



Long Term Incentive Plan (LTIP)

Introduction

In its 2014 annual report Central Petroleum Limited (CTP) announced that from 1 July 2014 it would change its remuneration practices and in particular the structure of its short term incentive plan and LTIP in line with market conditions relevant to the oil and gas exploration industry. Set out below are the key clauses on the LTIP which will be disclosed in the remuneration report for 2014/15.

The LTIP will be a major component of executive incentives and in developing the LTIP the board of CTP has focused on creating strong linkages between shareholder value as measured by shareholder returns and executive remuneration. Consequently vesting conditions have been divided equally between relative shareholder return and absolute shareholder return. In doing this the board have identified that it is not sufficient for CTP to perform above its peer group for executives to receive their maximum entitlement to share rights but also to achieve levels of absolute share price growth that would be considered as superior returns. For example for the absolute share price vesting condition to be met the CTP share price must increase by at least 25% per annum for three years, compound growth of 95%.

Key Terms and Vesting Conditions

On 26 November 2014 shareholders approved the Company to implement a share based LTIP to incentivise eligible employees (Non – Executive Directors are not eligible to participate in the LTIP). The delivery instrument is performance rights, effective for years commencing 1 July 2014 onwards.

The maximum number of performance rights vested in any year is determined by measuring CTP's share price performance over that year compared to a peer group of companies (relative measure) and compared to its absolute share price movement over a 3 year cycle.

The following table details the Vesting Percentage (The percentage of Share Rights which will vest as determined by the Performance Conditions):

Hurdle	Definition	Hurdle banding	Vesting Percentage
Absolute TSR growth (50% weighting)	Company's Absolute TSR calculated as at Vesting Date. This looks to align Eligible Employee's rewards to shareholder superior returns	<u>Company's Absolute TSR over 3 years</u> Below 10% pa 10% to <15% pa 15% to <20% pa 20% to <25% pa 25% pa plus	<u>% of Share Rights vesting</u> 0% 25% 50% 75% 100%
Relative TSR – E&P ₂ (50% weighting)	Company's TSR relative to a specific group of E&P companies (determined by Board within its discretion) calculated as at Vesting Date.	<u>Company's Relative TSR</u> Below 51st percentile 51st percentile 52nd to 75th percentile 76th percentile and above	<u>% of Share Rights vesting</u> 0% 50% 51% to 99% 100%

[1] Total shareholder return (ie. growth in share price plus dividends reinvested)

[2] Exploration and Production

For the purposes of determining the maximum number of Unvested Share Rights available for vesting the Company will calculate the Company's Absolute TSR (Total Shareholder Return as measured by an independent company chosen by the Board) and Relative TSR effective as at the Vesting Date in accordance with the above table to determine the relative hurdle band and Vesting Percentage met. The Unvested Share Rights for the applicable hurdle met for the Performance Period are then multiplied by the Vesting Percentage achieved for that hurdle to determine the total number of Unvested Share Rights vested to become Share Rights on the Vesting Date which may then be exercised in accordance with the ERP Rules.

Subject to the vesting of Unvested Share Rights on the Vesting Date, the Unvested Share Rights vest at the rate of one Share Right for one Unvested Share Right.

The personal and corporate key performance indicators and other targets for the Managing

Director and other employees are reviewed at least annually to ensure they remain relevant and appropriate. These may be varied to ensure alignment of executive performance and achievement consistent with the Company's goals and objectives.

Employees must be employed by the Company at the end of the Performance Period in order for the Performance Rights to vest. The number of shares that vest is a function of the employee's base salary, their LTIP percentage, and the 20 Trading Days – daily volume weighted average sale price of Company Shares sold on the ASX ending on the Trading Day prior to 30 June.

If the Company is subject to a Change of Control Event, all Unvested Share Rights will immediately vest at 100% to become Share Rights, with all and any Performance Criteria being waived immediately.

A Change of Control Event means the occurrence of any of the following:

- (a) any person, either alone or together with any associate (as defined in the Corporations Act), acquires a relevant interest (as defined in the Corporations Act) in more than fifty percent (50%) of the issued Shares in the Company as a result of a takeover bid;
- (b) any person, either alone or together with any associate (as defined in the Corporations Act), acquires a relevant interest (as defined in the Corporations Act) in more than fifty percent (50%) of the issued Shares in the Company through a scheme of arrangement;
- (c) a material change in the composition of the Board, such change being initiated as a result of a change in ownership of the Company's securities and the purchaser of the securities requiring (or agreeing with other security holders to require) that change in Board composition; or
- (d) any other similar event (including a merger of the Company with another company, where a person, either alone or together with any associate (as defined in the Corporations Act), becomes a legal or beneficial owner of more than 50% of the issued Shares in the Company or where a person, either alone or together with any associate (as defined in the Corporations Act), becomes entitled to, acquires, holds or has an equitable interest in more than 50% of the issued Shares in the Company) which the Board determines, in its absolute discretion, to be a Change of Control Event.

This LTIP provides coverage for various levels of Eligible Employees which include:

- (a) The Managing Director who is principally responsible for achievement of the CTP strategy may receive an LTIP Percentage up to 50%, subject to shareholder approval.
- (b) EMT (Executive Management Team) Eligible Employees are those in roles which influence and drive the strategic direction of the Company's business. EMT Eligible Employees receive an LTIP Percentage up to 30%;
- (c) Eligible Employees who are not part of the EMT and are in roles which are focused on the key drivers of the operational parts of the Company's business. These Eligible Employees receive an LTIP Percentage up to 10%; and
- (d) All other Eligible Employees' are integral to the success of the Company obtaining its goals and objectives may participate in Central Petroleum \$1,000.00 Exempt Plan.

Conditions of the Central Petroleum \$1,000.00 Exempt Plan include:

- (a) Share Rights can only be dealt with the earlier of 3 years or on termination of employment; and
- (b) No performance conditions apply.