



# DRONESHIELD

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**DRONESHIELD LIMITED****ACN 608 915 859****NOTICE OF GENERAL MEETING**

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Notice is given that the Meeting will be held at:

**TIME:** 11:00am (AEDT)  
**DATE:** 11 December 2019  
**PLACE:** Level 5  
126 Phillip Street  
SYDNEY NSW 2000

***The business of the Meeting affects your shareholding and your vote is important.***

***This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.***

***The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 7:00pm (AEDT) on 9 December 2019.***

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## BUSINESS OF THE MEETING

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### AGENDA

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#### 1. RESOLUTION 1 – RATIFICATION OF PRIOR ISSUE OF PLACEMENT SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 28,412,123 Shares on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf of a person who participated in the issue or any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 2. RESOLUTION 2 – RATIFICATION OF PRIOR ISSUE OF PLACEMENT SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 19,337,877 Shares on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf of a person who participated in the issue or any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 3. RESOLUTION 3 – ISSUE OF OPTIONS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 10,000,000 Options on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf of a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of that person (or those persons). However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 4. RESOLUTION 4 – AMENDMENT OF AUGUST ZEPOS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 6.23.4 and for all other purposes, approval is given for the Company to amend the vesting condition of the August Zepos which were issued to Directors, on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast in favour of the Resolution by or on behalf of the holders of August Zepos or any of their respective associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 5. RESOLUTION 5 – AMENDMENT OF OCTOBER ZEPOS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 6.23.4 and for all other purposes, approval is given for the Company to amend the vesting condition of the October Zepos which were issued to management and employees, on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast in favour of the Resolution by or on behalf of the holders of October Zepos or any of their respective associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 6. RESOLUTION 6 – APPROVAL OF ISSUE OF ZERO EXERCISE PRICE OPTIONS TO DIRECTOR – PETER JAMES

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 397,500 Options to Peter James (or his nominee) on the terms set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf of Peter James (or his nominee) or any of their associates (**Resolution 6 Excluded Party**). However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, provided the Chair is not a Resolution 6 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and

- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 6 Excluded Party, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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## 7. **RESOLUTION 7 – APPROVAL OF ISSUE OF ZERO EXERCISE PRICE OPTIONS TO DIRECTOR – OLEG VORNIK**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 750,000 Options to Oleg Vornik (or his nominee) on the terms set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf of Oleg Vornik (or his nominee) or any of their associates (**Resolution 7 Excluded Party**). However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, provided the Chair is not a Resolution 7 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 7 Excluded Party, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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## 8. **RESOLUTION 8 – APPROVAL OF ISSUE OF ZERO EXERCISE PRICE OPTIONS TO DIRECTOR – ROBERT CLISDELL**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 97,500 Options to Robert Clisdell (or his nominee) on the terms set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf of Robert Clisdell (or his nominee) or any of their associates (**Resolution 8 Excluded Party**). However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, provided the Chair is not a Resolution 8 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 8 Excluded Party, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**9. RESOLUTION 9 – ISSUE OF INCENTIVE OPTIONS TO DIRECTOR – PETER JAMES**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the Company to issue 397,500 Options to Peter James (or his nominee) under the Incentive Option Plan on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf any Director who is eligible to participate in the employee incentive scheme in respect of which the approval is sought, or any associates of those Directors (**Resolution 9 Excluded Party**). However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, provided the Chair is not a Resolution 9 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 9 Excluded Party, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**10. RESOLUTION 10 – ISSUE OF INCENTIVE OPTIONS TO DIRECTOR – OLEG VORNIK**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the Company to issue 750,000 Options to Oleg Vornik (or his nominee) under the Incentive Option Plan on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf any Director who is eligible to participate in the employee incentive scheme in respect of which the approval is sought, or any associates of those Directors (**Resolution 10 Excluded Party**). However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, provided the Chair is not a Resolution 10 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 10 Excluded Party, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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## 11. RESOLUTION 11 – ISSUE OF INCENTIVE OPTIONS TO DIRECTOR – ROBERT CLISDELL

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the Company to issue 97,500 Options to Robert Clisdell (or his nominee) under the Incentive Option Plan on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf any Director who is eligible to participate in the employee incentive scheme in respect of which the approval is sought, or any associates of those Directors (**Resolution 11 Excluded Party**). However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, provided the Chair is not a Resolution 11 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 11 Excluded Party, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**12. RESOLUTION 12 – APPROVAL OF ISSUE OF ZERO EXERCISE PRICE OPTIONS AND INCENTIVE OPTIONS TO MANAGEMENT AND EMPLOYEES**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 9,010,000 Options to management and employees of the Company on the terms set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast in favour of the Resolution by or on behalf of a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of that person (or those persons). However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**Dated: 7 November 2019**

**By order of the Board**



**Carla Balanco**  
**Company Secretary**

### **Voting in person**

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To vote in person, attend the Meeting at the time, date and place set out above.

### **Voting by proxy**

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To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two (2) or more votes may appoint two (2) proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints two (2) proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Shareholders and their proxies should be aware that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

***Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 2 9995 7280.***



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## EXPLANATORY STATEMENT

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This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

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### 1. BACKGROUND TO RESOLUTIONS 1, 2 AND 3

As announced on 2 August 2019, the Company received commitments from institutional, professional and sophisticated investors to raise \$9,550,000 via a placement of 47,750,000 Shares at an issue price of \$0.20 per Share (**Placement**). The Company appointed Peloton Capital Pty Limited (**Peloton**) as lead manager to the Placement.

On 8 August 2019, the Company completed the Placement, issuing an aggregate of 47,750,000 Shares (**Placement Shares**). 28,412,123 Placement Shares were issued pursuant to the Company's capacity under ASX Listing Rule 7.1 and 19,337,877 Placement Shares were issued pursuant to the Company's capacity under ASX Listing Rule 7.1A which was approved by Shareholders at the annual general meeting held on 3 May 2019.

Resolutions 1 and 2 seek Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of the Placement Shares.

The Company has agreed, subject to obtaining Shareholder approval, to issue Peloton (or its nominees) an aggregate of 10,000,000 Options in consideration for its services as lead manager to the Placement (**Lead Manager Options**). The Lead Manager Options will be exercisable at \$0.40 each on or before 5 August 2022.

Resolution 3 seeks Shareholder approval pursuant to ASX Listing Rule 7.1 for the issue of the Lead Manager Options.

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### 2. RESOLUTIONS 1 AND 2 – RATIFICATION OF PRIOR ISSUE OF PLACEMENT SHARES

#### 2.1 General

As set out in Section 1, the Company issued 47,750,000 Placement Shares to institutional, professional and sophisticated investors on 8 August 2019.

Resolutions 1 and 2 seek Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of the Placement Shares.

#### 2.2 Resolution 1 – ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

By ratifying the issue the subject of Resolution 1, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement

capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

### **2.3 Resolution 2 – ASX Listing Rule 7.1A**

ASX Listing Rule 7.1A provides that in addition to issues permitted without prior shareholder approval under ASX Listing Rule 7.1, an entity that is eligible and obtains shareholder approval under ASX Listing Rule 7.1A may issue or agree to issue during the period for which the approval is valid a number of quoted equity securities which represents 10% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period as adjusted in accordance with the formula in ASX Listing Rule 7.1.

Where an eligible entity obtains shareholder approval to increase its placement capacity under ASX Listing Rule 7.1A then any ordinary securities issued under that additional placement capacity:

- (a) will not be counted in variable "A" in the formula in ASX Listing Rule 7.1A; and
- (b) are counted in variable "E",

until their issue has been ratified under ASX Listing Rule 7.4 (and provided that the previous issue did not breach ASX Listing Rule 7.1A) or 12 months has passed since their issue.

By ratifying the issue the subject of Resolution 2, the base figure (i.e. variable "A") in which the Company's 15% and 10% annual placement capacities are calculated will be a higher number which in turn will allow a proportionately higher number of securities to be issued without prior Shareholder approval.

### **2.4 Technical information required by ASX Listing Rule 7.4**

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to Resolutions 1 and 2:

- (a) 47,750,000 Shares were issued on the following basis:
  - (i) 28,412,123 Shares issued pursuant to ASX Listing Rule 7.1; and
  - (ii) 19,337,877 Shares issued pursuant to ASX Listing Rule 7.1A;
- (b) the issue price was \$0.20 per Share under both the issue of Shares pursuant to ASX Listing Rule 7.1 and ASX Listing Rule 7.1A;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were issued to institutional, professional and sophisticated investors who were clients of Peloton Capital Pty Limited and Brentridge Capital Pty Limited who acted as co-manager to the Placement. None of these subscribers are related parties of the Company; and
- (e) the funds raised from this issue were used for and will be applied towards:
  - (i) bonding requirements for new contracts (where required), as they are secured;

- (ii) further development and integration of detection and countermeasure technologies, consistent with end-user requirements;
- (iii) an increase in stock levels (detection and countermeasure products);
- (iv) an increase in manufacturing capabilities;
- (v) expansion of the Company's sales and marketing effort globally; and
- (vi) general working capital.

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### **3. RESOLUTION 3 – ISSUE OF LEAD MANAGER OPTIONS**

#### **3.1 General**

As set out in Section 1, the Company has agreed, subject to obtaining Shareholder approval, to issue the Lead Manager Options to Peloton (or its nominees).

Resolution 3 seeks Shareholder approval for the issue of the Lead Manager Options.

A summary of ASX Listing Rule 7.1 is set out in Section 2.2.

The effect of Resolution 3 will be to allow the Company to issue the Lead Manager Options during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

#### **3.2 Technical information required by ASX Listing Rule 7.1**

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 3:

- (a) the maximum number of Options to be issued is 10,000,000;
- (b) the Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Options will occur on the same date;
- (c) the Options will be issued for nil cash consideration in satisfaction of services provided by Peloton as lead manager of the Placement;
- (d) the Options will be issued to Peloton (or its nominees), who is not a related party of the Company;
- (e) the Options will be issued on the terms and conditions set out in Schedule 1; and
- (f) no funds will be raised from the issue.

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## 4. RESOLUTIONS 4 AND 5 – AMENDMENT OF AUGUST ZEPOS AND OCTOBER ZEPOS

### 4.1 Background

The Company currently has 21,000,000 zero exercise price Options on issue to Directors which, subject to the satisfaction of a vesting condition, are exercisable into Shares on or before 15 August 2021 (**August Zepos**). Further, the Company currently has 2,459,384 zero exercise price Options on issue to management and employees of the Company which, subject to the satisfaction of the same vesting condition, are exercisable into Shares on or before 17 October 2021 (**October Zepos**).

The August Zepos and the October Zepos (together, the **Tranche 1 Zepos**) shall vest and become exercisable into Shares for nil consideration:

- (a) at any time on and from the date the Company achieves \$10,000,000 of revenue in any rolling twelve month period within 36 months of the date of the issue of the Tranche 1 Zepos; or
- (b) a change of control transaction (as set out in paragraph (e) of Schedule 2 and Schedule 3) occurs in respect of the Company.

Further details of the Tranche 1 Zepos and the terms upon which they were issued are set out in the Company's notice of annual general meeting released on 27 April 2018.

The August Zepos were issued to the then Directors Oleg Vornik, Peter James, Robert Clisdell and Brad Buswell and the October Zepos were issued to management and employees of the Company.

### 4.2 Purpose of Resolutions 4 and 5

Resolutions 4 and 5 seek Shareholder approval to amend the vesting condition attaching to the Tranche 1 Zepos (**Proposed Amendment**).

If the Proposed Amendment is approved by Shareholders, the Tranche 1 Zepos will vest and become exercisable into Shares for nil consideration:

- (a) at any time on and from the earlier of the date the Company achieves \$10,000,000 of revenue and the date the Company achieves \$10,000,000 of customer cash receipts in any rolling twelve month period within 36 months of the date of the issue of the Tranche 1 Zepos; or
- (b) a change of control transaction (as set out in paragraph (e) of Schedule 2 and Schedule 3) occurs in respect of the Company.

Apart from the Proposed Amendment, the terms of the Tranche 1 Zepos will remain unchanged. The full amended terms of the Tranche 1 Zepos should Resolutions 4 and 5 be passed are set out in Schedule 2 and Schedule 3.

It is noted that, since the grant of the August Zepos to the date of this Notice, the Company has achieved \$3,480,429 of revenue and \$3,289,263 in customer cash receipts and since the grant of the October Zepos to the date of this Notice, the Company has achieved \$3,480,169 of revenue and \$2,776,291 in customer cash receipts.

### 4.3 ASX Listing Rule 6.23

ASX Listing Rule 6.23.4 provides that a company must obtain shareholder approval to make a change to the terms of options on issue which is not prohibited under ASX Listing Rule 6.23.3. ASX Listing Rule 6.23.3 prohibits a change to the terms of options which has the effect of reducing the exercise price, increasing the period for exercise or increasing the number of securities on exercise. The Proposed Amendment is not prohibited under ASX Listing Rule 6.23.4 as it will only have the effect of amending the vesting condition of the Tranche 1 Zepos.

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## 5. BACKGROUND TO RESOLUTIONS 6 TO 12 – APPROVAL OF ISSUE OF ZERO EXERCISE PRICE OPTIONS AND INCENTIVE OPTIONS

The Company has agreed, subject to obtaining Shareholder approval, to issue up to an aggregate of 5,750,000 zero exercise price Options (**Zero Exercise Price Options**) and 5,750,000 Options which are subject to vesting conditions (**Incentive Options**) to Directors, management and employees.

Resolutions 6 to 8 seek Shareholder approval for the issue of an aggregate of 1,245,000 Zero Exercise Price Options to Messrs Peter James, Oleg Vornik and Robert Clisdell.

Resolutions 9 to 11 seek Shareholder approval for the issue of an aggregate of 1,245,000 Incentive Options to Messrs Peter James, Oleg Vornik and Robert Clisdell.

Resolution 12 seeks Shareholder approval for the issue of an aggregate of 4,505,000 Zero Exercise Price Options and 4,505,000 Incentive Options to management and employees of the Company.

### 5.1 Zero Exercise Price Options

The Zero Exercise Price Options will vest at any time on and from the earlier of the date the Company achieves \$20,000,000 of revenue and the date the Company achieves \$20,000,000 of customer cash receipts (excluding any revenue or customer cash receipts which are applied towards satisfaction of the vesting condition attaching to the Tranche 1 Zepos) in any rolling twelve month period within 36 months of the date of issue of the Zero Exercise Price Options.

The Zero Exercise Price Options will also vest in the event that a change of control transaction (as set out in paragraph (e) of Schedule 4) occurs in respect of the Company. One of the circumstances in which a change of control transaction will occur is where a person acquires voting power in over 50% of the Company's Shares (in circumstances where such person's voting power was lower than 50% prior to the date on which the Zero Exercise Price Options were issued). Shareholders should note that the Company's largest Shareholder, Regal Funds Management Pty Ltd, has voting power of approximately 16.99% as at the date of this Notice.

If the holder of the Zero Exercise Options ceases to be employed or engaged by the Company:

- (a) any unexercised Zero Exercise Options that have vested as at the date of cessation of employment or engagement with the Company (**Cessation Date**) shall lapse if the holder does not exercise the Zero Exercise Option within a period of 1 month after the Cessation Date; and

- (b) any unexercised Zero Exercise Options that have not vested as at the Cessation Date shall immediately lapse upon the Cessation Date.

## 5.2 Incentive Options

The Incentive Options will, subject to the vesting conditions noted below, be exercisable at \$0.65 each on or before 30 June 2023. The Incentive Options will vest in three equal tranches at 30 November 2020, 30 November 2021 and 30 November 2022.

If the holder of the Incentive Options ceases to be employed or engaged by the Company:

- (a) any unexercised Incentive Options that have vested as at the date of cessation of employment or engagement with the Company (**Cessation Date**) shall lapse if the holder does not exercise the Incentive Option within a period of 1 month after the Cessation Date; and
- (b) any unexercised Incentive Options that have not vested as at the Cessation Date shall immediately lapse upon the Cessation Date.

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## 6. RESOLUTIONS 6 TO 11 – APPROVAL OF ISSUE OF ZERO EXERCISE PRICE OPTIONS AND INCENTIVE OPTIONS TO DIRECTORS

### 6.1 General

As set out in Section 5 above, the Company has agreed, subject to obtaining Shareholder approval, to issue up to an aggregate of 5,750,000 Zero Exercise Price Options and 5,750,000 Incentive Options to Directors, management and employees of the Company.

Resolutions 6 to 8 seek Shareholder approval for the issue of an aggregate of 1,245,000 Zero Exercise Price Options to Messrs Peter James, Oleg Vornik and Robert Clisdell (**Related Parties**)

Resolutions 9 to 11 seek Shareholder approval for the issue of an aggregate of 1,245,000 Incentive Options to the Related Parties pursuant to the Company's Incentive Option Plan (**Option Plan**).

It is proposed that, in accordance with the Option Plan, the Company will grant a limited recourse loan to each of the Related Parties to enable them to exercise their respective Incentive Options, on the terms and conditions set out below (together, the **Loans** and each a **Loan**).

### 6.2 Chapter 2E of the Corporations Act - Issue of Related Party Options

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The issue of the Zero Exercise Price Options and the Incentive Options to the Related Parties (together, the **Related Party Options**) constitutes giving a financial benefit and Messrs Peter James, Oleg Vornik and Robert Clisdell are related parties of the Company by virtue of being Directors.

In addition, the proposed extension of the Loans to each of the Related Parties requires the Company to obtain Shareholder approval because the non-recourse, interest free loan constitutes giving a financial benefit.

As it is proposed that the Related Party Options be issued to all of the Directors and the Loans be extended to all of the Directors, the Directors have been unable to form quorum to consider whether one of the exceptions set out in sections 210 to 216 of the Corporations Act applies to these issues. Accordingly, Shareholder approval is sought for the purpose of section 208 of the Corporations Act and ASX Listing Rules 10.11 and 10.14 for the issue of the Related Party Options and the extension of the Loans to the Related Parties.

### **6.3 ASX Listing Rule 10.11 - Issue of Zero Exercise Price Options**

ASX Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

As the issue of the Zero Exercise Price Options involves the issue of securities to related parties of the Company, Shareholder approval pursuant to ASX Listing Rule 10.11 is required unless an exception applies. It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances.

### **6.4 ASX Listing Rule 10.14 - Issue of Incentive Options under Option Plan**

In addition, ASX Listing Rule 10.14 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities under an employee incentive scheme to a director of the entity, an associate of the director, or a person whose relationship with the entity, director or associate of the director is, in ASX's opinion, such that approval should be obtained.

As the issue of the Incentive Options involves the issue of securities to related parties of the Company under the Company's Option Plan, Shareholder approval pursuant to ASX Listing Rule 10.14 is required unless an exception applies. It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.15 do not apply in the current circumstances.

### **6.5 Section 260A and 260B of the Corporations Act**

The provision of a loan to a participant under an employee share scheme to fund the acquisition of securities issued under that scheme will constitute "financial assistance" for the purposes of Part 2J.3 of the Corporations Act.

Section 260A of the Corporations Act states that a company may financially assist a person to acquire shares in the company only if:

- (a) giving the assistance does not materially prejudice:
  - (i) the interests of the company or its shareholders; or
  - (ii) the company's ability to pay its creditors; or

- (b) the assistance is approved by shareholders under section 260B of the Corporations Act; or
- (c) the assistance is exempted under section 260C of the Corporations Act.

Section 260C(4) of the Corporations Act provides an exemption to financial assistance, if the financial assistance is given under an employee share scheme approved at a meeting of shareholders. The Company obtained Shareholder approval for the adoption of the Option Plan (including for the purposes of Section 260C(4) of the Corporations Act) on 3 May 2019.

## **6.6 Technical information required by ASX Listing Rule 10.13 - Issue of Zero Exercise Price Options**

Pursuant to and in accordance with the requirements of ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Zero Exercise Price Options to the Related Parties:

- (a) the related parties are Messrs Peter James, Oleg Vornik and Robert Clisdell and they are related parties by virtue of being Directors of the Company;
- (b) the maximum number of Zero Exercise Price Options to be granted to the Related Parties is 1,245,000 Zero Exercise Price Options, comprising of the issue of:
  - (i) 397,500 Zero Exercise Price Options to Mr Peter James (or his nominee) (Resolution 6);
  - (ii) 750,000 Zero Exercise Price Options to Mr Oleg Vornik (or his nominee) (Resolution 7); and
  - (iii) 97,500 Zero Exercise Price Options to Mr Robert Clisdell (or his nominee) (Resolution 8);
- (c) the Zero Exercise Price Options will be granted to the Related Parties no later than 1 month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Zero Exercise Price Options will be issued on one date;
- (d) as the Zero Exercise Price Options will be issued for nil cash consideration, no funds will be raised from the issue;
- (e) the terms and conditions of the Zero Exercise Price Options are set out in Schedule 4; and
- (f) the value of the Zero Exercise Price Options and the pricing methodology is set out in Schedule 6.



## 6.7 Technical information required by ASX Listing Rule 10.15 – Issue of Incentive Options under the Incentive Option Plan

Pursuant to and in accordance with the requirements of ASX Listing Rule 10.15, the following information is provided in relation to the proposed issue of the Incentive Options:

- (a) the related parties are Messrs Peter James, Oleg Vornik and Robert Clisdell and they are related parties by virtue of being Directors of the Company;
- (b) the maximum number of Incentive Options to be issued to the Related Parties is 1,245,000 Incentive Options, comprising of the issue of:
  - (i) 397,500 Incentive Options to Mr Peter James (or his nominee) (Resolution 9);
  - (ii) 750,000 Incentive Options to Mr Oleg Vornik (or his nominee) (Resolution 10); and
  - (iii) 97,500 Incentive Options to Mr Robert Clisdell (or his nominee) (Resolution 11);
- (c) the maximum amount of the Loan (being the nature of the financial benefit) to be provided to the Related Parties (or their nominees) is:
  - (i) \$258,375 in respect of Mr Peter James (Resolution 9);
  - (ii) \$487,500 in respect of Mr Oleg Vornik (Resolution 10); and
  - (iii) \$63,375 in respect of Mr Robert Clisdell (Resolution 11);
- (d) the Incentive Options will be granted for nil cash consideration, accordingly no funds will be raised;
- (e) the Option Plan was adopted by Shareholders on 3 May 2019. No Options have been issued to directors of the Company or their associates under the Option Plan since this date;
- (f) any full or part time employee or director of the Company is entitled to participate in the Option Plan;
- (g) the Loans will be provided on the following key terms and otherwise subject to the terms and conditions of the Option Plan:
  - (i) **non-recourse**  
  
a Loan is secured against the Shares issued on exercise of the Options offered under the Option Plan but the Related Party is not personally liable for the Loan. In other words, in the event the Shares are sold to repay the Loan but the sale proceeds are insufficient to cover the amount of the Loan which is outstanding, the Company cannot recover the remaining amount from the Related Party. Conversely, where the sale proceeds are greater than the amount of the Loan, the Company will not receive any additional repayment as the Related Party is entitled to the surplus proceeds;

(ii) **interest free**

the Loan will be interest free unless otherwise agreed by the Related Party; and

(iii) **term**

the term of any Loan to be extended has not yet been set but will likely be for a fixed number of years from the date of issue of the Shares subject to earlier repayment in accordance with the terms of the Plan (e.g. ceasing to be an employee of the Company, an event of insolvency etc);

- (h) the value of each of the Loans is set out in Section 4.7(c) above;
- (i) the Incentive Options will be issued to the Related Parties no later than 12 months after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Incentive Options will be issued on one date;
- (j) the terms of the Incentive Options are in accordance with the Option Plan, subject to the key terms and conditions of the Incentive Options summarised in SCHEDULE 5; and
- (k) the value of the Incentive Options is set out in Schedule 6.

**6.8 Technical information required by Chapter 2E of the Corporations Act – Issue of Related Party Options and Extension of Loans**

Pursuant to and in accordance with the requirements of sections 219 of the Corporations Act, the following information is provided in relation to the proposed grant of the Related Party Options and the proposed extension of the Loans:

- (a) the related parties are Messrs Peter James, Oleg Vornik and Robert Clisdell and they are related parties by virtue of being Directors of the Company;
- (b) the maximum number of Related Party Options (being the nature of the financial benefit being provided) to be granted to the Related Parties is an aggregate of 2,490,000 Related Party Options, comprising of the issue of:
  - (i) 397,500 Zero Exercise Price Options and 397,500 Incentive Options to Mr Peter James (or his nominee);
  - (ii) 750,000 Zero Exercise Price Options and 750,000 Incentive Options to Mr Oleg Vornik (or his nominee); and
  - (iii) 97,500 Zero Exercise Price Options and 97,500 Incentive Options to Mr Robert Clisdell (or his nominee);
- (c) the maximum amount of the Loan (being the nature of the financial benefit) to be provided to the Related Parties (or their nominees) is set out in Section 4.7(c) above;

- (d) the relevant interests of the Related Parties in securities of the Company are set out below:

Related Party	Shares	Options
Peter James	3,170,435	6,600,000 <sup>1</sup>
Oleg Vornik	3,970,435	12,400,000 <sup>2</sup>
Robert Clisdell	745,435	1,600,000 <sup>3</sup>

**Notes:**

1. Unlisted zero exercise price Options which are exercisable, subject to the satisfaction of a vesting condition, on or before 15 August 2021.
2. Comprising of 800,000 unlisted Class B Options exercisable at \$0.30 each on or before 29 March 2020, 800,000 unlisted Class F Options exercisable at \$0.30 each on or before 22 June 2021, 800,000 unlisted Class H Options exercisable at \$.30 each on or before 22 June 2022 and 12,400,000 unlisted zero exercise price Options which are exercisable, subject to the satisfaction of a vesting condition, on or before 15 August 2021.
3. Comprising 1,600,000 unlisted zero exercise price Options which are exercisable, subject to the satisfaction of a vesting condition, on or before 15 August 2021.

- (e) the remuneration and emoluments from the Company to the Related Parties for the previous financial year and the proposed remuneration and emoluments for the current financial year are set out below:

Related Party	Current Financial Year <sup>4</sup>	Previous Financial Year
Peter James	100,000	305,615 <sup>1</sup>
Oleg Vornik	320,733	636,943 <sup>2</sup>
Robert Clisdell	30,000	88,518 <sup>3</sup>

**Notes:**

1. Comprising of director's fees of \$100,000 and a share-based payment of \$205,615.
2. Comprising of a salary payment of \$225,921 and a share-based payment of \$411,022.
3. Comprising of director's fees of \$30,000 and a share-based payment of \$56,518.
4. This does not include the value of any future Securities which may be issued to the Director, including pursuant to this Notice.

- (f) if the Related Party Options granted to the Related Parties are exercised, a total of 2,490,000 Shares would be issued. This will increase the number of Shares on issue from 252,194,135 (being the total number of Shares on issue as at the date of this Notice) to 254,684,135 (assuming that no Shares are issued and no convertible securities vest or are exercised) with the effect that the shareholding of existing Shareholders would be diluted by an aggregate of 0.98%, comprising 0.31% by Peter James, 0.59% by Oleg Vornik and 0.08% by Robert Clisdell.

Ordinarily, the market price for Shares during the term of Options would determine whether or not such Options are exercised. However, Shareholders should note that there is no exercise price payable in respect of the Zero Exercise Price Options. Rather, the Zero Exercise Price Options will vest and become exercisable into Shares for nil consideration in the event the relevant vesting condition is satisfied, or a change of control transaction occurs (as set out in paragraph (e) of

Schedule 4). As such, any time any of the Zero Exercise Price Options are exercised and the Shares are trading on ASX, there will be a perceived cost to the Company. The valuation of the Zero Exercise Price Options is set out in Schedule 6.

- (g) the trading history of the Shares on ASX in the 12 months before the date of this Notice is set out below:

	Price	Date
Highest	\$0.43	17 September 2019
Lowest	\$0.09	2 April 2019
Last	\$0.415	25 October 2019

- (h) the Board acknowledges the grant of Related Party Options and the proposed extension of the Loans to Mr Peter James and Mr Robert Clisdell is contrary to Recommendation 8.3 of The Corporate Governance Principles and Recommendations (3<sup>rd</sup> Edition) as published by The ASX Corporate Governance Council. However, the Board considers the grant of Related Party Options to Mr Peter James, and Mr Robert Clisdell reasonable in the circumstances for the reason set out in paragraph (i);
- (i) the primary purpose of the grant of the Related Party Options to the Related Parties is to provide a performance linked incentive component in the remuneration package for the Related Parties to motivate and reward the performance of the Related Parties in their respective roles as Directors. In respect of the Zero Exercise Price Options specifically, the milestone which must be satisfied before they vest and can be exercised into Shares is that the Company achieves \$20,000,000 of revenue or customer cash receipts (excluding any revenue or customer cash receipts which are applied towards satisfaction of the vesting condition attaching to the Tranche 1 Zepos) in any rolling twelve month period within 36 months of the date of issue of the Zero Exercise Price Options or one of the change of control transactions as described in Schedule 4 paragraph (e) occurs;
- (j) the primary purpose of the provision of the Loans to the Related Parties is to enable the Related Parties to exercise the Incentive Options;
- (k) Peter James declines to make a recommendation to Shareholders in relation to Resolutions 6 and 9, due to his material personal interest in the outcome of these Resolutions on the basis that he is to be granted Related Party Options in the Company should Resolutions 6 and 9 be passed. In addition, the Company may extend a Loan to Peter James if Resolution 9 is passed. However, in respect of Resolutions 7, 8, 10 and 11, Peter James recommends that Shareholders vote in favour of those Resolutions for the following reasons:
- (i) the grant of Related Party Options to the Related Parties and the extension of the Loans will align the interests of the Related Parties with those of Shareholders;
  - (ii) the grant of the Related Party Options and the extension of the Loans is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash

reserves on its operations than it would if alternative cash forms of remuneration were given to the Related Parties; and

- (iii) it is not considered that there are any significant opportunity costs to the Company or benefits foregone by the Company in granting the Related Party Options and extending the Loans upon the terms proposed;
- (l) Oleg Vornik declines to make a recommendation to Shareholders in relation to Resolutions 7 and 10 due to his material personal interest in the outcome of these Resolutions on the basis that he is to be granted Related Party Options in the Company should Resolutions 7 and 10 be passed. In addition, the Company may extend a Loan to Oleg Vornik if Resolution 10 is passed. However, in respect of Resolutions 6, 8, 9 and 11, Oleg Vornik recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph **Error! Reference source not found.**;
- (m) Robert Clisdell declines to make a recommendation to Shareholders in relation to Resolutions 8 and 11 due to his material personal interest in the outcome of these Resolutions on the basis that he is to be granted Related Party Options in the Company should Resolutions 8 and 11 be passed. In addition, the Company may extend a Loan to Robert Clisdell if Resolution 11 is passed. However, in respect of Resolutions 6, 7, 9 and 10, Robert Clisdell recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph **Error! Reference source not found.**;
- (n) the Directors consider that in providing the Loans to the Related Parties upon the terms proposed the following opportunity cost to the Company and benefits foregone by the Company may occur:
  - (i) no interest is payable on the Loans; and
  - (ii) the Loans are non-recourse which means the full amount of the Loan may not be recovered where the Shares are sold for less than the amount outstanding on the Loan. In addition, where the sale proceeds are greater than the amount of the Loan the Company will not receive any additional repayment as the Related Party is entitled to the surplus proceeds;
- (o) in forming their recommendations, each Director considered the experience of each other Related Party, the current market practices when determining the number of Related Party Options to be granted as well as the exercise price and expiry date of those Related Party Options, and the current market practices when determining the provision of the Loan upon the terms proposed; and
- (p) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 6 to 11.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Related Party Options to the Related Parties as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Related Party Options to the Related Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

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## **7. RESOLUTION 12 – APPROVAL OF ISSUE OF OPTIONS TO MANAGEMENT AND EMPLOYEES**

### **7.1 General**

As set out in Section 5 above, the Company has agreed, subject to obtaining Shareholder approval, to issue up to an aggregate of 5,750,000 Zero Exercise Price Options and 5,750,000 Incentive Options to Directors, management and employees.

Resolution 12 seeks Shareholder approval for the issue of up to 4,505,000 Zero Exercise Price Options and 4,505,000 Incentive Options (together, the **Employee Options**) to management and employees of the Company.

A summary of ASX Listing Rule 7.1 is set out in Section 2.2 above.

The effect of Resolution 12 will be to allow the Company to issue the Zero Exercise Price Options and the Incentive Options during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

### **7.2 Technical information required by ASX Listing Rule 7.1**

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 12:

- (a) the maximum number of Options to be issued is 9,010,000, comprising of:
  - (i) 4,505,000 Zero Exercise Price Options; and
  - (ii) 4,505,000 Incentive Options;
- (b) the Employee Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Employee Options will occur on a progressive basis over such 3 month period;
- (c) as the Employee Options will be issued for nil cash consideration, no funds will be raised;
- (d) the Employee Options will be issued to management and employees of the Company, none of whom will be related parties of the Company;
- (e) the Zero Exercise Price Options will be issued on the terms and conditions set out in Schedule 4;
- (f) the Incentive Options will be issued on the terms and conditions set out in SCHEDULE 5;
- (g) if the Employee Options issued by the Company are exercised, a total of 9,010,000 Shares would be issued. This would increase the number of Shares on issue from 252,194,135 to 261,204,135 (assuming that no other Options are exercised, and no other Shares are issued) with the effect that the shareholding of existing Shareholders would be diluted by an aggregate of 3.45%.

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## GLOSSARY

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**\$** means Australian dollars.

**AEDT** means Australian Eastern Daylight Time as observed in Sydney, Eastern Australia.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

**ASX Listing Rules** means the Listing Rules of ASX.

**Board** means the current board of directors of the Company.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

**Chair** means the chair of the Meeting.

**Company** means DroneShield Limited (ACN 608 915 859).

**Constitution** means the Company's constitution.

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

**Directors** means the current directors of the Company.

**Explanatory Statement** means the explanatory statement accompanying the Notice.

**General Meeting** or **Meeting** means the meeting convened by the Notice.

**Notice** or **Notice of Meeting** means this notice of meeting including the Explanatory Statement and the Proxy Form.

**Option** means an option to acquire a Share.

**Optionholder** means a holder of an Option.

**Proxy Form** means the proxy form accompanying the Notice.

**Resolutions** means the resolutions set out in the Notice, or any one of them, as the context requires.

**Section** means a section of the Explanatory Statement.

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

**Shareholder** means a registered holder of a Share.

**WST** means Western Standard Time as observed in Perth, Western Australia.

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## SCHEDULE 1 – TERMS AND CONDITIONS OF LEAD MANAGER OPTIONS

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(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

Subject to paragraph (i), the amount payable upon exercise of each Option will be \$0.40 (**Exercise Price**).

(c) **Expiry Date**

Each Option will expire at 5:00 pm (AEDT) on 5 August 2022 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.



If a notice delivered under (g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(i) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(j) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(k) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(l) **Transferability**

The Options are not transferable.

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## SCHEDULE 2 – TERMS AND CONDITIONS OF AUGUST ZEPOS

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(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

No consideration is payable upon the exercise of each Option.

(c) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on 15 August 2021 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period and Vesting Condition**

The Options shall vest and become exercisable into Shares at any time on and from the earlier of the date the Company achieves \$10,000,000 of revenue and the date the Company achieves \$10,000,000 of customer cash receipts in any rolling twelve month period within 36 months of the date of the issue of the Options (**Vesting Condition**) until the Expiry Date (**Exercise Period**).

(e) **Automatic Vesting**

Subject to the Company complying with the rules of the ASX and the Corporations Act, each Option will automatically vest and become exercisable into Shares in the event of:

- (i) a takeover bid under Chapter 6 of the Corporations Act having been made in respect of the Company having received acceptances for more than 50% of the Company's Shares on issue and being declared unconditional by the bidder; or
- (ii) a Court granting orders approving a compromise or arrangement for the purposes of or in connection with a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company or companies; or
- (iii) a person acquiring voting power (as defined in section 610 of the Corporations Act) in over 50% of the Company's Shares, in circumstances where such person's voting power was lower than the 50% threshold prior to the date on which the Options were issued; or
- (iv) the Company enters into agreements to sell businesses or assets which are owned by the Company at the date of issue of the Options (whether or not in the form of shares in a subsidiary company) the consideration for which businesses or assets represents more than 50% of the value of all of the businesses and assets owned by the Company at the date of issue of the Options (with reference to the Company's most recent audited financial statements) to a person, or a number of persons, none of which are in the Company's group; and

such a determination shall be notified to the holder in writing.

(f) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**).

(g) **Exercise Date**

A Notice of Exercise is only effective on and from the date of receipt of the Notice of Exercise (**Exercise Date**).

(h) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under (g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(i) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(j) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(k) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(l) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(m) **Transferability**

The Options are not transferable.

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## SCHEDULE 3 – TERMS AND CONDITIONS OF OCTOBER ZEPOS

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(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

No consideration is payable upon the exercise of each Option.

(c) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on 17 October 2021 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period and Vesting Condition**

The Options shall vest and become exercisable into Shares at any time on and from the earlier of the date the Company achieves \$10,000,000 of revenue and the date the Company achieves \$10,000,000 of customer cash receipts in any rolling twelve month period within 36 months of the date of the issue of the Options (**Vesting Condition**) until the Expiry Date (**Exercise Period**).

(e) **Automatic Vesting**

Subject to the Company complying with the rules of the ASX and the Corporations Act, each Option will automatically vest and become exercisable into Shares in the event of:

- (i) a takeover bid under Chapter 6 of the Corporations Act having been made in respect of the Company having received acceptances for more than 50% of the Company's Shares on issue and being declared unconditional by the bidder; or
- (ii) a Court granting orders approving a compromise or arrangement for the purposes of or in connection with a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company or companies; or
- (iii) a person acquiring voting power (as defined in section 610 of the Corporations Act) in over 50% of the Company's Shares, in circumstances where such person's voting power was lower than the 50% threshold prior to the date on which the Options were issued; or
- (iv) the Company enters into agreements to sell businesses or assets which are owned by the Company at the date of issue of the Options (whether or not in the form of shares in a subsidiary company) the consideration for which businesses or assets represents more than 50% of the value of all of the businesses and assets owned by the Company at the date of issue of the Options (with reference to the Company's most recent audited financial statements) to a person, or a number of persons, none of which are in the Company's group; and

such a determination shall be notified to the holder in writing.

(f) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**).

(g) **Exercise Date**

A Notice of Exercise is only effective on and from the date of receipt of the Notice of Exercise (**Exercise Date**).

(h) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under (g)(g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(i) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(j) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(k) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(l) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(m) **Transferability**

The Options are not transferable.

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## SCHEDULE 4 – TERMS AND CONDITIONS OF ZERO EXERCISE PRICE OPTIONS

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(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

No consideration is payable upon the exercise of each Option.

(c) **Expiry Date**

Each Option will expire at 5:00 pm (AEDT) on 30 November 2022 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period and Vesting Condition**

The Options shall vest and become exercisable into Shares at any time on and from the earlier of the date the Company achieves \$20,000,000 of revenue and the date the Company achieves \$20,000,000 of customer cash receipts (excluding any revenue or customer cash receipts which are applied towards satisfaction of the vesting condition attaching to the Tranche 1 Zepos) in any rolling twelve month period within 36 months of the date of issue of the Zero Exercise Price Options (**Vesting Condition**) until the Expiry Date (**Exercise Period**).

(e) **Cessation of Employment**

Should the holder cease employment or engagement by the Company:

- (i) any unexercised Options that have vested as at the date of cessation of employment or engagement with the Company (**Cessation Date**) shall lapse if the holder does not exercise the Option within a period of 1 month after the Cessation Date; and
- (ii) any unexercised Options that have not vested as at the Cessation Date shall immediately lapse upon the Cessation Date.

(f) **Automatic Vesting**

Subject to the Company complying with the rules of the ASX and the Corporations Act, each Option will automatically vest and become exercisable into Shares in the event of:

- (i) a takeover bid under Chapter 6 of the Corporations Act having been made in respect of the Company having received acceptances for more than 50% of the Company's Shares on issue and being declared unconditional by the bidder; or
- (ii) a Court granting orders approving a compromise or arrangement for the purposes of or in connection with a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company or companies; or
- (iii) a person acquiring voting power (as defined in section 610 of the Corporations Act) in over 50% of the Company's Shares, in



circumstances where such person's voting power was lower than the 50% threshold prior to the date on which the Options were issued; or

- (iv) the Company enters into agreements to sell businesses or assets which are owned by the Company at the date of issue of the Options (whether or not in the form of shares in a subsidiary company) the consideration for which businesses or assets represents more than 50% of the value of all of the businesses and assets owned by the Company at the date of issue of the Options (with reference to the Company's most recent audited financial statements) to a person, or a number of persons, none of which are in the Company's group; and

such a determination shall be notified to the holder in writing.

(g) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**).

(h) **Exercise Date**

A Notice of Exercise is only effective on and from the date of receipt of the Notice of Exercise (**Exercise Date**).

(i) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under (g)(g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(j) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(k) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(l) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(m) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(n) **Transferability**

The Options are not transferable.

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## SCHEDULE 5 – TERMS AND CONDITIONS OF INCENTIVE OPTIONS

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(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

Subject to paragraph (i), the amount payable upon exercise of each Option will be \$0.65 (**Exercise Price**)

(c) **Expiry Date**

Each Option will expire at 5:00 pm (AEDT) on 30 June 2023 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The Options will vest in equal tranches on 30 November 2020, 30 November 2021 and 30 November 2022.

(e) **Cessation of Employment**

Should the holder cease employment or engagement by the Company:

- (i) any unexercised Options that have vested as at the date of cessation of employment or engagement with the Company (**Cessation Date**) shall lapse if the holder does not exercise the Option within a period of 1 month after the Cessation Date; and
- (ii) any unexercised Options that have not vested as at the Cessation Date shall immediately lapse upon the Cessation Date.

(f) **Exercise Period**

Subject to (d) and (e), the Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(g) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(h) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

(i) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under (g)(g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(j) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(k) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(l) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(m) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(n) **Transferability**

The Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

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**SCHEDULE 6 – VALUATION OF ZERO EXERCISE PRICE OPTIONS AND  
INCENTIVE OPTIONS**

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VALUATION OF:

Options to be issued by DroneShield Limited

As at:  
28 October 2019



## Valuation of Options to be issued by DroneShield Limited

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Now you know  
**LEADENHALL**

## Valuation of Options to be issued by DroneShield Limited

28 October 2019

Carla Balanco  
Chief Financial Officer  
DroneShield Limited  
Level 5, 126 Phillip Street  
Sydney NSW 2000

Dear Carla,

### 1. Executive Summary

DroneShield Limited ("DroneShield") has engaged Leadenhall Services Pty Limited ("Leadenhall") to assess the fair value of the options to be issued by DroneShield to its directors and employees in FY19 ("Options") as at date of this report for financial reporting purposes and for inclusion in the notice of meeting which seeks shareholder approval for their issue. We have assessed the fair value of the Options to be as follows:

**Table 1: Valuation summary**

Assessed Value			
Tranche	Number of Options	Value per Option <sup>1</sup> (\$)	Total (\$)
Tranche 1A	1,916,666	0.107	205,083
Tranche 1B	1,916,666	0.124	237,667
Tranche 1C	1,916,668	0.139	266,417
Tranche 2 Zepos	5,750,000	0.415	2,386,250
<b>Total</b>	<b>11,500,000</b>		<b>3,095,417</b>

Source: Leadenhall analysis

Note 1. Subject to rounding

In relation to this valuation we note:

- ♦ As all the Options are effectively standard options with no market based vesting conditions, we have valued them using the Black-Scholes option pricing model.
- ♦ Valuation of the Options was necessarily indicative because the fair value of the Options cannot be determined until after the Options are issued, and the share price at close of business on the actual issue date is available.

Thank you for this opportunity to work with you and we look forward to working with you again in the future.

Yours faithfully,



**Richard Norris**  
Director



**Hamed Tabasi**  
Senior Analyst



## Valuation of Options to be issued by DroneShield Limited

### 2. Background

#### 2.1. Engagement Terms

Client:	DroneShield Limited
Valuer:	Leadenhall Services Pty Limited
Valuation subject:	Options to be issued by DroneShield to its directors and employees in FY19
Purpose:	Financial reporting and for inclusion in notice of meeting
Valuation Date:	25 October 2019
Report date:	28 October 2019
Standard of value:	Fair value

#### 2.2. Definition of Value

Fair value is defined as:

*“The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable willing parties in an arm's length transaction.”*

*Source: AASB 2 Share-based Payment*

#### 2.3. Scope

In accordance with professional standard APES 225 Valuation Services, this report has been prepared as a limited scope valuation engagement. If a valuation had been prepared, the results may have been different.

#### 2.4. Options Terms

The Options are effectively simple options, with the only significant vesting condition being continued employment.

- ♦ The 65 cent exercise price options have an expiry date of 30 June 2023 and will vest in equal tranches on 30 November 2020, 30 November 2021 and 30 November 2022.
- ♦ The Tranche 2 Zepos have an expiry date of 30 November 2022 and will vest and become exercisable into shares for nil consideration at any time on and from the earlier of the date DroneShield achieves \$20,000,000 of revenue and the date DroneShield achieves \$20,000,000 of customer cash receipts (excluding any revenue or customer cash receipts which are applied towards satisfaction of the vesting condition attaching to the Tranche 1 Zepos) in any rolling twelve month period within 36 months of the date of issue of the Zero Exercise Price Options until the expiry date.

#### 2.5. Information

In preparing this report we have relied on the following information:

- ♦ Terms of issue of Options
- ♦ Discussions with Carla Balanco, CFO
- ♦ Market data from Capital IQ

The above information was neither audited nor reviewed. However, nothing came to our attention to suggest the information relied upon is not reasonable.

#### 2.6. Requirement

AASB 2 Share Based Payment ("AASB 2") requires share-based payment transactions, including transactions with employees, to be recognised as an expense in the financial statements. To apply this requirement, it is necessary to determine the type of equity instrument granted to the employees. On the basis of the information provided by DroneShield, the Options are equity-settled share-based payments as described in AASB 2.

AASB 2 requires that fair value be estimated using a valuation technique which indicates what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties (AASB 2, paragraph 17). The fair value of equity instruments granted is measured at the grant date, defined as the date on which the entity and the employee agree to the share-based payment arrangement.

## Valuation of Options to be issued by DroneShield Limited

### 3. Valuation Methodology

#### 3.1. Option Valuation Methods

A variety of pricing models exist for valuing options and the selected pricing model should reflect the features and complexity of the instruments being valued. We discuss below the Black-Scholes Option Pricing Model, the Binomial Option Pricing Model and Monte Carlo Simulation.

##### 3.1.1. Black-Scholes

The Black-Scholes Option Pricing Model is a mathematical formula that can be used to value 'plain vanilla' European options. It is also used to value American options in the circumstances where the value of holding the call option at a given time is greater than the net present value of cash flows that would be generated by immediate exercise (for example, if there is little or no dividend).

The Black-Scholes model can be modified to take account of a limited number of additional option features, for example barrier options, which can only be exercised if the underlying share price rises above or falls below a pre-set level or 'barrier'.

##### 3.1.2. Binomial

The Binomial Option Pricing Model is implemented by defining the upper and lower values of the stock over discrete periods of time. This may be undertaken by reference to a variety of assumptions about the stock price movements. Under the assumption of no dividends, the Binomial Option Pricing Model approximates to the Black-Scholes Option Pricing Model.

As with the Black-Scholes approach, the binomial model can be adapted to take account of certain additional option features.

##### 3.1.3. Monte Carlo

A Monte Carlo Simulation involves the use of a computer model to represent the operation of a complex financial system. A characteristic of the Monte Carlo Simulation is the generation of a large number of random samples from a specified probability distribution or distributions to represent the role of risk in the market. This approach can be adopted to value complex instruments that cannot be valued using the preceding methods.

When used to value simple options, a Monte Carlo simulation results in valuation conclusions that closely approximate the Black-Scholes and binomial models.

## Valuation of Options to be issued by DroneShield Limited

### 3.2. Selected Method

In assessing the fair value of the Options, we have considered the following option pricing methodologies:

**Table 2: Consideration of option valuation methodologies**

Valuation Methodologies		
Methodology	Considerations	Application
Black-Scholes	<ul style="list-style-type: none"> <li>◆ Can reliably value standard options</li> <li>◆ The Options all have standard terms</li> </ul>	Selected methodology
Binomial	<ul style="list-style-type: none"> <li>◆ Will result in values very similar to Black-Scholes for simple options</li> <li>◆ No benefit from cross-check</li> </ul>	Not considered
Monte Carlo Simulation	<ul style="list-style-type: none"> <li>◆ No benefit from cross-check</li> </ul>	Not considered

Source: Leadenhall analysis

## Valuation of Options to be issued by DroneShield Limited

### 4. Valuation

The inputs adopted in our valuation of the Options, and our valuation conclusions are as follows:

**Table 3: Option valuation inputs and conclusions**

Valuation Inputs and Conclusions					
Description	Considerations	Tranche 1A	Tranche 1B	Tranche 1C	Tranche 2 Zepos
Valuation Date	◆ Report date (for this report until issued)	25 Oct 19	25 Oct 19	25 Oct 19	25 Oct 19
Spot price	◆ Closing price on Valuation Date <sup>1</sup>	\$0.415	\$0.415	\$0.415	\$0.415
Exercise price	◆ As noted in Options terms	\$0.650	\$0.650	\$0.650	nil
Life	◆ Expected life of Options ◆ Assumed to be mid-point between vesting and expiry dates for Tranche 1 Options	2.4 years	2.9 years	3.4 years	2.7 years
Volatility	◆ Based on historical volatility of comparable companies ◆ Refer to Appendix 2	65%	65%	65%	65%
Dividend yield	◆ As provided by DroneShield	0.0%	0.0%	0.0%	0.0%
Risk free rate	◆ Yield on Commonwealth bonds matching assumed life of Options	0.76%	0.71%	0.71%	0.71%
<b>Assessed value per Option</b>		<b>\$0.107</b>	<b>\$0.124</b>	<b>\$0.139</b>	<b>\$0.415</b>

Source: Leadenhall analysis

Note 1. As the share price at the Valuation Date is assumed to be a reasonable indicator of underlying value.



## Valuation of Options to be issued by DroneShield Limited

### Appendix 1: Background to Options

#### Put and Call Options

Options can either be 'Put' or 'Call' options:

- ♦ **Call options** – give the holder the right but not the obligation to purchase an underlying asset at a specified price at a specified time or during a specified period.
- ♦ **Put options** – give the holder the right but not the obligation to sell an underlying asset at a specified price at a specified time or during a specified period.

#### Intrinsic and Time Value

The value of an option reflects both the 'intrinsic value' and the 'time value' as follows:

- ♦ **Intrinsic Value:** An option has 'intrinsic value' if it would provide a return to the holder if exercised at the current market price of the underlying share. For a call option, for example, this is when the share price is higher than the exercise price. An option can have a nil intrinsic value; however it cannot have a negative intrinsic value. An option with a positive intrinsic value is said to be 'in the money'.
- ♦ **Time Value:** Whilst an option may be out-of-the money (and therefore have a nil intrinsic value), the option may still have a positive value. This reflects the possibility of the option becoming in-the-money in the future and is referred to as the 'time value'.

#### American and European Options

Options are generally categorised as being one of three types:

- ♦ **American options** – which entitle holders to exercise at any time over the life of the option.
- ♦ **European options** – which can only be exercised on expiry.
- ♦ **Bermudan options** – which can be exercised on a number of fixed dates.

A further type of options is known as exotic options, which refers to any option with additional features, for example barrier options which can only be exercised if the underlying share price moves through a pre-set barrier.

#### Key Inputs

In determining the market value of a call option, whatever method is used, the following inputs need to be considered:

- ♦ **Spot price** – The market price of the underlying asset which the option is over (assuming to be a reasonable indicator of underlying value).
- ♦ **Exercise price** – The price paid on the exercise of a call option, or received on the exercise of a put option.
- ♦ **Life** – The period over which the option may be exercised. We note that employees often exercise options earlier than economic theory may suggest for reasons including risk aversion, diversification and plan rules requiring leavers to exercise vested option upon leaving employment. In accordance with AASB2.B17 option valuations should be based on the expected life, taking into account the likelihood of early exercise.
- ♦ **Volatility** – A measure of the expected variability of the underlying share price. Volatility is measured as the standard deviation of returns.
- ♦ **Expected dividend yield** – The expected dividend yield on the underlying shares over which the options have been granted.
- ♦ **Risk free rate** – The interest rate on a risk free asset (government bonds) over a period matching the option life.

## Valuation of Options to be issued by DroneShield Limited

### Impact of Changes in Inputs

The following table highlights the impact on the value of an option from changes in the key inputs.

**Table 4: Option valuation inputs**

Option Valuation Inputs		
Input	Impact on put option	Impact on call option value
Spot price	The higher the spot price the lower the option value.	The higher the spot price, the higher the option value.
Exercise price	The higher the exercise price, the higher the option value, due to the option being more in the money / less out of the money.	The higher the exercise price, the lower the option value, due to the option being less in the money / more out of the money.
Life	In most cases, the longer the expected life of the option, the higher the option value, since there is a greater opportunity for the option to become in the money. For options that are significantly in the money the converse applies.	In most cases, the longer the expected life of the option, the higher the option value, since there is a greater opportunity for the option to become in the money. With high dividends and a low exercise price (relative to the spot price), the converse applies.
Volatility	Generally, the higher the volatility, the higher the option value as there is more opportunity for the options to become in the money.	Generally, the higher the volatility, the higher the option value as there is more opportunity for the options to become in the money.
Dividend yield	The higher the dividend yield, the higher the option value as dividends reduce expected price appreciation.	The higher the dividend yield, the lower the option value as dividends represent leakage to a call option holder.
Risk free rate	The higher the risk-free rate, the lower the option value in most cases, as the interest that could be earned on cash proceeds of short selling the underlying shares is not available to the holder of a put option.	The higher the risk-free rate, the higher the option value in most cases, as this represents a greater cost of holding the underlying shares compared to holding a call option.

## Valuation of Options to be issued by DroneShield Limited

### Appendix 2: Volatility

In selecting expected prospective volatility, we have considered the observed historical volatility of a range of comparable entities, as well as that of DroneShield. We consider this approach preferable to relying on DroneShield's historical volatility only, due to the significant uncertainty in any single observation in isolation.

The historical volatility of companies with comparable operations to DroneShield are set out in the table below:

**Table 5: Volatility**

Company	Comparable Company Volatility					
	Market cap (A\$m)	Annualised volatility (%)				
		1 Year	2 Year	3 Year	4 Year	5 Year
DroneShield Limited	105	105%	90%	85%	84%	n/a
Orbital Corporation Limited	27	68%	75%	73%	69%	71%
XTEK Limited	45	63%	64%	62%	69%	73%
Quickstep Holdings Limited	103	48%	43%	46%	48%	50%
Electro Optic Systems Holdings Limited	696	51%	44%	46%	49%	53%
Austal Limited	1,468	33%	32%	32%	41%	40%
<b>Average</b>	<b>407</b>	<b>61%</b>	<b>58%</b>	<b>57%</b>	<b>60%</b>	<b>57%</b>

Source: S&P Capital IQ

Note: Historical volatility data for periods ending to 24 October 2019. Market capitalisation data as at 25 October 2019.

In relation to the above analysis we note:

- ◆ Changes over time are limited, thus we consider it reasonable to use the same volatility for all periods covered in this valuation.
- ◆ Having regard to the average volatility of the selected comparable companies with market capitalisation of less than \$1 billion, we have selected a volatility of 65%.

## Valuation of Options to be issued by DroneShield Limited

### DroneShield Limited (ASX:DRO)

DroneShield Limited engages in the development and commercialization of hardware and software technology for drone detection and security worldwide.

### Orbital Corporation Limited (ASX:OEC)

Orbital Corporation Limited engages in the design, manufacture, and sale of unmanned aerial vehicle (UAV) propulsion systems and flight critical components in Australia and the United States.

### Quickstep Holdings Limited (ASX:QHL)

Quickstep Holdings Limited manufactures advanced composites for the aerospace, defense, automotive, rail, and other manufacturing sectors in Australia, the United States, and internationally.

### XTEK Limited (ASX:XTE)

XTEK Limited provides homeland security products and services to government, law enforcement, military, and commercial sectors worldwide.

### Electro Optic Systems Holdings Limited (ASX:EOS)

Electro Optic Systems Holdings Limited develops, manufactures, and sells telescopes and dome enclosures, laser satellite tracking systems, and electro-optic fire control systems in Australia, the United States, Singapore, the Middle East, Germany, and internationally.

### Austal Limited (ASX:ASB)

Austal Limited designs, manufactures, constructs, and supports defense and commercial vessels in North America, Europe, Australia, Asia, South and Central America, and the Middle East. The company designs, constructs, and supports passenger ferries, vehicle and passenger ferries, and offshore and windfarm vessels; naval vessels; and patrol boats for government law enforcement and border protection agencies.



## Valuation of Options to be issued by DroneShield Limited

### Appendix 3: Disclaimers and Disclosures

#### Responsibility and Purpose

This report has been prepared for DroneShield for the purpose of financial reporting and for inclusion in a notice of meeting. Leadenhall expressly disclaims any liability to DroneShield, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

#### Market Conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

#### Reliance on Information

In preparing this report we relied on the information provided to us by DroneShield being complete and accurate. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to DroneShield management for confirmation of factual accuracy.

#### Indemnities

In recognition that Leadenhall may rely on information provided by DroneShield and its officers, employees, agents or advisors, DroneShield has agreed that it will not make any claim against Leadenhall to recover any loss or damage which it may suffer as a result of that reliance and that it will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by DroneShield and its officers, employees, agents or advisors or the failure by DroneShield and its officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

#### Independence

Leadenhall has acted independently of DroneShield. Compensation payable to Leadenhall is not contingent upon the conclusion reached in this report.

#### Professional Standards

This valuation has been prepared in accordance with the following professional standards:

- ♦ APES 225 Valuation Services issued by the Accounting Professional & Ethical Standards Board.
- ♦ International Valuations Standards issued by the International Valuation Standards Council.

#### Qualifications

This report has been prepared by:

##### Richard Norris

Director

BA (Hons), FCA, M.App.Fin, F.Fin

##### Hamed Tabasi

Senior Analyst

CFA, FRM, M.Fin, CIPM

Each has many years business valuation experience, including the valuation of options and similar instruments.

#### Prospective Financial Information

To the extent that this report refers to prospective financial information, we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Leadenhall's consideration of this information consisted of limited enquiries of DroneShield personnel. These enquiries did not include verification work nor constitute an audit or a review engagement in accordance with the Australian Auditing Standards, or any other standards. Nothing has come to our attention as a result of these enquiries to suggest that the financial projections, when taken as a whole, are unreasonable for the purpose of this report.

We note that the forecasts and projections supplied to us are, by definition, based upon assumptions about events and circumstances that have not yet transpired. Actual results may be different from the prospective financial information of Options referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly, we give no assurance that any forecast results will be achieved.

If you are attending the meeting  
in person, please bring this with you  
for Securityholder registration.

[EntityRegistrationDetailsLine1Envelope]  
[EntityRegistrationDetailsLine2Envelope]  
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[EntityRegistrationDetailsLine5Envelope]  
[EntityRegistrationDetailsLine6Envelope]

## [HolderNumber]

Holder Number:  
[HolderNumber]

## Vote by Proxy: DRO

Your proxy voting instruction must be received by **11.00am (AEDT) on Monday 9 December 2019** being **not later than 48 hours** before the commencement of the Meeting. Any Proxy Voting instructions received after that time will not be valid for the scheduled Meeting.

### SUBMIT YOUR PROXY VOTE ONLINE

Vote online at <https://investor.automic.com.au/#/loginsah>

Login & Click on 'Meetings'. Use the Holder Number as shown at the top of this Proxy Voting form.

- ✓ **Save Money:** help minimise unnecessary print and mail costs for the Company.
- ✓ **It's Quick and Secure:** provides you with greater privacy, eliminates any postal delays and the risk of potentially getting lost in transit.
- ✓ **Receive Vote Confirmation:** instant confirmation that your vote has been processed. It also allows you to amend your vote if required.



### SUBMIT YOUR PROXY VOTE BY PAPER

Complete the form overleaf in accordance with the instructions set out below.

#### YOUR NAME AND ADDRESS

The name and address shown above is as it appears on the Company's share register. If this information is incorrect, and you have an Issuer Sponsored holding, you can update your address through the investor portal: <https://investor.automic.com.au/#/home> Shareholders sponsored by a broker should advise their broker of any changes.

#### VOTING UNDER STEP 1 - APPOINTING A PROXY

If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that Individual or body corporate. A proxy need not be a Shareholder of the Company. Otherwise if you leave this box blank, the Chairman of the Meeting will be appointed as your proxy by default.

#### DEFAULT TO THE CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote these proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Voting Form, including where the Resolutions are connected directly or indirectly with the remuneration of KMP

#### VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by marking one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

#### APPOINTMENT OF SECOND PROXY

You may appoint up to two proxies. If you appoint two proxies, you should complete two separate Proxy Voting Forms and specify the percentage or number each proxy may exercise. If you do not specify a percentage or number, each proxy may exercise half the votes. You must return both Proxy Voting Forms together. If you require an additional Proxy Voting Form, contact Automic Registry Services.

#### SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided

**Individual:** Where the holding is in one name, the Shareholder must sign.

**Joint holding:** Where the holding is in more than one name, all of the Shareholders should sign.

**Power of attorney:** If you have not already lodged the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Voting Form when you return it.

**Companies:** To be signed in accordance with your Constitution. Please sign in the appropriate box which indicates the office held by you.

**Email Address:** Please provide your email address in the space provided.

**By providing your email address, you elect to receive all communications despatched by the Company electronically (where legally permissible) such as a Notice of Meeting, Proxy Voting Form and Annual Report via email.**

#### CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate 'Appointment of Corporate Representative' should be produced prior to admission. A form may be obtained from the Company's share registry online at <https://automic.com.au>.

#### ATTENDING THE MEETING

Completion of a Proxy Voting Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Voting Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.

#### POWER OF ATTORNEY

If a representative as power of attorney of a Shareholder of the Company is to attend the Meeting, a certified copy of the Power of Attorney, or the original Power of Attorney, must be received by the Company in the same manner, and by the same time as outlined for proxy forms.



<b>SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED</b>																																																
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By providing your email address, you elect to receive all of your communications despatched by the Company electronically (where legally permissible).																																																