least 75% of the principal amount of all of the outstanding Notes, and
- (c) where at least 75% of the votes cast in favour of the relevant resolution were cast by Holders that are not Related Bodies Corporate of the Company (or any associates)

(within the meaning of the Corporations Act) of such Related Bodies Corporate), as determined in good faith by or on behalf of the chairman of the relevant meeting, or by the Company in the case of a postal ballot or written resolution.

Spinoff means the sale or divestment of any business of a Subsidiary of the Company (or of that Subsidiary itself) where that process includes either a priority entitlement to, in specie distribution of, transfer of, or any other distribution or sale or subscription of securities, in the entity conducting the business that is being sold or divested, to Shareholders.

Subsidiary has the meaning given in the Corporations Act, but an entity will also be taken to be a Subsidiary of an entity if it is controlled by that entity (as defined in section 50AA of the Corporations Act) and, without limitation:

- (a) a trust may be a Subsidiary, for the purposes of which a unit or other beneficial interest will be regarded as a share; and
- (b) an entity may be a Subsidiary of a trust if it would have been a Subsidiary if that trust were a corporation.

Takeover Event means that if at any time on or before the Maturity Date, an off market bid, a market bid, scheme of arrangement, or offer or invitation is made to all holders of Ordinary Shares to purchase or otherwise acquire Ordinary Shares from them within a specified period and the bid, scheme or offer becomes unconditional, and the offeror has at least 50% of the voting power (as defined by the Corporations Act) in the Company.

Trust means the trust or trusts created under or established by the Note Trust Deed.

Winding Up means a winding up, other than in circumstances where a winding up order is made by a court of competent jurisdiction and that order is successfully appealed or permanently stayed within 30 days of that order and the term Wound Up has a corresponding meaning.