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**PIENETWORKS LIMITED**  
**ACN 078 661 444**

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**NOTICE OF GENERAL MEETING**

**For the General Meeting of the Company to be held at The Celtic Club, 48 Ord Street, West Perth, Western Australia on 11 August 2014 at 2.00pm (WST)**

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

***Should you wish to discuss any matter please do not hesitate to contact the Company Secretary by telephone on 8 9316 9100***

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# PIENETWORKS LIMITED

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## NOTICE OF GENERAL MEETING

Notice is hereby given that a general meeting of shareholders of PieNetworks Limited (**Company**) will be held at The Celtic Club, 48 Ord Street, West Perth, Western Australia on 11 August 2014 at 2.00pm (WST) (**Meeting**).

The Explanatory Memorandum provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and Proxy Form form part of this Notice.

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 as Shareholders of the Company on 9 August 2014 at 5.00pm (WST).

Terms and abbreviations used in this Notice and the Explanatory Memorandum are defined in Schedule 1.

## AGENDA

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### 1. Resolution 1 – Change to Nature and Scale of Activities

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

*"That, subject to Resolutions 2 to 5 (inclusive) being passed, pursuant to and in accordance with Listing Rule 11.1.2 and for all other purposes, the Company be authorised to make a significant change in the nature and scale of its activities on the terms and conditions in the Explanatory Memorandum."*

#### Voting Exclusion

The Company will disregard any votes cast on this Resolution by any person (or any associate of such a person) who might obtain a benefit except a benefit solely in their capacity as holders of ordinary securities if the Resolution is passed.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson 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 – Approval of issue of securities to Majority Vendors

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

*"That, subject to Resolutions 1 and 3 to 5 (inclusive) being passed, pursuant to and in accordance with item 7 of section 611 of the Corporations Act and for all other purposes, Shareholders approve the allotment and issue to:*

- (a) *the Majority Vendors (or their nominees) of 155,228,686 Shares; and*
- (b) *Mr Alex Hartman (or his nominee) of 20,000,000 Director Options (and up to 20,000,000 Shares on their exercise),*

*(together the **Majority Vendor Securities**) in accordance with the terms of the Sale Agreement and otherwise on the terms and conditions in the Explanatory Memorandum."*

### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution by the Majority Vendors (and any of their associates) and any person who might obtain a benefit (except a benefit solely in their capacity as holders of ordinary securities) if the Resolution is passed, or an associate of that person.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson 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.

In accordance with section 250BD of the Corporations Act, a vote on this Resolution must not be cast by a person appointed as a proxy, if:

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

A vote may be cast by a person:

- (a) appointed as a proxy if:
  - (i) the vote is not cast on behalf of a person who is otherwise excluded from voting; and
  - (ii) the person is appointed as a proxy and the appointment specifies how the proxy is to vote; or
- (b) the person appointed as proxy is the Chairperson and the appointment does not specify how the Chairperson is to vote but expressly authorises the Chairperson to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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### **3. Resolution 3 – Approval of issue of securities to Minority Vendors**

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

*"That, subject to Resolutions 1, 2, 4 and 5 being passed, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the allotment and issue of 18,551,421 Shares to the Minority Vendors (or their nominees), excluding eCrucis Pty Ltd (a company associated with Mr Phil Kiely), in accordance with the terms of the Sale Agreement and otherwise on the terms and conditions in the Explanatory Memorandum."*

#### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution by the Minority Vendors (and any of their associates) and any person who might obtain a benefit (except a benefit solely in their capacity as holders of ordinary securities) if the Resolution is passed, or an associate of that person.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson 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 – Approval of issue of securities to eCrucis Pty Ltd**

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

*"That, subject to Resolutions 1 to 3 (inclusive) and 5 being passed, pursuant to and in accordance with Listing Rule 10.11, Chapter 2E of the Corporations Act and for all other purposes, Shareholders approve the allotment and issue of 4,450,870 Shares to eCrucis Pty Ltd, a company associated with Mr Phil Kiely, (or its nominee) in accordance with the terms of the Sale Agreement and otherwise on the terms and conditions in the Explanatory Memorandum."*

#### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution by eCrucis Pty Ltd (and any of its associates) and any person who might obtain a benefit (except a benefit solely in their capacity as holders of ordinary securities) if the Resolution is passed, or an associate of that person.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson 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 – Approval of issue of Placement Shares

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

*"That, subject to Resolutions 1 to 4 (inclusive) being passed, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the allotment and issue of up to 75,000,000 Shares (**Placement Shares**) each at an issue price of \$0.04 to raise \$3,000,000 (before costs) on the terms and conditions in the Explanatory Memorandum."*

### Voting Exclusion

The Company will disregard any votes cast on this Resolution by a person who may participate in the issue of the Placement Shares and any person who might obtain a benefit (except a benefit solely in their capacity as holders of ordinary securities) if the Resolution is passed, or an associate of that person.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson 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 Directors' Participation in Placement

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

*"That, subject to Resolutions 1 to 5 (inclusive) and 12 being passed, pursuant to and in accordance with Listing Rule 10.11, Chapter 2E of the Corporations Act and for all other purposes, Shareholders approve the allotment and issue of 2,500,000 Shares to Mr Peter Gunzburg (or his nominee), as part of the Placement on the terms and conditions in the Explanatory Memorandum."*

### Voting Exclusion

The Company will disregard any votes cast on this Resolution by Mr Gunzburg (or his nominee) and any of their associates.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson 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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## 7. Resolution 7 – Approval of issue of Director Options to Current Director

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

*"That, pursuant to and in accordance with Listing Rule 10.11, Chapter 2E of the Corporations Act and for all other purposes, Shareholders approve the allotment and issue of 2,000,000 Director Options to Mr Peter Gunzburg (a Director) on the terms and conditions in the Explanatory Memorandum."*

### Voting Exclusion

The Company will disregard any votes cast on this Resolution by Mr Gunzburg or any of his associates.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson 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.

In accordance with section 250BD of the Corporations Act, a vote on this Resolution must not be cast by a person appointed as a proxy, if:

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

A vote may be cast by a person:

- (a) appointed as a proxy if:
  - (i) the vote is not cast on behalf of a person who is otherwise excluded from voting; and
  - (ii) the person is appointed as a proxy and the appointment specifies how the proxy is to vote; or
- (b) the person appointed as proxy is the Chairperson and the appointment does not specify how the Chairperson is to vote but expressly authorises the Chairperson to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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## **8. Resolution 8 – Approval of issue of Director Options to Former Director**

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

*"That, pursuant to and in accordance with Listing Rule 10.11, Chapter 2E of the Corporations Act and for all other purposes, Shareholders approve the allotment and issue of 2,000,000 Director Options to Mr Bill Zikou (a former Director) on the terms and conditions in the Explanatory Memorandum."*

### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution by Mr Zikou or any of his associates.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson 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.

In accordance with section 250BD of the Corporations Act, a vote on this Resolution must not be cast by a person appointed as a proxy, if:

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

A vote may be cast by a person:

- (a) appointed as a proxy if:
  - (i) the vote is not cast on behalf of a person who is otherwise excluded from voting; and
  - (ii) the person is appointed as a proxy and the appointment specifies how the proxy is to vote; or
- (b) the person appointed as proxy is the Chairperson and the appointment does not specify how the Chairperson is to vote but expressly authorises the Chairperson to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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## **9. Resolution 9 – Approval of issue of Adviser Shares**

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

*"That, subject to Resolutions 1 to 5 (inclusive) being passed, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the allotment and issue of 5,838,318 Shares (**Adviser Shares**) to certain advisers acting in respect to the proposed acquisition of Newzulu Limited on the terms and conditions in the Explanatory Memorandum."*

#### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution by a person who may participate in the issue of the Adviser Shares and a person who might obtain a benefit (except a benefit solely in their capacity as holders of ordinary securities) if the Resolution is passed, or an associate of that person.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson 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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## **10. Resolution 10 – Ratification of issue of Prior Placement Shares**

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

*"That, pursuant to and in accordance with Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of 10,216,588 Shares (**Prior Placement Shares**) each at an issue price of \$0.04 to professional and sophisticated investors on the terms and conditions in the Explanatory Memorandum."*

#### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution by a person who participated in the issue of the Prior Placement Shares and any associate of that person (or those persons).

The Company will not disregard a vote if:

- (a) 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
- (b) it is cast by the Chairperson 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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## **11. Resolution 11 – Approval of Change of Name**

To consider and, if thought fit, to pass with or without amendment, as a special resolution the following:

*"That, subject to Resolutions 1 to 5 (inclusive) being passed, for the purposes of section 157 of the Corporations Act and for all other purposes, approval is given for the name of the Company to be changed to "Newzulu Limited" on the terms and conditions detailed in the Explanatory Memorandum."*



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## 12. Resolution 12 – Section 195 Approval

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

*"That, pursuant to and in accordance with subsection 195(4) of the Corporations Act and for all other purposes, Shareholders approve the transactions contemplated in Resolution 6."*

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**BY ORDER OF THE BOARD**



Mark Pitts  
Director and Company Secretary  
Dated: 3 July 2014

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# PIENETWORKS LIMITED

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## EXPLANATORY MEMORANDUM

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### 1. Introduction

This Explanatory Memorandum has been prepared for the information of shareholders of the Company in connection with the business to be conducted at the Meeting to be held at The Celtic Club, 48 Ord Street, West Perth, Western Australia on 11 August 2014 at 2.00pm (WST).

This Explanatory Memorandum should be read in conjunction with and forms part of the accompanying Notice. The purpose of this Explanatory Memorandum is to provide information to Shareholders in deciding whether or not to pass the Resolutions.

This Explanatory Memorandum includes the following information to assist Shareholders in deciding how to vote on the Resolutions:

Section 2:	Action to be taken by Shareholders
Section 3:	Acquisition of Newzulu Limited
Section 4:	Resolution 1 – Change to Nature and Scale of Activities
Section 5:	Resolution 2 – Approval of issue of securities to Majority Vendors
Section 6:	Resolution 3 – Approval of issue of securities to Minority Vendors
Section 7:	Resolution 4 – Approval of issue of securities to eCrucis Pty Ltd
Section 8:	Resolution 5 – Approval of issue of Placement Shares
Section 9:	Resolution 6 – Approval of Directors' Participation in issue of Placement Shares
Section 10:	Resolution 7 – Approval of issue of Director Options to Current Director
Section 11:	Resolution 8 – Approval of issue of Director Options to Former Director
Section 12:	Resolution 9 – Approval of issue of Adviser Shares
Section 13:	Resolution 10 – Ratification of issue of Prior Placement Shares
Section 14:	Resolution 11 – Approval of Change of Name
Section 15:	Resolution 12 – Section 195 Approval
Schedule 1:	Definitions
Schedule 2:	Vendors
Schedule 3:	Proposed Expenditure Program and Budget of the Company

Schedule 4:	Material Contracts
Schedule 5:	Risk Factors
Schedule 6:	Unaudited Pro-Forma Balance Sheet
Schedule 7:	Terms and Conditions of Director Options
Schedule 8:	Independent Expert's Report

A Proxy Form is located at the end of the Explanatory Memorandum.

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## 2. Action to be taken by Shareholders

Shareholders should read the Notice and this Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a representative (a "proxy") to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company in accordance with the instructions thereon. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

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## 3. Acquisition of Newzulu Limited

### 3.1 Acquisition of Newzulu Limited

As announced on 16 May 2014, the Company has entered into a share sale agreement dated 15 May 2014 with Newzulu Limited ACN 163 097 407 (**Newzulu**) and the majority shareholders of Newzulu (each being a "**Majority Vendor**" as detailed in Part A of Schedule 2) (**Sale Agreement**) pursuant to which the Company has agreed to:

- (a) acquire all of the shares in Newzulu held by the Majority Vendors; and
- (b) make offers to each of the minority shareholders of Newzulu (each being a "**Minority Vendor**" as detailed in Part B of Schedule 2) to acquire their shares in Newzulu.

Subject to the satisfaction of certain conditions precedent (refer to Section 3.4), completion of the Sale Agreement will result in the Company acquiring the entire issued share capital of Newzulu (**Acquisition**).

### 3.2 Information on Newzulu Limited

Newzulu operates a leading crowd-sourced news and freelance journalism platform.

Newzulu was founded in 2006 as "Citizenside.com" and has since established a wide network of citizen journalist contributors across the globe. Newzulu provides a website platform for the distribution of news, photographs and video content through its online sales platform and in partnership with international and regional newswires. Headquartered in Paris, Newzulu operates bureaus in London, New York, Los Angeles, Montreal, Sydney and Auckland enabling it to provide its crowd-sourced news feed and citizen journalism platform and editorial services to thousands of editorial and commercial clients globally.

Recent developments at Newzulu include the entry into the following agreements:

- (a) an agreement with Google's "Media Innovation Fund" to extend development to Newzulu's technology;
- (b) a long term global partnership agreement with France based national news agency, Agence France Presse (AFP);
- (c) a long term partnership agreement with the United Kingdom and Ireland based national news agency, The Press Association (PA); and
- (d) a long term partnership agreement with Australia and New Zealand based national news agencies, Australian Associated Press (AAP) and NZ Newswire.

Refer to Schedule 8 and [www.newzulu.com](http://www.newzulu.com) for further details of the business of Newzulu.

### 3.3 Consideration

The consideration payable by the Company for the Acquisition is the issue of an aggregate of 178,230,977 Shares (**Vendor Shares**) to the Vendors in the proportions detailed in Schedule 2. The Vendor Shares comprise:

- (a) 155,228,686 Shares to be issued to the Majority Vendors (or their nominees) (being the Shares the subject of Resolution 2);
- (b) 18,551,421 Shares to be issued to the Minority Vendors (or their nominees), excluding eCrucis Pty Ltd (a company associated with Mr Phil Kiely, a Director) (being the Shares the subject of Resolution 3); and
- (c) 4,450,870 Shares to eCrucis Pty Ltd (or its nominee) (being the Shares the subject of Resolution 4).

Pursuant to the terms of the Sale Agreement, Mr Alex Hartman (or his nominee), a co-founder of Newzulu and a Majority Vendor (both directly and indirectly), will be issued 20,000,000 Director Options each with an exercise price of \$0.10 and an expiry date of 30 June 2017. Refer to Section 3.6 for further details.

### 3.4 Conditions Precedent

Completion of the Acquisition is subject to and conditional upon:

- (a) Shareholders approving Resolutions 1 to 5 (inclusive);
- (b) the Majority Vendors being satisfied that there has been no Company Material Adverse Change as at the date of completion of the Acquisition;
- (c) the Company being satisfied that there has been no Newzulu Material Adverse Change as at the date of completion of the Acquisition;
- (d) the Company completing the Placement (refer to Section 3.5);
- (e) the Company becoming entitled to acquire 100% of the issued capital of the Newzulu as a result of each Minority Vendor accepting an offer by the Company to acquire their shares in Newzulu; and

- (f) if required by the ASX, each of the Vendors entering into escrow agreements in relation to all or part of the Vendor Shares (refer to Section 3.17).

### **3.5 Placement**

The Company is also proposing to undertake a placement of 75,000,000 Shares each at an issue price of \$0.04 to raise \$3,000,000 (before costs) (**Placement**). Completion of the Placement is a condition precedent to completion of the Acquisition.

Refer to Schedule 3 for details of the proposed use of funds to be raised pursuant to the Placement.

### **3.6 Board and Management Changes**

The Company will retain the services of the entire Newzulu management team following completion of the Acquisition. The current managing director of Newzulu, Mr Alex Hartman, will be appointed as a Director and will assume the role of managing director of the Company.

Mr Hartman has corporate development experience across a wide range of traditional and digital media companies in sectors including digital and social media, theatrical distribution, television production and broadcasting, magazine publishing and music production. He is a co-founder of Newzulu, Matilda Books and online film and television distribution platform, Rightstrade.

Mr Hartman was the recipient of the 2001 Young Australian of the Year Award for Career Achievement and was awarded the Pearcey Medal by the Australian Computer Society for outstanding services to computing. The Australian Government has appointed Mr Hartman as a director of the Industry Research & Development Board, as chairman of the Youth IT Skills Hub and as a founding director of "Headspace", the National Youth Mental Health Foundation.

Pursuant to the terms of the Sale Agreement, and as part of Mr Hartman's engagement, as managing director of the Company. The Company has agreed to issue 20,000,000 Director Options to Mr Hartman (or his nominee). Resolution 2 seeks Shareholder approval for the issue of the Director Options. Refer to Schedule 4 for further details of the terms and conditions on which Mr Hartman has agreed to act as managing director of the Company.

Following completion of the Acquisition, each of the Company's existing Directors, Messrs Peter Gunzburg, Phil Kiely and Mark Pitts, will continue to act as Directors.

A company associated with Mr Phil Kiely, eCrucis Pty Ltd, is a Minority Vendor. Mr Kiely was appointed a Director on 28 March 2014, prior to the execution of the Sale Agreement.

### **3.7 Pro-forma Capital Structure**

If all of the Resolutions are passed, upon the completion of the Acquisition and the Placement (and the issue of the additional securities the subject of Resolutions 7 to 9 (inclusive)), the proposed capital structure of the Company is as follows:

	Number of Shares	Number of Options
Balance at the date of the Meeting	78,327,172 <sup>(1)</sup>	1,886,659 <sup>(2)</sup>
To be issued pursuant to the Acquisition	178,230,977 <sup>(3)</sup>	20,000,000 <sup>(4)</sup>
To be issued pursuant to the Placement	75,000,000 <sup>(5)</sup>	Nil
To be issued to Current and Former Directors	Nil	4,000,000 <sup>(6)</sup>
To be issued to Advisers	5,838,318 <sup>(7)</sup>	Nil
<b>Total</b>	<b>337,396,467</b>	<b>25,886,659</b>

- (1) Includes 10,216,588 Shares issued pursuant to a placement completed on 28 March 2014. Refer to the Appendix 3B lodged with ASX on 31 March 2014.
- (2) Comprises:
- (a) 100,000 unlisted Options each with an exercise price of \$0.30 and an expiry date of 30 November 2014;
  - (b) 586,660 unlisted Options each with an exercise price of \$0.30 and an expiry date of 30 June 2015;
  - (c) 33,333 unlisted Options each with an exercise price of \$0.90 and an expiry date of 30 November 2014;
  - (d) 666,666 unlisted Options each with an exercise price of \$0.90 and an expiry date of 30 November 2015; and
  - (e) 500,000 unlisted Options each with an exercise price of \$0.30 and an expiry date of 30 June 2017.
- (3) Refer to Resolution 2, 3 and 4 and Sections 3.3, 5, 6 and 7.
- (4) Refer to Resolution 2, Sections 3.3, 3.6, 5 and Schedule 8 (for terms and conditions of the Director Options).
- (5) Refer to Resolution 5 and Sections 3.5 and 8.
- (6) Refer to Resolutions 7 and 8 and Sections 10 and 11.
- (7) Refer to Resolution 9 and Section 12.

### 3.8 Pro-forma Financial Position of the Company

Refer to Schedule 6 for a pro-forma balance sheet of the Company following completion of the Acquisition and the Placement.

### 3.9 Proposed Expenditure Program and Budget

Refer to Schedule 3 for details of the proposed expenditure program and subject to the Company following completion of the Acquisition and the Placement.

### 3.10 Advantages of the Acquisition

The Directors are of the view that the following, non-exhaustive list of advantages may be relevant to a Shareholder's determination on how to vote on Resolutions 1 to 5 (inclusive):

- (a) **Exposure to an established and growing business operating in an emerging industry sector:** The Acquisition provides Shareholders with exposure to an existing well managed and expanding business operating in a growing sector of the media industry. Newzulu's established technology and know-how, its extensive network of contributors (currently comprising over 100,000 contributors), its relationships with major media providers (including but not limited to AFP, PA and AAP – refer to Section 3.2) and its management team with extensive experience in the media and technology sectors, offers the Company an opportunity to expand its existing operations into a business with significant potential for growth.

- (b) **Complementary to the existing business of the Company:** The business of Newzulu has the potential to complement the Company's existing business as an operator of public internet terminals/kiosks and WiFi hotspots, as a number of synergies between the existing businesses of the Company and Newzulu have been identified. Initiatives may include, amongst other things:
- (i) the Company utilising the Newzulu webpage as the homepage for its WiFi hot spots, kiosks and/or self-service terminals. This will allow the Company to obtain access to news provider content without having to incur the prohibitive costs, and be subject to restrictive covenants, that are often part of arrangements with more established alternatives. The Company does not currently have the capability to provide a lives news feed. Any such arrangement whilst also provide Newzulu with enhanced business exposure; and
  - (ii) the Company's existing services being utilised to:
    - (A) advertise Newzulu and provide details of how to contribute to Newzulu;
    - (B) support a dedicated WiFi hotspot, allowing users to connect to Newzulu whilst restricting general use; and
    - (C) contribute to the process of accepting, uploading and validating contributions to Newzulu by, for example, contributions being "tagged" with date, time and location to assist with validity confirmation, assignment of unique identification by the internet terminal/kiosk to track authorship and/or having the terminal/kiosk complete format conversions or compressions.
- (c) **Potential to enhance Shareholder value:** Given the current continued low investor sentiment with regard to small capitalised companies, including a lack of readily available equity funding for such companies, the Directors consider that in the current share market environment there is a greater likelihood of increasing Shareholder value by proceeding with the Acquisition than by the Company solely remaining focused on its existing business.
- (d) **Increased investor interest and Share trading volume:** Following the ASX announcement of the Company of 28 March 2014 concerning the Acquisition, the volume of Shares traded has significantly increased. It is not unreasonable to anticipate continued improved Share trading volumes going forward post completion of the Acquisition.
- (e) **No cash payment for an existing growing business:** The consideration for the Acquisition will be entirely in the form of Shares.

### 3.11 Disadvantages of the Acquisition

The Directors are of the view that the following, non-exhaustive list of disadvantages may be relevant to a Shareholder's determination on how to vote on Resolutions 1 to 5 (inclusive):

- (a) **Change of business focus:** Following the completion of the Acquisition, whilst continuing to operate its existing business, the Company will devote

funding and management attention to the business of Newzulu. This change in the nature and scale of the Company's activities may not be consistent with the objectives of some Shareholders.

- (b) **Issue of the Vendor Shares and the Placement Shares will dilute existing Shareholders' voting rights:** The Acquisition will result in the issue of the Vendor Shares to the Vendors and is also conditional on the completion of the Placement. The issue of the Vendor Shares and the Placement Shares will have a dilutionary effect on the current voting rights of Shareholders. Consequently, current Shareholders' voting power and influence over the affairs of the Company will be reduced.
- (c) **Additional risk factors:** There are many risk factors associated with the change to the nature and scale of the Company's activities attributable to business and operations of Newzulu being acquired. Refer to Section 3.12 and Schedule 5.
- (d) **Operating costs and requirements for further funding:** Completion of the Acquisition will result in the operational costs of the Company increasing in order to support the existing operations of Newzulu and to facilitate the growth objectives of the expanded business operations of the Company. It is anticipated that the Company will need to undertake future equity capital raisings in order to fund its future operations. Any future equity capital raisings will have a dilutionary effect on the current voting rights of Shareholders.

### 3.12 Risk Factors

Shareholders should be aware that if Resolutions 1 to 5 (inclusive) are approved and the Acquisition is completed, the Company will be changing the nature and scale of its activities which will result in it being subject to various risk factors (in addition to those that are presently applicable). Based on the information available, a non-exclusive list of these risk factors is detailed in Schedule 5.

### 3.13 Plans for the Company if the Acquisition is not completed

If the Company does not complete the Acquisition, it will continue with its current business activities and will investigate, and as required, undertake due diligence on, new opportunities to complement its existing business.

### 3.14 Independent Expert's Report

The Company appointed BDO Corporate Finance (WA) Pty Ltd (**BDO**) as an independent expert and commissioned it to prepare a report (**Independent Expert's Report**) to provide an opinion as to whether or not the Acquisition is fair and reasonable to the existing Shareholders.

The Independent Expert's Report was prepared to satisfy the requirements of section 611 of the Corporations Act which expressly prohibits a party (and its associates) acquiring a relevant interest (as defined in the Corporations Act) in more than 20% of the issued share capital of a public company without the approval of that company's shareholders unless a full takeover is made to all shareholders. The Majority Vendors will acquire a relevant interest in more than 20% of the issued share capital of the Company if Resolutions 1 to 5 (inclusive) are approved and the Acquisition is completed.

What is fair and reasonable must be judged by the independent expert in all the circumstances of the proposal. This requires taking into account the likely



advantages to Shareholders if the proposal is approved and comparing them with the disadvantages to them if the proposal is not approved.

BDO has concluded that the Acquisition is not fair but reasonable to Shareholders.

The Company strongly recommends that you read the Independent Expert's Report in full, a copy of which is in Schedule 8.

### **3.15 Directors' recommendation**

Mr Phil Kiely does not believe it is appropriate to make a recommendation as to whether or not Shareholders should approve Resolutions 1 to 5 (inclusive) as he has a personal interest in those Resolutions as he is associated with eCrucis Pty Ltd, a Minority Vendor.

It is the view of:

- (a) Mr Mark Pitts, a non-interested Director; and
- (b) Mr Peter Gunzburg, a Director who is proposing to participate in the Placement (completion of which is conditional on each of Resolutions 1 to 5 (inclusive) being approved),

that the Acquisition and the Placement:

- (c) will give Shareholders the opportunity to participate in an innovative business seeking to capitalise on its position as an early mover in provision of crowd-sourced and freelance news services; and
- (d) has the potential to enhance the existing business operations of the Company by providing the opportunity for the Company's internet terminals/kiosks and WiFi hotspots to become media collection and distribution points complementing the Newzulu business,

and accordingly Messrs Pitts and Gunzburg recommend that Shareholders vote in favour of Resolutions 1 to 5 (inclusive).

### **3.16 Interdependence of Resolutions**

Resolutions 1 to 5 (inclusive) are interdependent, meaning that Shareholders must pass all of Resolutions 1 to 5 (inclusive) for the Acquisition to proceed.

Resolutions 9 and 11 are subject to Shareholder approval of Resolutions 1 to 5 (inclusive).

### **3.17 Restricted Securities**

ASX has advised that Company that it is likely that all of the Vendor Shares issued to the Vendors (and the Directors Options to be issued to Mr Hartman) will be classified by ASX as restricted securities and, if so, would be required to be held in escrow for up to 12 months from the date of their issue. Accordingly, the Company will procure that each Vendor enters into a restriction agreement in the form in Appendix 9A of the Listing Rules. Execution of such agreements is a condition precedent to completion of the Acquisition (refer to Section 3.4).

### **3.18 Forward looking statements**

The forward looking statements in this Explanatory Memorandum are based on the Company's current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of the Company and the Directors, which could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward looking statements in this Explanatory Memorandum. These risks include but are not limited to, the risks detailed in Schedule 5. Forward looking statements include those containing words such as 'anticipate', 'estimates', 'should', 'will', 'expects', 'plans' or similar expressions.

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## **4. Resolution 1 – Change to Nature and Scale of Activities**

### **4.1 Background**

Resolution 1 seeks approval from Shareholders for a change to the nature and scale of the activities of the Company.

As detailed in Section 3.1, the Company has agreed to undertake the Acquisition, subject to the satisfaction of certain conditions precedent (refer to Section 3.4), including but not limited to, the obtaining of Shareholder approval.

Refer to Section 3 for further information on Newzulu and its business and the likely affect that the Acquisition will have on the Company.

Resolution 1 is an ordinary resolution. Resolution 1 is subject to the approval of Resolutions 2 to 5 (inclusive).

The Chairperson will cast all available proxies in favour of Resolution 1.

### **4.2 Listing Rule 11.1 requirements**

Chapter 11 of the Listing Rules requires Shareholders to approve any significant change in the nature or scale of an ASX listed company's activities. The completion of the Acquisition will have the effect of changing the nature, and increasing the scale, of the Company's activities.

Resolution 1 seeks Shareholder approval to allow the Company to complete the Acquisition thereby changing the nature and increasing the scale of its activities.

Where an ASX listed company seeks to change the nature or scale of its activities, it must:

- (a) under Listing Rule 11.1.1, notify ASX of the proposed change;
- (b) under Listing Rule 11.1.2, obtain shareholder approval to undertake the change, if required by ASX; and
- (c) under Listing Rule 11.1.3, meet the requirements of Chapters 1 and 2 of the Listing Rules as if the Company was applying for admission to the official list of ASX, if required by ASX.

ASX has confirmed that:

- (a) Listing Rule 11.1.2 does apply in respect to the Acquisition and that the Company does need to obtain Shareholder approval to undertake the change of scale and activities arising from the Acquisition; and
- (b) Listing Rule 11.1.3 does not apply in respect to the Acquisition and accordingly the Company does need to re-comply with the requirements of Chapters 1 and 2 of the Listing Rules.

A voting exclusion statement is included in the Notice.

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## **5. Resolution 2 – Approval of issue of securities to Majority Vendors**

### **5.1 General**

Resolution 2 seeks Shareholder approval for the issue of the Majority Vendor Securities as follows:

- (a) 155,228,686 Shares to the Majority Vendors (or their nominees); and
- (b) 20,000,000 Director Options to Mr Alex Hartman (or his nominee),

in accordance with the terms of the Sale Agreement and otherwise on the terms and conditions in this Explanatory Memorandum.

Refer to Section 3 for further details regarding the background to Resolution 2.

Resolution 2 is an ordinary resolution. Resolution 2 is subject to the approval of Resolutions 1 and 3 to 5 (inclusive).

The Chairperson will cast all available proxies in favour of Resolution 2.

### **5.2 Listing Rule 7.1**

Listing Rule 7.1 provides, subject to certain exceptions, that shareholder approval is required for any issue of equity securities by a listed company, where the equity securities proposed to be issued represent more than 15% of the Company's ordinary securities then on issue.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in a general meeting pursuant to item 7 of section 611 of the Corporations Act (refer to Listing Rule 7.2 exception 16). The proposed issue of the Majority Vendor Securities are being approved under item 7 of section 611 of the Corporations Act and accordingly the applicable Listing Rule 7.1 exception applies in relation to the issue.

### **5.3 Section 208 of Corporations Act**

In accordance with section 208 of the Corporations Act, to give a financial benefit to a related party the Company must obtain Shareholder approval, unless the giving of the financial benefit falls within an exception in sections 210 to 216 of the Corporations Act.

Gandalf Holding (NSW) Pty Ltd as Trustee for the Gandalf Trust and Matilda Media Pty Ltd as Trustee for the Matilda Media Trust, each of whom are Majority Vendors

and companies controlled by proposed Director, Mr Alex Hartman, are related parties of the Company for the purposes of section 208 of the Corporations Act.

The Directors have formed the view that Shareholder approval under section 208 of the Corporations Act is not required for the proposed issue of the Majority Vendor Securities to the above parties as the exception in section 210 of the Corporations Act applies. The Directors have determined that the Majority Vendor Securities will be issued to the above parties on arms' length terms.

#### 5.4 Section 611 of the Corporations Act

- (a) Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in the issued voting shares of a company if, because of the acquisition, that person's or another person's voting power in the company increases from:
  - (i) 20% or below to more than 20%; or
  - (ii) a starting point that is above 20% and below 90%.
- (b) The voting power of a person in a company is determined by reference to section 610 of the Corporations Act. A person's voting power in a company is the total of the votes attaching to the shares in the company in which that person and that person's associates (within the meaning of the Corporations Act) have a relevant interest.
- (c) Under section 608 of the Corporations Act a person will have a relevant interest in shares if:
  - (i) the person is the registered holder of the shares;
  - (ii) the person has the power to exercise or control the exercise of votes or disposal of the shares; or
  - (iii) the person has over 20% of the voting power in a company that has a relevant interest in shares, then the person has a relevant interest in said shares.
- (d) For the purpose of determining who is an associate it is necessary to consider section 12 of the Corporations Act. Any reference in Chapters 6 to 6C of the Corporations Act to an associate is as that term is defined in section 12. The definition of 'associate' in section 12 is exclusive. If a person is an associate under section 11, 13 or 15 of the Corporations Act then it does not apply to chapters 6 to 6C. A person is only an associate for the purpose of chapter 6 to 6C if he is an associate under section 12.
- (e) Under section 12 of the Corporations Act, a person (**first person**) will be an associate of the other person (**second person**) if:
  - (i) the first person is a body corporate and the second person is:
    - (A) a body corporate the first person controls;
    - (B) a body corporate that controls the first person: or
    - (C) a body corporate that is controlled by an entity that controls the first person;

- (ii) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the board or the conduct of the affairs of the first person; and
  - (iii) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the affairs of the first person.
- (f) The Corporations Act defines 'control' and 'relevant agreement' very broadly as follows:
  - (i) under section 50AA of the Corporations Act "control" means the capacity to determine the outcome of decisions about the financial and operating policies of a company. In determining the capacity it is necessary to take into account the practical influence a person can exert and any practice or pattern of behaviour affecting the financial or operating policies of a company.
  - (ii) Under section 9 of the Corporations Act, "relevant agreement" means an agreement, arrangement or understanding:
    - (A) whether formal or informal or partly informal and partly informal;
    - (B) whether written or oral or partly written and partly oral; and
    - (C) whether or not having legal or equitable force and whether or not based on legal or equitable rights.
- (g) Associates are determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the company's business affairs.
- (h) Section 611 of the Corporations Act has exceptions to the prohibition in section 606 of the Corporations Act. Item 7 of section 611 of the Corporations Act provides a mechanism by which shareholders of a company may approve an issue of shares to a person which results in that person's or another person's voting power in the company increasing from:
  - (i) 20% or below to more than 20%; or
  - (ii) a starting point that is above 20% and below 90%.
- (i) Upon completion of the Acquisition, entities associated with:
  - (i) Mr Alex Hartman will hold 38.4% Shares (refer to Schedule 2); and
  - (ii) Mr Peter Scarf will hold 41.9% Shares (refer to Schedule 2).
- (j) For the purposes of the application of the above Corporations Act provisions to the Acquisition, the Directors, with the exclusion of Mr Kiely, have determined that they will regard each of Messrs Hartman and Scarf as an associate of each other and that Shareholder approval pursuant to item 7 of section 611 of the Corporations Act will be sought.

- (k) To comply with the requirements of the Corporations Act (as contained in ASIC Regulatory Guide 74), the Company provides the information in this Section 5 to Shareholders in relation to Resolution 2.

## **5.5 Information required by item 7 of section 611 of the Corporations Act and ASIC Regulatory Guide 74**

The information that Shareholders require under item 7 of section 611 of the Corporations Act and ASIC Regulatory Guide 74 is as follows:

- (a) **The identity of the allottees and any person who will have a relevant interest in the Majority Vendor Securities to be allotted.**

Refer to Part A of Schedule 2 for the identity of the allottees (being the Majority Vendors) and any persons who will have a relevant interest in the Shares to be allotted.

The Director Options will be issued to Mr Alex Hartman (or his nominee).

- (b) **Full particulars (including the number and percentage) of the Shares in which the Majority Vendors have or will have a relevant interest immediately before and after the Acquisition.**

None of the Majority Vendors have a relevant interest in the securities of the Company as at the date of the Notice.

Following completion of the Acquisition, the Majority Vendors will hold 155,228,686 Shares. Refer to Schedule 2 for details of the Majority Vendors and the number of Shares to be issued to each of them.

Assuming the requisite Shareholder approvals are obtained Messrs Hartman and Scarf and their associates will have a combined voting power of 46.01% in the Company upon completion of the Acquisition (and the Placement). In addition, Mr Hartman (or his nominee) will hold 20,000,000 Director Options. If all of these Director Options are exercised, Messrs Hartman and Scarf and their associated will have a combined voting power of 49.03% in the Company. Refer to Sections 3.3 and 3.6 for further information.

- (c) **The identity, associations (with the Majority Vendors and their associates) and qualifications of any person who is intended to become a Director if Shareholders approve the Resolutions relating to the Acquisition (being Resolutions 1 to 5 (inclusive)).**

It is proposed that Mr Hartman will be appointed as a Director. Refer to Section 3.6. Mr Hartman is an associate of each of the other Majority Vendors.

- (d) **The Majority Vendors' intentions regarding the future of the Company if Shareholders approve the Resolutions relating to the Acquisition (being Resolutions 1 to 5 (inclusive)).**

Other than as disclosed in this Explanatory Memorandum, Newzulu and the Majority Vendors have advised the Company that the Majority Vendors:

- (i) have no current intention to make any significant change to the existing business of the Company;

- (ii) have no current intention to inject further capital into the Company;
  - (iii) intend that the Board composition will be in accordance with that detailed in Section 3.6;
  - (iv) intend to support the strengthening of the Company's management through integration with the Company's existing management team and otherwise to continue to employ the current employees and consultants of the Company;
  - (v) do not intend for any property be transferred between the Company and the Majority Vendors or any person associated with any of them; and
  - (vi) have no current intention to redeploy the fixed assets of the Company.
- (e) **Particulars of the terms of the proposed issue and allotment of the Majority Vendor Securities and details of the terms of any other relevant agreement between any of the Majority Vendors and the Company or any of their associates which is conditional upon, or directly or indirectly dependent on, Shareholder approval of the Resolutions relating to the Acquisition (being Resolutions 1 to 5 (inclusive)).**

Refer to Section 3 for details of the Sale Agreement.

There are no other contracts or proposed contracts between the Company and any of the Majority Vendors or their associates which are conditional upon, or directly or indirectly dependent on, the Shareholders' approval to the proposed allotment of the Majority Vendor Securities, save for an agreement between the Company, Mr Hartman and others in respect to Mr Hartman's engagement as the managing director of the Company to be effective following completion of the Acquisition.

Newzulu is also party to a loan agreement with Mr Peter Scarf, whereby Mr Scarf will receive \$49,764 from Newzulu upon completion of the Acquisition as partial repayment of the amounts loaned by him to Newzulu under that loan agreement (**Loan Agreement**).

Refer to Schedule 4 for further details of the above arrangements.

- (f) **When the allotment of the Majority Vendor Securities to the Majority Vendors is to be made.**

The Majority Vendor Securities are required to be issued under the Sale Agreement at completion of the Sale Agreement which is to occur on the day that is two business days after the date on which all of the conditions precedent in Section 3.4 have been satisfied or waived.

- (g) **An explanation of the reasons for the proposed issue and allotment of the Majority Vendor Securities to the Vendors.**

The Majority Vendor Securities are being issued as consideration for the acquisition of the entire issued share capital of Newzulu. The Director Option component is also issued in respect to Mr Hartman's engagement as the managing director of the Company.

(h) **The interests of the Directors in Resolution 2.**

Mr Peter Gunzburg is proposing to participate in the Placement, completion of which is conditional on each of Resolutions 1 to 5 (inclusive) being approved, and accordingly he has an interest in Resolution 2.

Mr Phil Kiely is associated with a Minority Vendor (refer to Section 7) and accordingly has an interest in Resolution 2 (as completion of the Acquisition is subject to and conditional upon, amongst other things, Resolution 2 being approved).

Mr Mark Pitts has no interest in Resolution 2.

(i) **Identity of the Directors who approved or voted against the proposal to put Resolution 2 to Shareholders.**

All of the Directors approved the proposal to put Resolution 2 to Shareholders.

(j) **Any intention of the Majority Vendors or their associates to change significantly the financial or dividend policies of the Company.**

Newzulu and the Majority Vendors have advised that Company that the Majority Vendors have no current intention to change the financial or dividend policies of the Company.

(k) **Recommendation of each Director as to whether Shareholders should approve the Acquisition.**

Refer to Section 3.15.

(l) **An analysis of whether the proposed allotment of Majority Vendor Securities to the Majority Vendors is fair and reasonable when considered in the context of the Shareholders other than the Vendors and their associates.**

Refer to Sections 3.14 and 5.7 and Schedule 8.

## **5.6 Advantages and disadvantages of issuing the Majority Vendor Securities to the Majority Vendors**

Refer to Section 3.10 for a non-exhaustive list of advantages that Directors consider may be relevant to a Shareholder's determination on how to vote on Resolution 2.

Refer to Section 3.11 for a non-exhaustive list of disadvantages that Directors consider may be relevant to a Shareholder's determination on how to vote on Resolution 2.

## **5.7 Independent Expert's Report**

As detailed in Section 3.14, the Company appointed BDO as an independent expert and commissioned it to prepare the Independent Expert's Report to provide an opinion as to whether or not the Acquisition is fair and reasonable to the existing Shareholders.

BDO has concluded that the Acquisition is not fair but reasonable to Shareholders.



The Company strongly recommends that you read the Independent Expert's Report in full, a copy of which is in Schedule 8

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## **6. Resolution 3 – Approval of issue of securities to Minority Vendors**

### **6.1 General**

Resolution 3 seeks Shareholder approval for the issue of 18,551,421 Shares to the Minority Vendors (or their nominees) save for eCrucis Pty Ltd, a company associated with Mr Phil Kiely (and the subject of Resolution 4). The Shares are proposed to be issued in accordance with the terms of the Sale Agreement and otherwise on the terms and conditions in this Explanatory Memorandum.

Resolution 3 is an ordinary resolution. Resolution 3 is subject to the approval of Resolutions 1, 2, 4, and 5.

The Chairperson will cast all available proxies in favour of Resolution 3.

### **6.2 Listing Rule 7.1**

As detailed in Section 5.2, Listing Rule 7.1 provides, subject to certain exceptions, that shareholder approval is required for any issue of equity securities by a listed company, where the equity securities proposed to be issued represent more than 15% of the Company's ordinary securities then on issue.

The effect of approving Resolution 3 will be to allow the Directors to issue the Shares detailed in Section 6.1 during the three month period after the Meeting (or a longer period, if allowed by ASX), without using up the Company's 15% placement capacity under Listing Rule 7.1.

### **6.3 Specific Information Required by Listing Rule 7.3**

For the purposes of Shareholder approval of the issue of the Shares and the requirements of Listing Rule 7.3, information is provided as follows:

- (a) A maximum of 18,551,421 Shares will be issued.
- (b) The Shares will be issued no later than three months after the date of the Meeting (or such longer period of time as ASX may in its discretion allow).
- (c) The Shares will each be issued at an issue price of nil.
- (d) The Shares will be issued to the Minority Vendors (with the exception of eCrucis Pty Ltd) each of whom are neither related parties nor associates of related parties of the Company.
- (e) The Shares will be fully paid ordinary shares and will rank equally in all respects with the Company's existing Shares on issue.
- (f) No funds will be raised from the issue of the Shares as they are being issued as consideration for the Acquisition (refer to Section 3.3).
- (g) The allotment of the Shares will occur progressively.
- (h) A voting exclusion statement is included in the Notice.

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## **7. Resolution 4 – Approval of issue of securities to eCrucis Pty Ltd**

### **7.1 General**

Resolution 4 seeks Shareholder approval for the issue of 4,450,870 Shares to eCrucis Pty Ltd, a Minority Vendor and a company associated with Mr Phil Kiely, a Director. The Shares are proposed to be issued in accordance with the terms of the Sale Agreement and otherwise on the terms and conditions in this Explanatory Memorandum.

Resolution 4 is an ordinary resolution. Resolution 4 is subject to the approval of Resolutions 1 to 3 (inclusive) and 5.

The Chairperson will cast all available proxies in favour of Resolution 4.

### **7.2 Section 208 of Corporations Act**

In accordance with section 208 of the Corporations Act, to give a financial benefit to a related party, the Company must obtain Shareholder approval unless the giving of the financial benefit falls within an exception in sections 210 to 216 of the Corporations Act.

Each of Mr Kiely and any entity that he controls, such as eCrucis Pty Ltd, are regarded as related parties of the Company by reason of Mr Kiely's position as a Director.

The issue of the Shares to eCrucis Pty Ltd constitutes the giving of a financial benefit for the purposes of section 208 of the Corporations Act and the Board has determined that the Company will seek Shareholder approval for the purposes of that section.

### **7.3 Listing Rule 10.11**

Listing Rule 10.11 restricts the Company's ability to issue securities to a related party unless approval is obtained from Shareholders. eCrucis Pty Ltd is regarded as a related party of the Company for the purposes of Listing Rule 10.11.

The effect of passing Resolution 4 will be to allow the Company to issue the Shares detailed in Section 7.1 to eCrucis Pty Ltd during the month after the Meeting (or a longer period, if allowed by ASX) without breaching Listing Rule 10.11 or using up the Company's 15% placement capacity under Listing Rule 7.1.

### **7.4 Specific information required by Listing Rule 10.13 and section 219 of the Corporations Act**

Listing Rule 10.13 and section 219 of the Corporations Act require that the following information be provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to Listing Rule 10.11 and Chapter 2E of the Corporations Act:

- (a) The related party to whom Shares will be issued are eCrucis Pty Ltd (or its nominee).
- (b) The maximum number of securities to be issued is 4,450,870 Shares.

- (c) The Company will issue the Shares no later than one month after the date of the Meeting (or such longer period of time as ASX may in its discretion allow).
- (d) The Shares will each have an issue price of nil.
- (e) The Shares will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing Shares on issue.
- (f) Mr Kiely, a Director, has an interest in Resolution 4 and therefore believe that it is inappropriate to make a recommendation. Messrs Pitts and Gunzburg, both Directors, recommend that Shareholders approve Resolution 4. Refer to Section 3.15 for further details.
- (g) The financial benefits associated with the issue of the Shares include the following:

The Independent Expert's Report has placed a valuation, as at the date of the Notice, on each Share following the Acquisition of \$0.0099. Accordingly, the value of the financial benefit Mr Kiely will receive is \$44,064 (being 4,450,870 Shares to be issued to eCrucis Pty Ltd (or its nominee) at \$0.0099 per Share) (refer to Section 11.6 of the Independent Expert's Report for further details). The value attributable to the financial benefit received by Mr Kiely is the same per Share as that received by the other Vendors. The Company strongly recommends that you read the Independent Expert's Report in full.

- (h) As at the date of the Notice neither Mr Kiely or his associates have relevant interests in any Shares.
- (i) The remuneration and emoluments from the Company to Mr Kiely for both the current financial year and previous financial year are as follows:

	Current Financial Year <sup>(1)</sup>		Previous Financial Year	
	Salary and Fees \$	Options \$	Salary and Fees \$	Options \$
Director				
Mr Phil Kiely <sup>(2)</sup>	\$3,633	Nil	N/A	N/A

(1) Financial year to date (1 July 2013 – 30 April 2014).

(2) Mr Kiely was appointed as a director on 28 March 2014.

- (j) If the Shareholders approve Resolution 4 (and Resolutions 1 to 3 (inclusive) and 5) the issue of the Shares to eCrucis Pty Ltd will result in a dilution of all other Shareholders' holdings in the Company of 1.2% on a fully diluted basis (on the basis that the Acquisition is completed, the Placement is completed, the securities the subject of Resolution 9 are issued and the Director Options the subject of Resolutions 7 and 8 are exercised).

- (k) Historical Share price information for the last 12 months is as follows:

	Price	Date
Highest	\$0.18	26 May 2014
Lowest	\$0.02	3 July 2013
Last	\$0.09	3 July 2014

- (l) No funds raised will be raised from the issue of the Shares as they are being issued as consideration for the Acquisition (refer to Section 3.3).
- (m) Other than the information above and otherwise in this Explanatory Memorandum, the Company believes that there is no other information that would be reasonably required by Shareholders to pass Resolution 4.
- (n) A voting exclusion statement is included in the Notice.

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## **8. Resolution 5 – Approval of issue of Placement Shares**

### **8.1 General**

Resolution 5 seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue of the Placement Shares to investors who are not related parties or associates of related parties of the Company.

Resolution 5 is an ordinary resolution. Resolution 5 is subject to the approval of Resolutions 1 to 4 (inclusive).

The Chairperson will cast all available proxies in favour of Resolution 5.

### **8.2 Listing Rule 7.1**

As detailed in Section 5.2, Listing Rule 7.1 provides, subject to certain exceptions, that shareholder approval is required for any issue of equity securities by a listed company, where the equity securities proposed to be issued represent more than 15% of the Company's ordinary securities then on issue.

The effect of approving Resolution 5 will be to allow the Directors to issue the Placement Shares during the three month period after the Meeting (or a longer period, if allowed by ASX), without using up the Company's 15% placement capacity under Listing Rule 7.1.

### **8.3 Specific Information Required by Listing Rule 7.3**

For the purposes of Shareholder approval of the issue of the Placement Shares and the requirements of Listing Rule 7.3, information is provided as follows:

- (a) A maximum of 75,000,000 Shares (being the Placement Shares) will be issued.
- (b) The Placement Shares will be issued no later than three months after the date of the Meeting (or such longer period of time as ASX may in its discretion allow).
- (c) The Placement Shares will each be issued at a price of \$0.04.

- (d) The Placement Shares will be issued to professional and sophisticated investors who are not related parties or associates of related parties of the Company save for Mr Peter Gunzburg (or his nominee) who intends, subject to approval of Resolution 6, to participate in the Placement.
- (e) The Placement Shares will be fully paid ordinary shares and will rank equally in all respects with the Company's existing Shares on issue.
- (f) The funds raised from the issue of the Placement Shares will be utilised by the Company for the development of the business of Newzulu, the Company's existing business operations and for working capital. Refer to Schedule 3 for further details.
- (g) The allotment of the Placement Shares will occur progressively.
- (h) A voting exclusion statement is included in the Notice.

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## **9. Resolution 6 – Approval of Directors' Participation in issue of Placement Shares**

### **9.1 General**

Resolution 6 seeks Shareholder approval pursuant to Listing Rule 10.11 and Chapter 2E of the Corporations Act to enable Mr Peter Gunzburg (or his nominee) to participate in the Placement on the same terms and conditions as offered to the other subscribers for the Placement Shares.

Subject to obtaining the approval of Shareholders, an aggregate of 2,500,000 Placement Shares will be issued to Mr Gunzburg (or his nominee).

If Shareholders do not approve Resolution 6, Mr Gunzburg (or his nominee) will not be issued any Placement Shares

Resolution 6 is an ordinary resolution. Resolution 6 is subject to Resolutions 1 to 5 (inclusive) and 12 being approved.

The Chairperson will cast all available proxies in favour of Resolution 6.

### **9.2 Section 208 of Corporations Act**

As detailed in Section 7.2, in accordance with section 208 of the Corporations Act, to give a financial benefit to a related party, the Company must obtain Shareholder approval unless the giving of the financial benefit falls within an exception in sections 210 to 216 of the Corporations Act.

Mr Gunzburg is regarded as a related party of the Company by reason of his position as a Director.

The issue of Placement Shares to Mr Gunzburg constitutes the giving of a financial benefit for the purposes of section 208 of the Corporations Act and the Board has determined that the Company will seek Shareholder approval for the purposes of that section.

### **9.3 Listing Rule 10.11**

Shareholder approval is required under Listing Rule 10.11 because Mr Gunzburg is a related party of the Company.

Listing Rule 10.11 restricts the Company's ability to issue securities to a related party unless approval is obtained from Shareholders. The effect of passing Resolution 6 will be to allow the Company to issue Placement Shares to Mr Gunzburg (or his nominee) during the month after the Meeting (or a longer period, if allowed by ASX) without breaching Listing Rule 10.11 or utilising the Company's 15% placement capacity under Listing Rule 7.1 (if available).

As approval of Shareholders is being sought pursuant to Listing Rule 10.11, Shareholder approval under Listing Rule 7.1 is not required, in accordance with Exception 14 of Listing Rule 7.2.

#### **9.4 Specific information required by Listing Rule 10.13 and section 219 of the Corporations Act**

Listing Rule 10.13 and section 219 of the Corporations Act require that the following information be provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to Listing Rule 10.11 and Chapter 2E of the Corporations Act:

- (a) The related party to whom Placement Shares will be issued is Mr Gunzburg (or his nominee).
- (b) The maximum number of securities to be issued is as follows:

Director (or nominee)	Placement Shares
Mr Peter Gunzburg	2,500,000

- (c) The Company will issue the Placement Shares no later than one month after the date of the Meeting (or such longer period of time as ASX may in its discretion allow).
- (d) The Placement Shares will have an issue price of \$0.04 each. Accordingly, the total amount to be paid by Mr Peter Gunzburg is \$100,000.
- (e) The Placement Shares will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing Shares on issue.
- (f) Mr Gunzburg has an interest in Resolution 6 and therefore believes that it is inappropriate to make a recommendation. Messrs Pitts and Kiely, both Directors, recommend that Shareholders approve Resolution 6 on the basis that the participation of Mr Gunzburg in the Placement aligns his interests with the Company and will enable the Company to raise additional funding under the Placement.
- (g) The financial benefits associated with the issue of the Placement Shares include the following:

Based on the valuation in the Independent Expert's Report, as at the date of the Notice, of \$0.0099 per Share following the Acquisition (refer to Section 11.6 of the Independent Expert's Report for further details), the value of the Shares being issued under the Placement to Mr Gunzburg will be \$24,750 (being 2,500,000 Shares to be issued to Mr Gunzburg (or his nominee) valued at \$0.0099 per Share).

Based on the Share price as at the date of this Notice of \$0.09, the value of the Shares being issued under the Placement to Mr Gunzburg (or his

nominee) will be \$225,000 (being 2,500,000 Shares to be issued to Mr Gunzburg (or his nominee) valued at \$0.09 per Share).

The Placement is being made to all allottees on the same terms and conditions, and the issue price of \$0.04 per Share under the Placement was agreed at the time of negotiating the Sale Agreement.

- (h) The current relevant interests in security holdings of Mr Gunzburg is as follows:

Director	Shares	Options
Mr Peter Gunzburg	10,158,284	100,000

- (i) The remuneration and emoluments from the Company to Mr Gunzburg for both the current financial year and previous financial year are as follows:

	Current Financial Year <sup>(1)</sup>		Previous Financial Year	
Director	Salary and Fees \$	Options \$	Salary and Fees \$	Options \$
Mr Peter Gunzburg	10,924	Nil	43,600	778

(1) Financial year to date (1 July 2013 – 30 April 2014).

- (j) If the Shareholders approve the participation of Mr Gunzburg in the Placement, the issue of the Placement Shares to him will result in a dilution of all other Shareholders' holdings in the Company of 0.7% on a fully diluted basis (on the basis that the Acquisition is completed, the Placement is completed, the securities the subject of Resolution 9 are issued and the Director Options the subject of Resolutions 7 and 8 are exercised).
- (k) Historical Share price information for the last 12 months is as follows:

	Price	Date
Highest	\$0.18	26 May 2014
Lowest	\$0.02	3 July 2013
Last	\$0.09	3 July 2014

- (l) The funds raised will be utilised by the Company for the development of the business of Newzulu, the Company's existing business operations and for working capital. Refer to Schedule 3 for further details.
- (m) Other than the information above and otherwise in this Explanatory Memorandum, the Company believes that there is no other information that would be reasonably required by Shareholders to pass Resolution 6.
- (n) A voting exclusion statement is included in the Notice.

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## **10. Resolution 7 – Approval of issue of Director Options to Current Director**

### **10.1 General**

Resolution 7 seeks Shareholder approval pursuant to Listing Rule 10.11 and Chapter 2E of the Corporations Act for the issue of 2,000,000 Director Options to Mr Peter Gunzburg (or his nominee). As detailed above, Mr Gunzburg is a Director. The Director Options are proposed to be issued to Mr Gunzburg in lieu of outstanding Director fees owing to Mr Gunzburg of \$30,000 as at 31 March, 2014.

If Shareholders do not approve Resolution 7, the Company will not issue the Director Options to Mr Gunzburg (or his nominee) and will instead pay him the outstanding Directors' fees in cash.

Resolution 7 is an ordinary resolution.

The Chairperson will cast all available proxies in favour of Resolution 7.

### **10.2 Section 208 of Corporations Act**

As detailed in Section 9.2:

- (a) in accordance with section 208 of the Corporations Act, to give a financial benefit to a related party, the Company must obtain Shareholder approval unless the giving of the financial benefit falls within an exception in sections 210 to 216 of the Corporations Act; and
- (b) Mr Gunzburg is a related party of the Company by reason of his position as a Director.

The issue of Director Options to Mr Gunzburg (or his nominee) constitutes the giving of a financial benefit for the purposes of section 208 of the Corporations Act and the Board has determined that the Company will seek Shareholder approval for the purposes of that section.

### **10.3 Listing Rule 10.11**

Listing Rule 10.11 restricts the Company's ability to issue securities to a related party unless approval is obtained from Shareholders. The effect of passing Resolution 7 will be to allow the Company to issue the Director Options to Mr Gunzburg during the month after the Meeting (or a longer period, if allowed by ASX) without breaching Listing Rule 10.11 or using up the Company's 15% placement capacity under Listing Rule 7.1.

As a Director, Mr Gunzburg is regarded as a related party of the Company for the purposes of Listing Rule 10.11.

As approval of Shareholders is being sought pursuant to Listing Rule 10.11, Shareholder approval under Listing Rule 7.1 is not required, in accordance with Exception 14 of Listing Rule 7.2.



#### **10.4 Specific information required by Listing Rule 10.13 and section 219 of the Corporations Act**

Listing Rule 10.13 and section 219 of the Corporations Act require that the following information be provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to Listing Rule 10.11 and Chapter 2E of the Corporations Act:

- (a) The related party to whom Director Options will be issued is Mr Gunzburg (or his nominee).
- (b) The maximum number of securities to be issued is 2,000,000 Director Options.
- (c) The Company will issue the Director Options no later than one month after the date of the Meeting (or such longer period of time as ASX may in its discretion allow).
- (d) Each Director Option will have an issue price of nil. Each Director Option entitles the holder to subscribe for one Share at an exercise price of \$0.10 on or before 30 June 2017. Refer to Schedule 7 for the entire terms and conditions of the Director Options. The Shares issued on exercise of the Director Options will rank equally with the Company's existing Shares then on issue.
- (e) Mr Gunzburg has an interest in Resolution 7 and therefore believes that it is inappropriate to make a recommendation. Messrs Kiely and Pitts, both Directors, recommend that Shareholders approve Resolution 7 on the basis that it allows the Company not to have to account in cash for the Director fees of \$30,000 owing to Mr Gunzburg as at 31 March, 2014.
- (f) The financial benefits associated with the issue of the Director Options include the following:

Mr Gunzburg elected to defer his Director fees to assist in preserving the cash of the Company for working capital purposes. At the time of negotiating the terms of this transaction and the issue of options to be issued in lieu of Director fees the Company's Share price was trading in a range between \$0.05 and \$0.055.
- (g) The Black Scholes Pricing Model has been used to value the Director Options, with the following assumptions:
  - (i) the risk free rate of 2.86% is the Reserve Bank of Australia's cash rate;
  - (ii) the underlying security spot price of \$0.135 used for the purposes of this valuation is based on the Share price of the Company as at the date of the Notice;
  - (iii) the estimated volatility used in the valuation is 85%;
  - (iv) for the purposes of the valuation, no future dividend payments have been forecast; and
  - (v) for the purposes of the valuation it is assumed that the Director Options will be issued on 31 July 2014.

Based on the above, the total of the fair value of the Director Options is \$170,000 at 12 June 2014.

- (h) The current relevant interests in security holdings of Mr Gunzburg are detailed in Section 9.4.
- (i) The remuneration and emoluments from the Company to Mr Gunzburg for both the current financial year and previous financial year are detailed in Section 9.4.
- (j) If the Shareholders approve the issue of the Director Options to Mr Gunzburg, the exercise of the Director Options will result in a dilution of all other Shareholders' holdings in the Company of:
  - (i) 0.5% on a fully diluted basis (on the basis that the Acquisition is completed, the Placement is completed, the securities the subject of Resolution 9 are issued and the Director Options the subject of Resolutions 7 and 8 are exercised).
- (k) Refer to Section 9.4. for historical Share price information for the last 12 months.
- (l) No funds will be raised from the issue of the Director Options as they are being issued in lieu of payment of \$30,000 of Director fees owing to Mr Gunzburg.
- (m) Other than the information above and otherwise in this Explanatory Memorandum, the Company believes that there is no other information that would be reasonably required by Shareholders to pass Resolution 7.
- (n) A voting exclusion statement is included in the Notice.

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## **11. Resolution 8 – Approval of issue of Director Options to Former Director**

### **11.1 General**

Resolution 8 seeks Shareholder approval pursuant to Listing Rule 10.11 and Chapter 2E for the issue of 2,000,000 Director Options to Mr Bill Zikou (or his nominee). Mr Zikou is a former Director. The Director Options are proposed to be issued to Mr Zikou in lieu of outstanding Director fees owing to Mr Zikou of \$30,000 as at the date he ceased to be a Director, being 4 April 2014.

If Shareholders do not approve Resolution 8, the Company will not issue the Director Options to Mr Zikou (or his nominee) and will instead pay him the outstanding Directors' fees in cash.

Resolution 8 is an ordinary resolution.

The Chairperson will cast all available proxies in favour of Resolution 8.

### **11.2 Section 208 of Corporations Act**

As detailed in Section 9.2, in accordance with section 208 of the Corporations Act, to give a financial benefit to a related party, the Company must obtain Shareholder approval unless the giving of the financial benefit falls within an exception in sections 210 to 216 of the Corporations Act.

Mr Zikou is a related party of the Company by reason of his position as a former Director.

The issue of Director Options to Mr Zikou (or his nominee) constitutes the giving of a financial benefit for the purposes of section 208 of the Corporations Act and the Board has determined that the Company will seek Shareholder approval for the purposes of that section.

### **11.3 Listing Rule 10.11**

Listing Rule 10.11 restricts the Company's ability to issue securities to a related party unless approval is obtained from Shareholders. The effect of passing Resolution 7 will be to allow the Company to issue the Director Options to Mr Zikou during the month after the Meeting (or a longer period, if allowed by ASX) without breaching Listing Rule 10.11 or using up the Company's 15% placement capacity under Listing Rule 7.1.

As a former Director, Mr Zikou is regarded as a related party of the Company for the purposes of Listing Rule 10.11.

As approval of Shareholders is being sought pursuant to Listing Rule 10.11, Shareholder approval under Listing Rule 7.1 is not required, in accordance with Exception 14 of Listing Rule 7.2.

### **11.4 Specific information required by Listing Rule 10.13 and section 219 of the Corporations Act**

Listing Rule 10.13 and section 219 of the Corporations Act require that the following information be provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to Listing Rule 10.11 and Chapter 2E of the Corporations Act:

- (a) The related party to whom Director Options will be issued is Mr Zikou (or his nominee).
- (b) The maximum number of securities to be issued is 2,000,000 Director Options.
- (c) The Company will issue the Director Options no later than one month after the date of the Meeting (or such longer period of time as ASX may in its discretion allow).
- (d) Each Director Option will have an issue price of nil. Each Director Option entitles the holder to subscribe for one Share at an exercise price of \$0.10 on or before 30 June 2017. Refer to Schedule 7 for the entire terms and conditions of the Director Options. The Shares issued on exercise of the Director Options will rank equally with the Company's existing Shares then on issue.
- (e) Each of the Directors recommends that Shareholders approve Resolution 8 on the basis that it allows the Company not to have to account in cash for the Director fees of \$30,000 owing to Mr Zikou.
- (f) The financial benefits associated with the issue of the Director Options include the following:

Mr Zikou elected to defer his Director fees to assist in preserving the cash of the Company for working capital purposes. At the time of negotiating the terms of this transaction and the issue of options to be issued in lieu of

Director fees the Company's Share price was trading in a range between \$0.05 and \$0.055.

- (g) The Black Scholes Pricing Model has been used to value the Director Options, with the following assumptions:
- (i) the risk free rate of 2.86% is the Reserve Bank of Australia's cash rate;
  - (ii) the underlying security spot price of \$0.135 used for the purposes of this valuation is based on the Share price of the Company as at the date of the Notice;
  - (iii) the estimated volatility used in the valuation is 85%;
  - (iv) for the purposes of the valuation, no future dividend payments have been forecast; and
  - (v) for the purposes of the valuation it is assumed that the Director Options will be issued on 31 July 2014.

Based on the above, the total of the fair value of the Director Options is \$170,000 at 12 June 2014.

- (h) The current relevant interests in security holdings of Mr Zikou are as follows:

Shares	Options
2,952,500	33,333

- (i) The remuneration and emoluments from the Company to Mr Zikou for both the current financial year and previous financial year are as follows:

Current Financial Year <sup>(1)</sup>		Previous Financial Year	
Salary and Fees \$	Options \$	Salary and Fees \$	Options \$
10,924	Nil	43,600	Nil

(1) Financial year to date (1 July 2013 – 4 April 2014).

- (j) If the Shareholders approve the issue of the Director Options to Mr Zikou, the exercise of the Director Options will result in a dilution of all other Shareholders' holdings in the Company of:
- (i) 0.5% on a fully diluted basis (on the basis that the Acquisition is completed, the Placement is completed, the securities the subject of Resolution 9 are issued and the Director Options the subject of Resolutions 7 and 8 are exercised).
- (k) Refer to Section 9.4. for historical Share price information for the last 12 months.
- (l) No funds will be raised from the issue of the Director Options as they are being issued in lieu of payment of \$30,000 of Director fees owing to Mr Zikou.

- (m) Other than the information above and otherwise in this Explanatory Memorandum, the Company believes that there is no other information that would be reasonably required by Shareholders to pass Resolution 8.
- (n) A voting exclusion statement is included in the Notice.

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## **12. Resolution 9 – Approval of issue of Adviser Shares**

### **12.1 General**

Resolution 9 seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue of the Adviser Shares to TMT Partners Pty Ltd and Wentworth Global Capital Partners Pty Ltd (together the **Advisers**) each of whom are neither related parties nor associates of related parties of the Company.

Resolution 9 is an ordinary resolution. Resolution 9 is subject to Resolutions 1 to 5 (inclusive) being approved.

The Chairperson will cast all available proxies in favour of Resolution 9.

### **12.2 Listing Rule 7.1**

As detailed in Section 6.2, Listing Rule 7.1 provides, subject to certain exceptions, that shareholder approval is required for any issue of equity securities by a listed company, where the equity securities proposed to be issued represent more than 15% of the Company's ordinary securities then on issue.

The effect of approving Resolution 9 will be to allow the Directors to issue the Adviser Shares during the three month period after the Meeting (or a longer period, if allowed by ASX), without using up the Company's 15% placement capacity under Listing Rule 7.1.

### **12.3 Specific Information Required by Listing Rule 7.3**

For the purposes of Shareholder approval of the issue of the Adviser Shares and the requirements of Listing Rule 7.3, information is provided as follows:

- (a) A maximum of 5,838,318 Shares (being the Adviser Shares) will be issued.
- (b) The Adviser Shares will be issued no later than three months after the date of the Meeting (or such longer period of time as ASX may in its discretion allow).
- (c) The Adviser Shares will each be issued at an issue price of nil.
- (d) The Adviser Shares will be issued to the Advisers, each of whom is a professional and sophisticated investor and is not a related party or an associate of a related party of the Company.
- (e) The Adviser Shares will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing Shares on issue.
- (f) No funds will be raised from the issue of the Adviser Shares as they are being issued for nil cash consideration but as part of the consideration for services provided by the Advisers in respect to the Acquisition.

- (g) The allotment of the Adviser Shares will occur as soon as practicable following the Meeting.
- (h) A voting exclusion statement is included in the Notice.

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## **13. Resolution 10 – Ratification of issue Prior Placement Shares**

### **13.1 General**

On 31 March 2014 the Company completed a placement to raise \$408,663 (before costs) through the issue of 10,216,588 Shares (being the Prior Placement Shares) to professional and sophisticated investors at \$0.04 per Share (**Prior Placement**). Refer to the Company's ASX announcement of 28 March 2014 and the Appendix 3B lodged with ASX on 31 March 2014.

The Prior Placement Shares were issued under the Company's 15% placement capacity in accordance with Listing Rule 7.1 (without the need for Shareholder approval).

Resolution 10 seeks Shareholder approval for the ratification of the issue of the Prior Placement Shares.

Resolution 10 is an ordinary resolution.

The Chairperson will cast all available proxies in favour of Resolution 10.

### **13.2 Listing Rule 7.4**

Listing Rule 7.4 allows an issue of securities made without the approval of Shareholders to be ratified by Shareholders, in order to refresh the 15% capacity under Listing Rule 7.1, provided at the time the issue was made, the issue was made within the Company's existing 15% capacity under Listing Rule 7.1.

The Prior Placement Shares were issued and allotted on 31 March 2014, Shareholder approval is therefore now sought pursuant to Listing Rule 7.4 to ratify the issue of the Prior Placement Shares so that the Company refreshes its capacity to issue up to 15% of its issued ordinary capital, if required, in the next 12 months without first requiring Shareholder approval for those future issues.

### **13.3 Specific Information Required by Listing Rule 7.5**

Listing Rule 7.5 requires that the following information be provided to Shareholders for the purpose of obtaining Shareholder approval pursuant to Listing Rule 7.4:

- (a) 10,216,588 Shares (being the Prior Placement Shares) were issued as part of the Prior Placement.
- (b) The Prior Placement Shares were each issued at a price of \$0.04.
- (c) The Prior Placement Shares are fully paid ordinary shares in the capital of the Company and rank equally to in all respect with the Company's existing Shares on issue.
- (d) The Prior Placement Shares were issued to professional and sophisticated investors who are not related parties or associates of related parties of the Company.

- (e) The funds raised from the issue of the Prior Placement Shares were, or will be, utilised in respect to transaction costs associated with the Acquisition and for working capital.
- (f) A voting exclusion statement is included in the Notice.

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## **14. Resolution 11 – Approval of Change of Name**

In accordance with section 157 of the Corporations Act, if a company wants to change its name it must pass a special resolution adopting a new name.

Resolution 11 seeks Shareholder approval for the change of the name of the Company to "Newzulu Limited".

The Directors consider that this change of name is appropriate given the Acquisition. It will also maintain the goodwill that Newzulu has built up in its brand name.

Resolution 11 is a special resolution and, therefore, requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative). Resolution 11 is subject to the approval of Resolutions 1 to 5 (inclusive) and completion of the Acquisition occurring.

The change of name will take effect from when ASIC alters the details of the Company's registration. It is intended that the change of name will occur as soon as reasonably practicable following completion of the Acquisition.

Subject to the approval of Resolution 11 the Directors will also request that ASX change the Company's ASX listing code from "PIE" to "NWZ". The ASX listing code "NWZ" has been reserved by the Company.

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## **15. Resolution 12 – Section 195 Approval**

In accordance with section 195 of the Corporations Act, a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a "material personal interest" are being considered.

Two of the Directors (Messrs Gunzburg and Kiely) have a material personal interest in the outcome of Resolution 6.

In the absence of this Resolution 12, the Directors may not be able to form a quorum at directors meetings necessary to carry out the terms of Resolution 6.

The Directors accordingly exercise their right under section 195(4) of the Corporations Act to put the issue to Shareholders to resolve.

Resolution 12 is an ordinary resolution.

## Schedule 1 – Definitions

In the Notice and this Explanatory Memorandum:

**\$** means Australian dollars.

**Acquisition** has the meaning given in Section 3.1.

**Advisers** has the meaning given in Section 12.

**Adviser Shares** has the meaning given in Resolution 9.

**ASIC** means the Australian Securities and Investment Commission.

**ASX** means ASX Limited (ABN 98 008 624 691) and, where the context permits, the Australian Securities Exchange operated by ASX Limited.

**Board** means the board of Directors from time to time.

**Chairperson** means the person appointed to chair the Meeting.

**Closely Related Party** means:

- (a) a child or spouse of the member;
- (b) has the meaning given in section 9 of the Corporations Act.

**Company** or **PIE** means PieNetworks Limited ACN 078 661 444.

**Company Material Adverse Change** means an event, occurrence or change after the date of the Sale Agreement not provided for by the Sale Agreement which individually or when aggregated with all other events, occurrences or changes after the date of the Sale Agreement has diminished or is reasonably likely to diminish the net tangible assets of the Company (together with its subsidiaries) by \$250,000 or more.

**Constitution** means the constitution of the Company.

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

**Directors** mean the directors of the Company.

**Director Options** means an Option having the terms and conditions detailed in Schedule 7.

**EST** means Eastern Standard Time, being the time in Sydney, New South Wales.

**Explanatory Memorandum** means this explanatory memorandum.

**Independent Expert's Report** has the meaning given in Section 3.14.

**Key Management Personnel** means persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

**Loan Agreement** has the meaning given in Section 5.5(e).

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

**Meeting** has the meaning given in the introductory paragraph of the Notice.



**Majority Vendor Securities** has the meaning given in Resolution 2.

**Majority Vendors** means those parties detailed in Part A of Schedule 2.

**Minority Vendors** means those parties detailed in Part B of Schedule 2.

**Newzulu** means Newzulu Limited ACN 163 097 407.

**Newzulu Material Adverse Change** means an event, occurrence or change after the date of the Sale Agreement not provided for by the Sale Agreement which individually or when aggregated with all other events, occurrences or changes after the date of the Sale Agreement has diminished or is reasonably likely to diminish the net tangible assets of Newzulu (together with its subsidiaries) by \$250,000 or more.

**Notice** means the notice of general meeting which this Explanatory Memorandum accompanies.

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

**Placement Shares** has the meaning given in Resolution 5.

**Prior Placement** has the meaning given in Section 13.1.

**Prior Placement Shares** has the meaning given in Resolution 10

**Proxy Form** means the proxy form attached to the Notice.

**Resolution** means a resolution in the Notice.

**Sale Agreement** has the meaning given in Section 3.1.

**Schedule** means a schedule to this Explanatory Memorandum.

**Section** means a section of this Explanatory Memorandum.

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

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

**Vendor Shares** has the meaning given in Section 3.3.

**Vendors** means the shareholders of Newzulu as at the date of the Notice, being the Majority Vendors and the Minority Vendors.

**VWAP** means volume weighted average price.

**WST** means Western Standard Time, being the time in Perth, Western Australia.

In the Notice and this Explanatory Memorandum, words importing the singular include the plural

## Schedule 2 – Vendors

### Part A – Majority Vendors

Majority Vendors	No. of Vendor Shares
Wyuna Group Pty Ltd as trustee for the Wyuna Group Trust <sup>(1)</sup>	44,643,574
Gandalf Holding (NSW) Pty Ltd as trustee for the Gandalf Trust <sup>(2)</sup>	35,643,743
Peter Scarf	9,809,080
Alexander Hartman	9,514,807
Matilda Media Pty Ltd as trustee for the Matilda Media Trust <sup>(3)</sup>	55,617,482

(1) This entity is associated with Mr Peter Scarf.

(2) This entity is associated with Mr Alexander Hartman.

(3) This entity is associated with Mr Alexander Hartman and Mr Peter Scarf.

### Part B – Minority Vendors

Minority Vendors	No. of Vendor Shares
Dominet Digital Investments Pty Ltd as trustee for the Dominet Digital Investments Family Trust	4,450,870
Belford Productions Pty Ltd	539,499
eCrucis Pty Ltd as trustee for the Kiely Family Super Fund	4,450,870
Hartpower Pty Limited as trustee for the Keith Hartman No 2 Superannuation Fund	7,123,844
David Hickie	539,499
Larang Pty Ltd as trustee for the AMT Family Trust	539,499
Campbell Handbury	539,499
Stefani and Co	895,079
Divonne Holmes a Court	1,422,317
G.B.D SC	1,422,317
Zoe Wane	539,499
Olivier Corgeron	539,499

### Schedule 3 - Proposed Expenditure Program and Budget of the Company

	\$
<b>AVAILABLE FUNDS</b>	
<b>Pro-forma Cash Balance</b>	<b>4,525,000</b>
(Assuming completion of transaction and approval of all associated resolutions being considered)	
<b>APPLICATION OF FUNDS</b>	
<b>Listed company costs</b>	
Costs associated with completion of acquisitions and pursuing new opportunities	(450,000)
General working capital	(400,000)
	<u>(850,000)</u>
<b>Transaction and placement costs</b>	
Costs associated with completion of the Newzulu acquisition	(737,000)
Repayment of loan from Mr Peter Scarf pursuant to the terms of the Loan Agreement <sup>(1)</sup>	(50,000)
Payment of accrued salary owing to Mr Alex Hartman pursuant to the Alex Hartman Consultancy Deed <sup>(2)</sup>	(130,000)
	<u>(917,000)</u>
<b>PieNetworks Ltd</b>	
Costs associated with ongoing operational and technical costs of the PieNetworks business unit	(528,000)
Costs associated with marketing and development of the PieNetworks business unit	(230,000)
	<u>(758,000)</u>
<b>Newzulu Limited</b>	
Costs associated with operational, journalistic and technical costs of the Newzulu business unit	(1,300,000)
Cost associated with establishing regional bureaus and websites	(350,000)
Costs associated with product development	(100,000)
Costs associated with marketing and development of the Newzulu business unit	(250,000)
	<u>(2,000,000)</u>
<b>Total</b>	<u><b>(4,525,000)</b></u>

(1) Refer to Schedule 4 for further details of the Loan Agreement.

(2) Being the approximate Australian dollar equivalent of the £72,000 owing to Mr Hartman under the Alex Hartman Consultancy Deed. Refer to Schedule 4 for further details.

The above table is a statement of current intentions as of the date of this Notice. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way the funds are applied on this basis.

## Schedule 4 – Material Contracts

### Alex Hartman Consultancy Deed

#### 1. Engagement as managing director of the Company

The Company has entered into a consultancy deed with Mr Alex Hartman, Gandalf Ventures Limited (**Gandalf**) (a company controlled by Mr Hartman) and a United Kingdom incorporated wholly owned subsidiary of Newzulu, Newzulu Limited (**Newzulu UK**) (**Consultancy Deed**) pursuant to which, amongst other things, the Company agreed to engage Mr Hartman as the managing director of the Company (via a consultancy arrangement with Gandalf), subject to the completion of the Acquisition.

#### 2. Remuneration

Pursuant to the Consultancy Deed, Mr Hartman will receive the following remuneration:

- (a) a base salary of:
  - (i) \$300,000 per annum; and
  - (ii) an additional \$95,000 per annum from:
    - (A) 1 January 2015, subject to the Company completing, subsequent to the completion of the Placement, one or more capital raisings which raise an aggregate amount of at least \$5,000,000 (**Further Capital Raising**); or
    - (B) if the Further Capital Raising has not been completed by 1 January 2015, the date upon which the Further Capital Raising is completed, provided that the Further Capital Raising has been completed within 12 months of the completion of the Acquisition.
- (b) an incentive package, to be negotiated between the parties, with a total maximum value in the calendar year commencing 1 January 2015 of \$197,500, subject to completion of the Further Capital Raising by the date that is 12 months after the completion of the Acquisition, and otherwise having regard to:
  - (i) comparable performance incentive packages provided to senior executives of ASX listed companies:
    - (A) operating in the same or similar industry classification;
    - (B) having a similar market capitalization; and
    - (C) as the Company following the Acquisition; and
  - (ii) any requirements arising under the Listing Rules, the Corporations Act or any other applicable law.
- (c) an accommodation package comprising:
  - (i) an accommodation allowance of €3,000 per month when Mr Hartman is resident in continental Europe;

- (ii) an accommodation allowance of £3,000 per month when Mr Hartman is resident in the United Kingdom;
- (iii) an accommodation allowance of \$4,000 per month when Mr Hartman is resident in Australia; or
- (iv) an accommodation allowance of \$5,000 per month when Mr Hartman is resident in North America or any other geographic location not contemplated above,

(collectively the **Fee**).

The value of the Fee will be reviewed annually on each anniversary date of the completion of the Acquisition.

### 3. Termination of Consultancy Deed

The Consultancy Deed provides that:

- (a) the Company may terminate the Consultancy Deed by providing 6 months' notice in writing (**Termination Notice**);
- (b) subject to the requirements of section 200G of the Corporations Act or any other legislation of a similar nature in force at the date of termination of the Consultancy Deed, if the Company terminates the Consultancy Deed for any reason, other than pursuant to a right of summary dismissal at common law, prior to the date that is two years following the commencement date of the Consultancy Deed (**Two Year Anniversary Date**), then the Company must pay Mr Hartman the balance of the Fee that would have been paid had the Consultancy Deed remained in force until the Two Year Anniversary Date; and
- (c) where the Company provides a Termination Notice, the Company may choose to require Mr Hartman to provide consultancy services for the length of the notice period, or alternatively, the Company may elect to immediately pay Mr Hartman a portion of the Fee in lieu of requiring him to provide consultancy services for whole or part of the length of the notice period.

### 4. Termination of Existing Agreement

- (a) Pursuant to the Consultancy Deed, the parties acknowledge and agree:
  - (i) the existing executive employment agreement between Newzulu UK, Mr Hartman and Gandalf dated 11 July 2013 (**Existing Agreement**) will be terminated and cease to have any force and effect; and
  - (ii) each will have no further rights or obligations under the Existing Agreement.
- (b) Within 5 days of the completion of the Acquisition, the Company, for and on behalf of Newzulu UK, will pay £72,000 (less any deductions for necessary income and taxes or other amounts owing to Newzulu UK) to Gandalf (or its nominee) in full and final satisfaction of all salary and other entitlements owing to Gandalf or Mr Hartman under the Existing Agreement as at the completion of the Acquisition.

## Loan Agreement

### 1. Loan Agreement between Peter Scarf and Newzulu

Newzulu and Peter Michael Scarf are parties to the Loan Agreement, pursuant to which Mr Scarf has loaned Newzulu \$320,000 and agreed to loan up to a further \$350,000 (**Loan**).

### 2. Interest

The Loan is interest free.

### 3. Security

The Loan is secured, with Newzulu granting Mr Scarf a security interest over all of its current and future assets. Newzulu's obligations under the Loan Agreement will rank in priority to all other present and future unsecured and unsubordinated obligations.

### 4. Repayment

Unless agreed otherwise, the Loan is repayable as follows:

- (a) \$49,764 to be repaid within 5 business days of completion of the Acquisition; and
- (b) the balance of the Loan to be repaid on the earlier of:
  - (i) 31 December 2015; and
  - (ii) 5 business days following completion of a further capital raising by the Company of a minimum \$3 million subsequent to the completion of the Placement.

## **Schedule 5 – Risk Factors**

The below list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by Shareholders should the Acquisition be completed. The risk factors below, and others not specifically referred to below, may in the future materially affect the financial performance of the Company and the value of the Company's securities. The Company cannot guarantee its future earnings and cannot provide a guaranteed level of return to investors.

### **1. Newzulu has a limited operating history**

Newzulu has a limited operating history and the potential of its business model is continuing to evolve and develop. No assurances can be given that Newzulu will achieve commercial viability through the successful implementation of its business plans.

In addition, there is the risk that Newzulu's technical platforms may not function as intended, including with respect to scalability and coping with increasing numbers of users or client numbers. This may lead to Newzulu's reputation suffering amongst users, contributors and its partners.

### **2. Funding requirements and dilution**

The Company will hold approximately \$4.2 million in cash following completion of the Acquisition, which will be used to fund the Company's post Acquisition business, marketing and growth plans. The Company anticipates that it will need to undertake further capital raisings in the future in order to progress its strategic growth objectives. It is expected that the future capital raisings will involve the issue of Shares which will dilute the interests of existing Shareholders.

In addition, if the Company incurs unexpected costs or is unable to generate sufficient operating income further funding may be required sooner than anticipated. The ability to raise the requisite funding through equity capital raisings is dependent upon market conditions at the time. Debt financing may not be available to support the scope and extent of proposed developments. The inability of the Company to obtain additional funding as and when required will likely result in restrictions on the Company's operating activities and will limit its ability to achieve its strategic growth objectives.

### **3. Vendors may sell their Vendor Shares**

Some Vendors may elect to sell their Vendor Shares (once they are not subject to escrow restrictions imposed by ASX (if any) – refer to Section 3.17). If one or more Vendors elect to sell a sufficiently large number of Vendor Shares, then this may negatively impact the price of Shares and decrease the realisable value of existing Shareholders' investment in the Company.

### **4. Reliance on key employees**

Newzulu's ability to effectively execute its growth strategies depends upon the performance and expertise of key employees, including those with valuable technological skills and specialist knowledge of Newzulu's business model and the crowd-sourced news and freelance journalism market. The departure of certain key employees, including Mr Alex Hartman, and any delay in their replacement or indeed any failure to adequately replace them, is likely to hinder Newzulu's ability to achieve its strategic growth objectives and financial performance goals. In addition, in order for Newzulu to achieve its growth objectives it will likely be required to engage the services of additional key management personnel with appropriate

experience and technological skills. There is no guarantee that Newzulu will be able to attract and retain appropriately qualified personnel in these areas. Any failure to do so is likely to also hinder Newzulu's ability to achieve its strategic growth objectives.

**5. Failure to deal with growth**

Newzulu's business has the potential to grow rapidly. If that occurs and the Company fails to properly manage that growth, then that failure could harm its business. Any failure to meet user and contributor demand properly could adversely affect the business, including demand for Newzulu's products/services, revenue collection, user and contributor satisfaction and public perception.

**6. Industry competition**

Newzulu's future performance may be affected by the level of competition in the crowd-sourced news market in which it operates. Whilst Newzulu is an early mover in the industry, new or existing competitors may be successful in offering alternative or preferred crowd-sourced news platforms for citizen and freelance journalists and photographers and may enter into strategic partnerships with recognised press associations which enhance their business at the expense of Newzulu.

**7. Attracting traffic to websites**

Newzulu's growth strategies and future revenues depend on, amongst other things, attracting sufficient web traffic to its websites. The level of web traffic to the Newzulu websites is likely to directly influence the number of contributors to the Newzulu platforms, the ability of Newzulu to enter into further agreements or arrangements with recognised press associations and its ability to generate revenue from its white-label platforms and advertising. Various factors can affect web traffic arriving at Newzulu's websites including, but not limited to:

- (a) marketing – if Newzulu's marketing and promotional efforts are not effective, a lack of web traffic is likely to result;
- (b) brand damage – if Newzulu suffers from reputational damage (refer to other risks in this Schedule 5), the level of web traffic may be adversely impacted; and
- (c) search engine traffic – search engines direct significant traffic to the Newzulu websites. Should any of the major search engines make changes to their algorithms and procedures that direct this traffic, Newzulu may experience a reduction in web traffic.

A decline in web traffic to the Newzulu websites could adversely impact Newzulu's ability generate new business and revenue streams and result in it failing to achieve its strategic growth objectives.

**8. User generated content**

Newzulu's business is based upon the contributions of citizen and freelance journalists and photographers to its crowd-sourced news platforms. Newzulu has screening and reporting mechanisms in place for identifying inappropriate or objectionable contributions. If these mechanisms fail to adequately identify any such contributions prior to publication, Newzulu may, by reason of its publication of the user generated content, be implicated in objectionable or illegal activity which exposes it to law enforcement investigation or action, or a civil dispute. Any such



occurrence may cause Newzulu to suffer financial loss and may lead to Newzulu's reputation suffering amongst users, contributors and its partners.

## **9. Reliance on core information technology and other systems**

The operation of Newzulu's platforms is dependent upon the performance, reliability and availability of its information technology and communication systems. This includes its core technologies such as computer servers and back-end processing systems. These systems may be adversely affected by a number of factors including major events such as acts of terrorism or war or a breakdown in utilities such as electricity and fibre optic cabling. Events of that nature may cause one or more of those core technologies to become unavailable. There are also internal and external factors that may adversely affect those systems and technologies such as natural disasters, misuse by employees or contractors or other technical issues. Newzulu's disaster recovery plans may not adequately address every potential event and its insurance policies may not cover loss or damage that Newzulu suffers as a result of a system failure.

Any damage to, or failure of, Newzulu's key systems can result in disruptions in Newzulu's ability to operate its various crowd-sourced news platforms. Such disruptions have the potential to reduce Newzulu's ability to generate revenue, impact consumer service levels and damage the Newzulu brand. This could adversely affect Newzulu's ability to generate new business and cause it to suffer financial loss.

## **10. Reliance on third party IT service provision**

Newzulu utilises equipment, software and services provided by third parties to deliver its various crowd-sourced news services. Significant or extended disruption of Newzulu's platforms caused by supplied equipment, software or service failure may reduce Newzulu's ability to generate revenue, impact consumer service levels and may damage the Newzulu brand. This could adversely affect Newzulu's ability to generate new business and cause it to suffer financial loss. Any mitigation of this loss via redress from third party suppliers may not be immediately available, if at all.

## **11. Protection of intellectual property**

Newzulu has developed a system architecture, specialised technology and algorithms for its business. In particular, Newzulu has developed methodologies for validating content ownership and credibility, live video streaming and integration between its different platforms. Newzulu has also sought and received protection of certain of its intellectual property, namely trade marks which have been registered in in Australia, Canada, the United States and Europe.

The laws relating to intellectual property assist to protect Newzulu's proprietary rights. However, trade mark registration, although an indicator of valid intellectual property ownership, is not indefeasible as any errors in the registration process can lead to registration being challenged or revoked. Accordingly, Newzulu cannot be certain that the validity, ownership or authorised use of intellectual property relevant to Newzulu's business will not be successfully challenged by third parties. In addition, there can be no guarantee that unauthorised use or copying of Newzulu's software, data, specialised technology or algorithms will be prevented.

## **12. Security breaches**

A malicious attack on Newzulu's systems, processes or people from external or internal sources could put the integrity and privacy of contributors' data and business systems used to run Newzulu at risk. The impact of loss or leakage of

contributor or business data could include potential service disruption, litigation and brand damage resulting in reduced or falling revenues. Whilst Newzulu follows best practice in relation to security policies, procedures, automated and manual protections, encryption systems and staff screening to minimise risks, there remains the risk that it may still be the subject of security breaches.

**13. Risks associated with overseas operations and expansion**

Newzulu is presently headquartered in Paris and has established bureaux (i.e. local representatives) in New York, London, Sydney, Dublin, Toronto, Los Angeles, Auckland, Montreal, Hong Kong, Tokyo, Vancouver and New Delhi. Should Newzulu seek to expand into additional overseas markets, it may require a physical presence in those countries and an associated increase in overheads and development and marketing costs. There is the risk that the costs of doing business in that market, including the costs of establishing a new base in-country, overseas regulatory compliance and the potential duplication of running costs for the business, are such that Newzulu's available working capital may be adversely impacted.

**14. Newzulu's financial accounts have not been audited**

As detailed above, Newzulu has a limited operating history, and its financial accounts have consequently not yet been externally audited. Accordingly, Shareholders should be aware that Newzulu's financial position may be different to that disclosed in Schedule 6 and that, when the next external audit of the Company's financial accounts is undertaken following completion of the Acquisition (which will at that point include Newzulu), additional liabilities that have not yet been recognised to date may be identified and/or Newzulu's asset position may be adversely different to that represented in Schedule 6.

## Schedule 6 – Unaudited Pro-Forma Balance Sheet

As at 30 April 2014

	Note	Pie Networks 30/04/2014	NewZulu 30/04/2014	Adjustments	Pro-forma 30/04/2014
In AUD					
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash and cash equivalents	2(a)	1,302,325	53,126	3,221,930	4,577,381
Trade and other receivables		42,905	165,136	-	208,041
Inventories		3,935	-	-	3,935
Current income tax assets		980	-	-	980
Restricted cash		124,458	-	-	124,458
Other current assets		24,836	16,567	-	41,403
<b>Total current assets</b>		<b>1,499,439</b>	<b>234,829</b>		<b>4,956,198</b>
<b>Non-current assets</b>					
Property, plant and equipment		9,902	11,402	-	21,304
Goodwill	2(b), 2(c)	-	-	15,410,013	15,410,013
<b>Total non-current assets</b>		<b>9,902</b>	<b>11,402</b>		<b>15,431,317</b>
<b>Total assets</b>		<b>1,509,341</b>	<b>246,231</b>		<b>20,387,515</b>
<b>Current Liabilities</b>					
Trade and other payables	2(a)	302,601	412,736	(130,000)	585,337
Loans and borrowings		2,499	-	-	2,499
Employee benefits		29,389	167,144	-	196,533
Deferred revenue		19,228	-	-	19,228
Provisions		61,874	-	-	61,874
<b>Total current liabilities</b>		<b>415,591</b>	<b>579,880</b>		<b>865,471</b>
<b>Non-current Liabilities</b>					
Loans and borrowings	2(a)	1,352	1,114,169	(493,933)	621,588
Employee benefits		29,663	-	-	29,663
<b>Total non-current liabilities</b>		<b>31,015</b>	<b>1,114,169</b>		<b>651,251</b>
<b>Total liabilities</b>		<b>446,606</b>	<b>1,694,049</b>		<b>1,568,416</b>
<b>Net assets</b>		<b>1,062,735</b>	<b>(1,447,818)</b>		<b>18,819,099</b>
<b>Equity</b>					
Share capital	2(b), 2(c)	30,617,047	14,536	(11,297,118)	19,334,465
Reserves		836,931	-	(684,112)	152,819
Accumulated losses		(30,391,243)	(1,462,354)	31,185,412	(668,185)
<b>Total equity</b>		<b>1,062,735</b>	<b>(1,447,818)</b>		<b>18,819,099</b>

## Notes to Unaudited Pro-forma Balance Sheet

### 1. Summary of Significant Accounting Policies

The significant accounting policies that have been adopted in the preparation of the pro-forma balance sheet are:

#### (a) Basis of Preparation

The consolidated historical financial information has been prepared in accordance with the recognition and measurement, but not all the disclosure, requirements specified by all Australian Accounting Standards and Interpretations and the Corporations Act 2001.

The financial information has also been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below.

The pro-forma balance sheet report is presented in Australian dollars, unless otherwise noted.

#### (b) Accounting Estimates and Judgements

In the application of the accounting policies the directors are required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by the directors in the application of the accounting policies that have a significant effect on the financial information are disclosed, where applicable, in the relevant notes to the financial information.

#### (c) Acquisition of Subsidiaries and Businesses

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards.

Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 are recognised at their fair value at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

The acquisition of Newzulu Limited ("Newzulu") has been reflected in the pro-forma Balance Sheet as at 30 April 2014. In accounting for the acquisition, the Group has taken guidance from the principles of AASB 3 Business Combinations ("AASB 3") and determined that Newzulu would be deemed to be the acquirer for accounting purposes. Accordingly, the transaction is accounted for as a reverse asset acquisition. As a result, the pro-forma consolidated Balance Sheet as at 30 April 2014 has been prepared as a continuation of the Newzulu financial statements, with Newzulu (as the accounting acquirer) accounting for the acquisitions as from 30 April 2014 (for the purposes of the pro-forma consolidated Balance Sheet).

**(d) Impairment of Assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**(e) Cash and Cash Equivalents**

"Cash and cash equivalents" includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments that are

readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

**(f) Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

**(g) Share Based Payments**

Share based payments are provided to directors, employees, consultants and other advisors and to acquire assets.

The fair value of options granted (determined using the Binomial option pricing model) is recognised as an expense or asset, as appropriate with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which option holders become unconditionally entitled to the options.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

**(h) Foreign Currency Translation**

**(i) Functional and presentation currency**

Items included in the financial information of each of the entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial information is presented in Australian dollars, which is the Company's functional and presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial

assets, are included in the available-for-sale investments revaluation reserve in equity.

## **2. Summary of Pro-Forma Adjustments**

The pro-forma Balance Sheet has been derived from the historical financial information as at 30 April 2014 adjusted to give effect to the following actual or proposed significant events and transactions by PieNetworks subsequent to 30 April 2014:

- (a) Placement monies of \$3,000,000 and additional borrowings net of working capital adjustments;
- (b) the issue of the Acquisition equity as proposed by this Notice including:
  - (i) 178,230,977 Shares to the Vendors;
  - (ii) 20,000,000 unlisted options to acquire Shares to Mr Alex Hartman (or his nominee) exercisable by payment of \$0.10 cents each on or before 30 June 2017;
  - (iii) the issue of 75,000,000 Shares to sophisticated investors pursuant to the Placement;
  - (iv) the issue of 4,000,000 unlisted options to acquire Shares to Messrs Peter Gunzburg and Bill Zikou (or their nominees) exercisable by payment of \$0.10 cents each on or before 30 June 2017; and
  - (v) the issue of 5,838,318 Shares to advisors in lieu of fees.
- (c) The acquisition accounting for this transaction will mean the application of AASB3 as noted in Note 1(c), accordingly, the transaction is accounted for as a reverse asset acquisition. As a result, the pro-forma consolidated Balance Sheet as at 30 April 2014 has been prepared as a continuation of the Newzulu financial statements, with Newzulu (as the accounting acquirer) accounting for the acquisitions as from 30 April 2014 (for the purposes of the pro-forma consolidated Balance Sheet).

The Directors believe that the proposed treatment of the Acquisition is reasonable in the circumstances, however Shareholders should note that for accounting purposes the values attributed to consideration and to the goodwill that results from the Acquisition will be dependent on a number of factors which will be determined in concert with the Company's auditors if and when the transaction proceeds.

## Schedule 7 – Terms and Conditions of Director Options

1. Each Director Option entitles the holder to acquire one Share.
2. The Director Options are exercisable at any time on or prior to 5.00pm EST on 30 June 2017 (**Option Exercise Period**) by completing an exercise form and delivering it together with the payment for the number of Shares in respect of which the Director Options are exercised to the registered office of the Company or to the share registry of the Company.
3. The Director Option exercise price is \$0.10 per Director Option (**Exercise Price**).
4. Subject to compliance with the Corporations Act (including but not limited to section 707(3) of the Corporations Act), the Director Options are freely transferable in whole or in part at any time prior to expiry.
5. The Shares issued on the exercise of Director Options will be issued not more than fourteen (14) days after receipt of a properly executed exercise notice and application monies. The Shares allotted pursuant to the exercise of a Director Option will rank equally with the then issued Shares in all respects. Official quotation of those Shares on the ASX will be sought.
6. There are no participation rights or entitlements inherent in the Director Options and holders will not be entitled to participate in new issues of capital offered to existing Shareholders during the currency of the Director Options.

However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least nine (9) business days after the issue is announced. This will give the holders of Director Options the opportunity to exercise their Director Options prior to the date for determining entitlements to participate in any such issue.

7. In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, all rights of the Director Option holder will be changed to the extent necessary to comply with the Listing Rules applying to the reconstruction of capital at the time of the reconstruction.
8. If the Company makes a bonus issue of Shares or other securities to Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):
  - (a) the number of Shares which must be issued on the exercise of a Director Option will be increased by the number of Shares which the Director Option holder would have received if the Director Option holder had exercised the Director Option before the record date for the bonus issue; and
  - (b) no change will be made to the Exercise Price.
9. If the Company makes an issue of Shares pro rata to Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the Exercise Price will be reduced according to the following formula:

$$\text{New Exercise Price} = \frac{O - E [P - (S + D)]}{N+1}$$

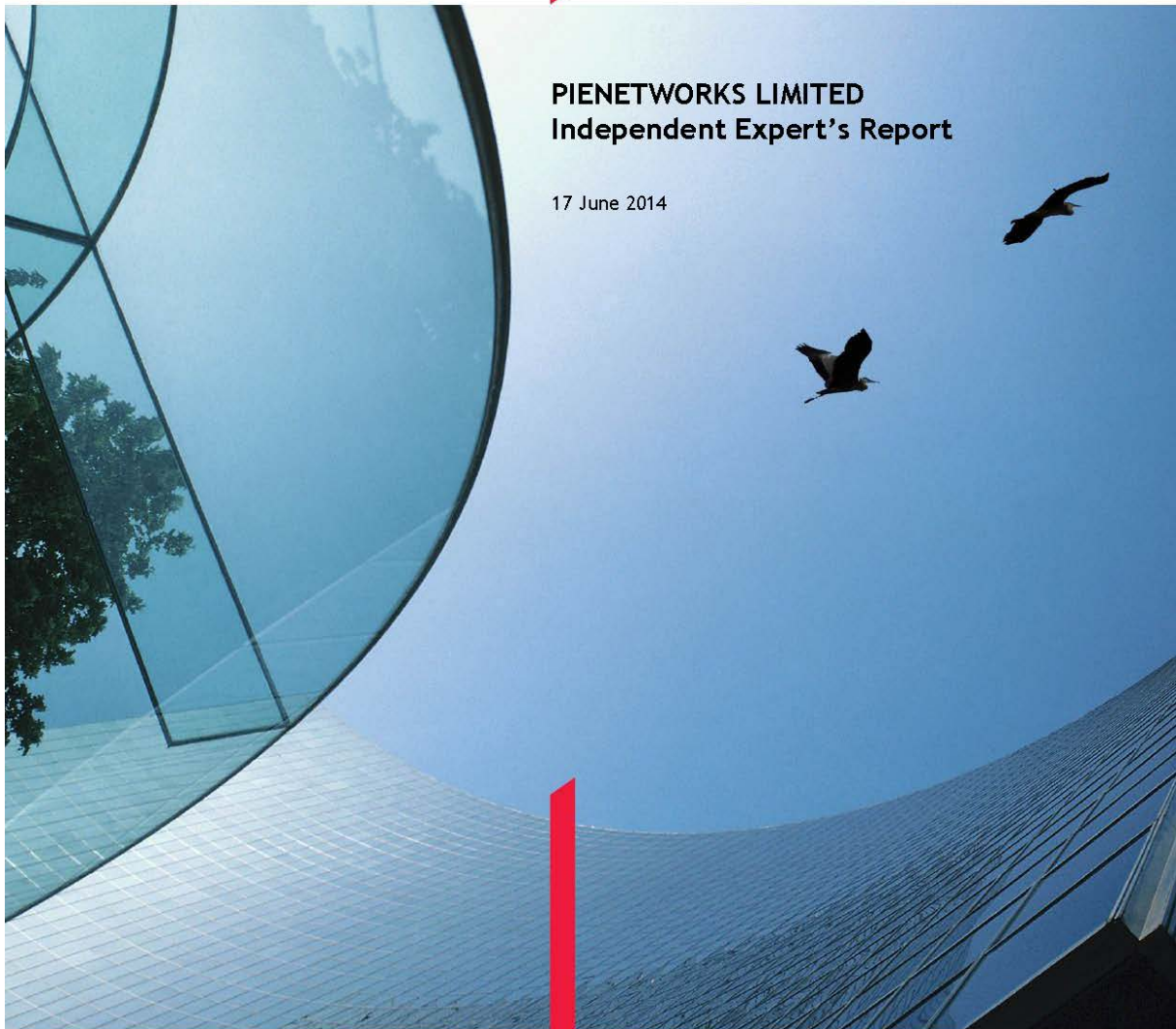
O = the old Exercise Price.



- E = the number of underlying Shares into which one Director Option is exercisable.
- P = average market price per Share weighted by reference to volume of the underlying Shares during the 5 trading days ending on the day before the ex rights date or ex entitlements date.
- S = the subscription price of a Share under the pro rata issue.
- D = the dividend due but not yet paid on the existing underlying Shares (except those to be issued under the pro rata issue).
- N = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

10. Reminder notices will be forwarded to the Director Option holders prior to the expiry of the Director Options. Director Options not exercised before the expiry of the Option Exercise Period will lapse.
11. The Director Options will be recorded on the Company's register of securities maintained at the share registry. The register will be open for inspection by a Director Option holder free of charge. Shares to be allotted on exercise of Director Options will be recorded on the Company's share register.
12. The Director Options will not be quoted on the ASX.
13. The Director Option holder, if appearing on the Company's register of securities at the relevant date, will be entitled to receive and will be sent all reports and accounts required to be laid before Shareholders in general meeting and all notices of general meetings and will have the right to attend but shall have no right to vote at such meetings.

## Schedule 8 – Independent Expert's Report



## Financial Services Guide

17 June 2014

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by PieNetworks Limited ('PIE') to provide an independent expert's report on the proposal to acquire 100% of Newzulu Limited through the issue of PIE shares. You will be provided with a copy of our report as a retail client because you are a shareholder of PIE.

### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

### Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$35,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from PIE for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

*Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter.

Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

Contact details

You may contact us using the details set out on page 1 of the accompanying report.

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Appendix 1 - Glossary

Appendix 2 - Valuation Methodologies

17 June 2014

The Directors  
PieNetworks Limited  
Suite 8, 7 The Esplanade  
Mount Pleasant WA 6153

Dear Directors

## INDEPENDENT EXPERT'S REPORT

### 1. Introduction

On 28 March 2014, PieNetworks Limited ('PIE' or 'the Company') announced it had entered into a non-binding agreement regarding the proposed acquisition of all of the issued shares in Newzulu Limited ('Newzulu'). On 16 May 2014, the Company announced it had entered into a binding share sale agreement with the majority shareholders of Newzulu ('Majority Vendors') pursuant to which the Company has agreed to:

- acquire all of the shares in Newzulu held by the Majority Vendors;
- make offers to each of the minority shareholders of Newzulu ('Minority Vendors') to acquire their shares in Newzulu.

The consideration payable by the Company for the Acquisition is the issue of an aggregate of 178,230,977 shares ('Vendor Shares'). The Vendor Shares comprise:

- 155,228,686 Shares to be issued to the Majority Vendors (or their nominees);
- 18,551,421 Shares to be issued to the Minority Vendors (or their nominees), excluding eCrucis Pty Ltd (a company associated with Mr Phil Kiely, a Director) ('eCrucis'); and
- 4,450,870 Shares to eCrucis (or its nominee) (collectively the 'Newzulu Vendors').

Pursuant to the terms of the Sale Agreement, Mr Alexander Hartman (or his nominee), a co-founder of Newzulu and a Majority Vendor (both directly and indirectly), will be issued 20 million options with an exercise price of \$0.10 and an expiry date of 30 June 2017 ('Director Options').

The issue of the Vendor Shares and the issue of the Director Options collectively are referred to as ('the Acquisition').

As a term of the Acquisition, shareholder approval will also be sought for the issue of 3,750,000 shares to TMT Partners Pty Ltd ('TMT') and 2,088,318 shares to Wentworth Global Capital Partners Pty Ltd ('Wentworth Capital') (collectively 'the Advisors') in consideration for corporate advisory services.

References in our report to the Acquisition assume that shareholder approval has been obtained for the issue of these shares to the Advisors and that these shares have been issued as part of the acquisition.

Section 4 of our report details the conditions precedent to the Acquisition.

Completion of the Acquisition requires the approval of PIE's shareholders. Shareholder approval pursuant to Section 611 Item 7 of the Corporations Act 2001 (Cth) (the 'Act') is required for a person (including their associates) to acquire voting power in a company of greater than 20%. The Company is seeking shareholder approval for the Acquisition pursuant to Section 611 Item 7 of the Act as the Majority Vendors are considered to be associates of one another for the purposes of the completion of the Acquisition.

## 2. Summary and Opinion

### 2.1. Purpose of the report

The directors of PIE have requested that BDO Corporate Finance (WA) Pty Ltd ('BDO') prepare an independent expert's report ('our Report') to express an opinion as to whether or not the proposed acquisition of Newzulu through the issue of PIE shares is fair and reasonable to the non associated shareholders of PIE ('Shareholders').

Our Report is prepared pursuant to Section 611 of the Corporations Act and is to be included in the Explanatory Memorandum for PIE in order to assist the Shareholders in their decision whether to approve the Acquisition.

Although no individual Newzulu Vendor is acquiring a relevant interest in the Company of greater than 20% as a result of the Acquisition, the Majority Vendors are considered associates of each other therefore they will be acquiring voting power in the Company of greater than 20% at completion of the Acquisition. The Company is seeking shareholder approval for the Acquisition pursuant to Section 611 Item 7 of the Act as the Majority Vendors are considered to be associates of one another for the purposes of the completion of the Acquisition.

### 2.2. Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC'), Regulatory Guide 74 'Acquisitions Approved by Members' ('RG 74'), Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Acquisition as outlined in the body of this report. We have considered:

- How the value of a PIE share prior to the Acquisition on a controlling basis compares to the value of a PIE share following the Acquisition on a minority basis;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Acquisition; and
- The position of Shareholders should the Acquisition not proceed.

### 2.3. Opinion

We have considered the terms of the Acquisition as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Acquisition is not fair but reasonable to Shareholders.

In our opinion, the Acquisition is not fair because the value of a PIE share prior to the Acquisition on a controlling interest basis is greater than the value of a PIE share following the Acquisition on a minority interest basis. We note that we have not placed a value on Newzulu as we do not have a reasonable basis for determining a meaningful value but had we done so, our opinion may have been different.

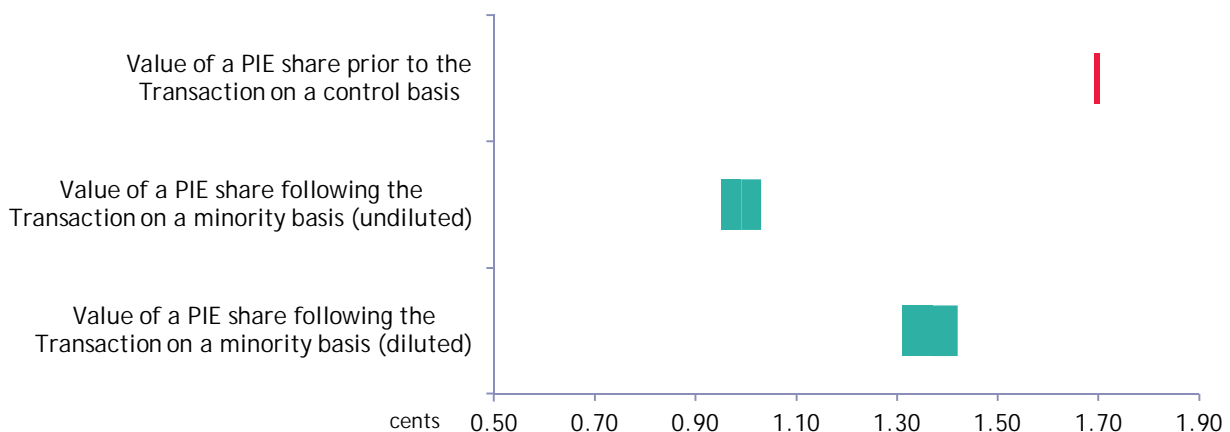
We consider the Acquisition to be reasonable because the advantages of the Acquisition to Shareholders are greater than the disadvantages. In particular, the Acquisition will provide the Company with the opportunity to enter a growth industry and to potentially capitalise on the development of Newzulu's intellectual property.

## 2.4. Fairness

In section 12, we determined that the value of a PIE share prior to the Acquisition on a controlling interest basis is less than the value of a PIE share following the Acquisition on a minority interest basis. This has been determined on both an undiluted basis and diluted basis as detailed below:

	Ref	Low cents	Preferred cents	High Cents
Value of a PIE share prior to the Acquisition on a controlling interest basis	10.3	1.69	1.69	1.69
Value of a PIE share following the Acquisition on a minority interest basis (undiluted)	11.6	0.95	0.99	1.03
Value of a PIE share following the Acquisition on a minority interest basis (diluted)	11.7	1.31	1.37	1.42

The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information the Acquisition is not fair for Shareholders.

We note that the value of a PIE share following the Acquisition on a diluted basis is greater than the value of a PIE share on an undiluted basis. The diluted scenario is dilutive to existing Shareholders on a percentage held basis, but is not dilutive in terms of value. This is a result of the exercise price of the



Director Options being greater than the value of a PIE share following the Transaction, therefore the cash generated from the exercise of the Director Options more than offsets the dilution arising from the issue of the shares.

## 2.5. Reasonableness

We have considered the analysis in section 13 of this report, in terms of both

- (a) advantages and disadvantages of the Acquisition; and
- (b) other considerations, including the position of Shareholders if the Acquisition does not proceed and the consequences of not approving the Acquisition.

In our opinion, the position of Shareholders if the Acquisition is completed is more advantageous than the position if the Acquisition is not completed. Accordingly, in the absence of any other relevant information we believe that the Acquisition is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.1.1	Creation of a complementary business model	13.2.1	The Acquisition is not fair
13.1.2	Integration of the businesses may provide synergies	13.2.2	Dilution of existing Shareholders' interests
13.1.3	Creation of a combined group with a more diversified business	13.2.3	Potential lower liquidity of shares
13.1.4	Opportunity for further growth of the combined businesses		
13.1.5	The Placement provides the Company with funding		
13.1.6	The Acquisition will increase the market capitalisation of the Company		

Other key matters we have considered include:

Section	Description
13.3.1	Alternative Proposals
13.3.2	Value evident from comparable market Acquisitions
13.3.3	Practical level of control
13.3.4	Change in risk profile of investment
13.3.5	Potential decline in share price if the Acquisition is not completed

### 3. Scope of the Report

#### 3.1. Purpose of the Report

Section 606 of the Act expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

As at the date of this report the Majority Vendors do not own any shares in PIE. However, if the Acquisition is completed, the Majority Vendors will receive a maximum of approximately 175.23 million shares giving them a maximum interest of 49.03% in PIE.

Although no individual Newzulu Vendor is acquiring a relevant interest in the Company of greater than 20% as a result of the Acquisition, the Majority Vendors are considered associates of each other therefore they will be acquiring voting power in the Company of greater than 20% at completion of the Acquisition. The Company is seeking shareholder approval for the Acquisition pursuant to Section 611 Item 7 of the Act as the Majority Vendors are considered to be associates of one another for the purposes of the completion of the Acquisition.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

RG 74 states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of PIE, by either:

- undertaking a detailed examination of the Acquisition themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert's Report.

The directors of PIE have commissioned this Independent Expert's Report to satisfy this obligation.

### 3.2. Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Acquisition is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Acquisition is a control transaction as defined by RG 111 and we have therefore assessed the Acquisition as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

### 3.3. Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of a PIE share prior to the Acquisition on a controlling interest basis compared with the value of a PIE share following the Acquisition on a minority interest basis (fairness - see Section 12 'Is the Acquisition Fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see Section 13 'Is the Acquisition Reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

*'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'*

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

## 4. Outline of the Acquisition

On 28 March 2014, PIE announced it had entered into a non-binding agreement regarding the proposed acquisition of all of the issued shares in Newzulu. On 16 May 2014, the Company announced it had entered into a binding share sale agreement with the Majority Vendors pursuant to which the Company has agreed to:

- acquire all of the shares in Newzulu held by the Majority Vendors; and
- make offers to each of the Minority Vendors to acquire their shares in Newzulu.

The consideration payable by the Company for the Acquisition is the issue of an aggregate of 178,230,977 Vendor Shares. The Vendor Shares comprise:

- 155,228,686 Shares to be issued to the Majority Vendors (or their nominees);
- 18,551,421 Shares to be issued to the Minority Vendors (or their nominees), excluding eCrucis; and
- 4,450,870 Shares to eCrucis Pty Ltd (or its nominee).

Pursuant to the terms of the Sale Agreement, Mr Alexander Hartman (or his nominee), a co-founder of Newzulu and a Majority Vendor (both directly and indirectly), will be issued 20 million Director Options with an exercise price of \$0.10 and an expiry date of 30 June 2017.

The Acquisition is subject to and conditional upon the execution of formal binding documentation and the satisfaction (or waiver) of conditions by 31 July 2014, including but not limited to:

- the Majority Vendors being satisfied that there has been no material adverse changes to PIE as at the date of completion of the Acquisition;
- the Company being satisfied that there has been no material adverse changes to Newzulu as at the date of completion of the Acquisition;
- the Company completing the placement of 75 million shares at an issue price of \$0.04 per share to raise \$3 million before costs ('the Placement');
- the Company becoming entitled to acquire 100% of the issued capital of the Newzulu as a result of each Minority Vendor accepting an offer by the Company to acquire their shares in Newzulu; and
- if required by the ASX, each of the Vendors entering into escrow agreements in relation to all or part of the Vendor Shares.

On completion of the Acquisition Mr Alexander Hartman will also be appointed as a director of PIE.

As a term of the Acquisition, shareholder approval will also be sought for the issue of 3,750,000 shares to TMT and 2,088,318 shares to Wentworth Capital in consideration for corporate advisory services.

References in our report to the Acquisition assume that shareholder approval has been obtained for the issue of these shares to the Advisors and that these shares have been issued as part of the Acquisition.

Shareholder approval is also being sought to change the name of the Company to Newzulu Limited.

The capital structure of the Company post completion of the Acquisition is as follows:

## Shareholding

Shareholding following the Acquisition (undiluted)	Majority Vendors	Minority Vendors	eCrucis	Advisors	Other Shareholders	Total
Issued shares as at the date of this Report	-	-	-	-	78,327,172	78,327,172
% holdings as at the date of this Report	0.00%	0.00%	-	0.00%	100.00%	100.00%
	155,228,686	18,551,421	4,450,870	-	-	178,230,977
Shares to be issued on completion of the Acquisition						
Shares issued pursuant to Subsequent Placement	-	-	-	-	75,000,000	75,000,000
Shares to be issued to the Advisors	-	-	-	5,838,318	-	5,838,318
Issued shares following completion of the Acquisition (undiluted)	155,228,686	18,551,421	4,450,870	5,838,318	153,327,172	337,396,467
% holdings following completion of the Acquisition (undiluted)	46.01%	5.50%	1.32%	1.73%	45.44%	100.00%

As outlined above, if the Acquisition is completed the Majority Vendors will hold an interest of 46.01% in PIE on an undiluted basis. This assumes the Director Options issued to Mr Alexander Hartman are not exercised.

The Company is seeking shareholder approval for the Majority Vendors to hold up to a maximum interest of 49.03% in the share capital of PIE as outlined in the table below. This holding assumes Mr Alexander Hartman exercises the Director Options.

Shareholding following the Acquisition (diluted)	Majority Vendors	Minority Vendors	eCrucis	Advisors	Other Shareholders	Total
Issued shares following completion of the Acquisition (undiluted)	155,228,686	18,551,421	4,450,870	5,838,318	153,327,172	337,396,467
% holdings following completion of the Acquisition (undiluted)	46.01%	5.50%	1.32%	1.73%	45.44%	100.00%
Shares to be issued on exercise of Director Options	20,000,000	-	-	-	-	20,000,000
Issued shares following completion of the Acquisition (diluted)	175,228,686	18,551,421	4,450,870	5,838,318	153,327,172	357,396,467
% holdings following completion of the Acquisition (diluted)	49.03%	5.19%	1.25%	1.63%	42.90%	100.00%

PIE has the following options on issue as at the date of our Report:

Current options on issue	Number
Options exercisable at \$0.30 on or before 30-Nov-14	100,000
Options exercisable at \$0.30 on or before 30-Jun-15	586,660
Options exercisable at \$0.90 on or before 30-Nov-14	33,333
Options exercisable at \$0.90 on or before 30-Nov-15	666,666
Options exercisable at \$0.30 on or before 30-Jun-17	500,000
Total number of options on issue	1,886,659

Source: Appendix 3B dated 31 March 2014

The closing share price of PIE on the last full trading day prior to the announcement of the Acquisition was \$0.051. Therefore the existing options on issue are considerably out of the money and in assessing the

potential holdings of the Majority Vendors, and the dilution of other Shareholders' interests, we have assumed that these options will not be exercised.

## 5. Profile of PIE

### 5.1 History

PIE is an Australian company that was incorporated on 23 May 1997 and listed on the Australian Securities Exchange ('ASX') on 7 April 2000. The Company is based in Bayswater, Western Australia and provides public internet solutions and Wi-Fi services to its customers ranging from small businesses to large corporates, across both private industry and government sectors in Australia and New Zealand. PIE develops and commercialises public internet access, Wi-Fi and telephony terminals and network management systems.

The Company's current board members and senior management are shown below:

- Mr Peter Gunzburg - Non-Executive Chairman;
- Mr Phil Kiely - Non-Executive Director;
- Mr Mark Pitts - Company Secretary and Non-Executive Director; and
- Mr Stewart Snell - Chief Operating Officer.

### 5.2 Products and services

The products and services currently provided by PIE are set out below.

#### pieWebphone

The pieWebphone is the combination of a multimedia customer self-service terminal and a payphone, which operates in airports and other transport hubs, shopping centres and entertainment precincts. It has a large touch screen interface which allows customers to interact with content and applications hosted by PIE as well as gaining full access to the internet. This large interface is also used for interactive advertising purposes and to promote various marketing messages. Financial institutions are also users of the pieWebphone, enabling online banking transactions, promoting products and services and allowing access to specialist customer support via the handset. The pieWebphone has the ability to be fitted with the pieWi-Fi Hotspot, extending the access of public internet to customers with their own Wi-Fi devices.

#### pieInternet

The pieInternet services are set up in a kiosk, which provides public internet access in locations such as youth hospitals, motels, holiday parks, tourist resorts, convenience stores, internet cafes, shopping malls, airports and other transport hubs. The pieInternet service is connected to a management system which provides business owners with reports regarding customer utilisation of the pieInternet service, networks and customer support centres, and incident and fault management across the network. The kiosks are mostly coin operated, with some devices accepting credit card payment services and prepaid cards with scratch and reveal codes, depending on the pricing and access arrangements chosen by its customers.

### pieWi-Fi

PieWi-Fi is a carrier grade managed Wi-Fi service, enabling businesses to provide their customers with on-premises Wi-Fi services which allows them to securely access the public internet and hosted content and applications provided by the businesses. The businesses are charged a fee for the pieWi-Fi services based on the location and network configuration.

PieWi-Fi comes in a range of configurations appropriate for all types of locations such as small and large enclosed rooms, multi-room offices, stadiums and open spaces. PieWi-Fi can also be configured to administer the network capacity allocated to customers, limit the internet access to a selected number of sites, block access to certain sites and implement customer specific access arrangements such as paid or free access. PieWi-Fi is also connected to a management service with the same function as pieInternet.

### 5.3 Historical Statement of Financial Position

Statement of Financial Position	Reviewed as at 31-Dec-13 \$	Audited as at 30-Jun-13 \$	Audited as at 30-Jun-12 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	1,121,561	1,384,293	521,302
Trade and other receivables	42,517	98,028	500,359
Inventories	3,944	21,448	83,564
Current income tax receivables	1,486	909	1,954
Restricted cash deposits	129,332	134,802	4,463
Other current assets	20,324	55,771	56,675
<b>TOTAL CURRENT ASSETS</b>	<b>1,319,164</b>	<b>1,695,251</b>	<b>1,168,317</b>
<b>NON-CURRENT ASSETS</b>			
Restricted cash deposits	-	113,722	105,709
Property, plant and equipment	18,766	40,848	60,371
<b>TOTAL NON-CURRENT ASSETS</b>	<b>18,766</b>	<b>154,570</b>	<b>166,080</b>
<b>TOTAL ASSETS</b>	<b>1,337,930</b>	<b>1,849,821</b>	<b>1,334,397</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	177,330	346,735	343,531
Loans and borrowings	2,258	2,113	1,850
Employee benefits	28,414	26,847	44,759
Deferred revenue	27,564	20,487	24,830
Provisions	86,564	67,592	70,217
<b>TOTAL CURRENT LIABILITIES</b>	<b>322,130</b>	<b>463,774</b>	<b>485,187</b>
<b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings	2,174	3,340	5,453
Employee benefits	26,766	20,391	2,656
Provisions	-	45,140	119,666
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>28,940</b>	<b>68,871</b>	<b>127,775</b>
<b>TOTAL LIABILITIES</b>	<b>351,070</b>	<b>532,645</b>	<b>612,962</b>
<b>NET ASSETS</b>	<b>986,860</b>	<b>1,317,176</b>	<b>721,435</b>
<b>EQUITY</b>			
Share capital	30,211,336	29,933,714	28,475,095
Reserves	838,588	963,353	1,049,957
Accumulated losses	(30,063,064)	(29,579,891)	(28,803,617)
<b>TOTAL EQUITY</b>	<b>986,860</b>	<b>1,317,176</b>	<b>721,435</b>

Source: Audited Financial Statements of PIE for the years ended 30 June 2012 and 30 June 2013 and the Reviewed Financial Statements for the half year ended 31 December 2013



We note the following in relation to PIE's historical Statement of Financial Position:

- Cash and cash equivalents increased from approximately \$0.52 million at 30 June 2012 to \$1.38 million at 30 June 2013 mainly as a result of the issue of 26,332,767 shares being issued to raise \$1.58 million before issue costs. The Company also received \$0.45 million in cash receipts from customers, offset by approximately \$1.48 million in payments to suppliers and employees. The decrease in cash and cash equivalents to \$1.12 million at 31 December 2013 was mainly driven by \$0.62 million in cash payments to suppliers and employees, partially offset by proceeds from the issue of an additional 2,166,667 shares at \$0.06 per share to raise \$0.13 million before costs.
- Restricted cash deposits increased between 30 June 2012 and 30 June 2013 mainly as a result of funds received in advance from shares issued in September 2013. The restricted cash deposits relate to bank deposits held as security for Westfield New Zealand and AMP Capital Property Portfolio Ltd. As at the date of this report, PIE does not have access to this cash. The licenses held expire on 31 October 2014 and 31 December 2014.
- The Company recorded an impairment loss of \$38,710 relating to property plant and equipment for the year ended 30 June 2013. The impairment arose as a consequence of the assessment by Directors that the assets would not be able to recover their carrying value from future cash flows. The key determinants of this assessment were that the scale and profitability of the New Zealand webphone network was not sufficient to cover the carrying value of the assets. Also, the uncertainty of future arrangements with Telstra Corporation Limited relating to further developments of the Company's webphones resulted in the write off of part of the Company's equipment. There was a further impairment recorded for the half year ended 31 December 2013.
- Reserves as at 31 December 2013 comprise a share option reserve of approximately \$1.06 million and a negative translation reserve of approximately \$0.23 million.

## 5.4 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Reviewed for the half year ended 31-Dec-13	Audited for the year ended 30-Jun-13	Audited for the year ended 30-Jun-12
	\$	\$	\$
Revenue			
Revenue from sale of goods	10,140	32,348	444,774
Revenue from rendering services	148,116	439,559	511,111
Financial income	143,777	131,821	75,955
Other income from ordinary activity	-	54,706	459,570
Total revenue	302,033	658,434	1,491,410
Cost of sales	(128,987)	(231,290)	(730,376)
Gross profit	173,046	427,144	761,034
Expenses			
Network management expenses	(296,122)	(260,548)	(609,694)
Sales and marketing expenses	(11,825)	(23,860)	(642,370)
Research and development expenses	(3,754)	(198,200)	(939,281)
Administrative and corporate expenses	(343,085)	(650,942)	(2,468,448)
Financial expenses	(553)	(1,105)	(1,135)
Other expenses from ordinary activity	(880)	(68,763)	(6,874)
Loss from continuing operations before income tax	(483,173)	(776,274)	(3,906,768)
Income tax benefit (expense)	-	-	-
Loss from continuing operations after income tax	(483,173)	(776,274)	(3,906,768)
Foreign currency translation differences	(124,849)	(98,947)	(12,247)
Total comprehensive loss for the year	(608,022)	(875,221)	(3,919,015)

Source: Audited Financial Statements of PIE for the years ended 30 June 2012 and 30 June 2013 and the Reviewed Financial Statements for the half year ended 31 December 2013

We note the following in relation to PIE's historical Statement of Profit or Loss and Other Comprehensive Income:

- Other income from ordinary activities for the year ended 30 June 2012 was higher than subsequent periods as it related to a unique research and development tax incentive rebate.
- The Company's loss from continuing operations decreased from \$3.92 million for the year ended 30 June 2012 to \$0.88 million for the year ended 30 June 2013. This reduction in operating loss is primarily attributable to a cost restructuring undertaken by the Company. Part of this restructure included the Board's deregistering of the Company's subsidiary in the United Kingdom. The Board also made minor amendments to the Company's New Zealand webphone network aimed at improving profitability.
- The cost savings following the restructure was mainly in relation to personnel expenses. Wages and salaries decreased from \$1.59 million in 2012 to \$0.23 million in 2013. Similarly, consulting fees reduced from approximately \$1.20 million in 2012 to \$0.29 million in 2013.

## 5.5 Capital Structure

The share structure of PIE as at 30 April 2014 is outlined below:

	Number
Total ordinary shares on issue	78,327,172
Top 20 shareholders	59,152,835
Top 20 shareholders - % of shares on issue	75.52%

Source: Share registry information

The range of shares held in PIE as at 30 April 2014 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	622	231,544	0.30%
1,001 - 5,000	463	1,243,492	1.59%
5,001 - 10,000	201	1,508,101	1.93%
10,001 - 100,000	266	8,814,089	11.25%
100,001 - and over	56	66,529,946	84.94%
<b>TOTAL</b>	<b>1,608</b>	<b>78,327,172</b>	<b>100.00%</b>

Source: Share registry information

The ordinary shares held by the most significant shareholders of PIE as at 30 April 2014 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Ms Jennifer Anne Carr	12,500,000	15.96%
Papella Pty Ltd	10,216,588	13.04%
Supergun Pty Ltd	9,718,284	12.41%
Paul Gabriel Sharbanee	4,276,262	5.46%
Brispot Nominees Pty Ltd	4,188,207	5.35%
<b>Total Top 5</b>	<b>40,899,341</b>	<b>52.22%</b>
<b>Others</b>	<b>37,427,831</b>	<b>47.78%</b>
<b>Total ordinary shares on issue</b>	<b>78,327,172</b>	<b>100.00%</b>

Source: Share registry information

## 6. Profile of Newzulu

### 6.1 History and overview

Newzulu Limited was founded in 2008 by Matilda Media, a media investment house with headquarters in New York and offices in Los Angeles, Paris, and Sydney. Newzulu is a public unlisted company which incorporated in Australia on 2 April 2013. Newzulu is a digital media network specialising in international licensing, distribution and publication of user-generated news, photos and videos contributed by a global community of contributors. Newzulu contributors upload articles, photos and videos from their mobile phones and otherwise through social media and the Newzulu site on a multi-platform and multi-lingual basis. Newzulu operates as a network of territorial subsidiaries, each independently managed and engaged with partners appropriate to the local operating conditions, including Newzulu Inc (USA), Newzulu SAS (France), Newzulu Limited (UK), Newzulu Limited (Canada) and Newzulu Limited (Australia).

The distinguishing feature of Newzulu's business is that it allows users to sell their photos, videos and articles to media buyers in association with leading newswires which includes founding partner Agence France Press ('AFP'), Canadian Press, Press Association, and Australian Associated Press ('AAP').

The current directors and senior management of Newzulu are:

- Mr Alexander Hartman, Managing Director and Company Secretary;
- Mr Xavier Gouyou-Beauchamps, Director; and
- Mr Peter Scarf, Director and Company Secretary.

In April 2013, Newzulu announced it had acquired the operations of Citizenside SAS ('Citizenside'), the world's leading citizen news wire service established by AFP. With the acquisition of Citizenside, Newzulu represent citizen journalists in over 150 global territories, with an existing catalogue of 1.5 million citizen news contributions.

Newzulu's business model is based on easy access for its users through their mobile devices. Photos and videos can be uploaded with a smartphone via the Newzulu app, by email or through other social media platforms such as Facebook, Twitter or Instagram.

### 6.2 Operations

Newzulu's primary function is to provide text, image and video feeds on a wholesale basis to publishers and broadcasters channeled through global press association partnerships.

Newzulu establishes relationships with contributors of news images and videos, whether freelance journalists or other content creators, directly or through social media, which it validates and reviews before distributing that content to its global news agency partners.

Newzulu is a publisher of validated citizen news to its own community, through its flagship publication Newzulu and associated regional mastheads along with their mobile and facebook editions, which seek to develop local communities of contributors, supported by local news agency partnerships.

Newzulu currently provides "White-Label" citizen news software platforms to leading French and UK media companies including, La Parisien, BFM TV, Metro France, RMC, France Bleu and Archant. Newzulu will continue to licence its "White-Label" products across all territories and is currently in discussion with major media outlets around the world.

Newzulu is currently developing Journalist Utilities Management Platform ('JUMP') Freelance Platform enabling the issue of assignments to freelance journalists, photographers, and videographers.

As Newzulu expands its market share globally, commercialisation opportunities arise using the contributor base to fulfill specific requests from commercial brands. Using the same platform, Newzulu will be able to provide digital media services, including brand white-label platforms, crowd-sourced creative production and multimedia press-release distribution.

Newzulu's platform is capable of operating "push" based-user-generated advertising requests for leading brands to dispatch campaign requests across the entire user base, utilising the knowledge of user profile analytics.

Newzulu lowers the cost of its global operations by drawing on its global news agency partnerships which provide shared administrative infrastructure, such as co location services and media transmission. These arrangements are in place with the AFP, Press Association and AAP. Newzulu currently has bureaus in the USA, Canada, United Kingdom, Germany, France, Australia and New Zealand.

With the proposed development of Newzulu's Social Media Reporter functionality, supported by a Google grant for Media Innovation, Newzulu is positioned to increase the volume and diversity of editorial, photo and video submissions through the Newzulu platform, sourcing new reporters through social media networks such as YouTube, Twitter and Instagram.

For sales in territories that are not covered by the existing partnerships with newswires, Newzulu provides a direct interface for sales to media outlets through Newzulu Wire with a share of revenue paid to contributors.

Newzulu is a unique platform that allows citizens, using their smartphone or through the web, to sell their content to media outlets globally through the major newswires.

The following outlines the key business operations:

### Direct Sales

Through Newswires Partners, contributors of editorial and brand-funded content share the revenues generated through Newzulu. Revenues to be shared are based on the licenses entered with agency partners.

### White Label Web Platform 'in the cloud'

The Newzulu cloud-based platform, with its content validation system, is licensed on a customised basis to media outlets, brands and advertisers. This allows media outlets to dynamically break news as it occurs and enhance understanding of their readers and viewers through their community of journalists. This additional web submitted content from white label partners is then channeled into the Newzulu sales pipeline and sold through the newswires.

### White Label Mobile Platform

Newzulu mobile applications are available for iPhone, iPad and Android devices, which are licensed to media outlets provide a highly customized and intuitive interface for the public. The display is customised according to each reader's personal preferences and geographic location. Newzulu mobile offers readers instant access to current events, important ideas and smart opinions circulating the world. This additional

mobile submitted content from white label partners is then transferred into the Newzulu sales pipeline and sold through the newswires.

### Newzulu JUMP

Newzulu JUMP offers newswires and media outlets the opportunity to deploy assignments to freelance journalists, photographers, videographers, and other media specialists. The JUMP platform enables the dispatcher to see the geo-location of the contributor and communicate with them on all aspects of the proposed assignment. The User Profile of the contributor within the JUMP platform comprehensively displays the contributors past work, credentials, and expertise similarly to LinkedIn or IMDb. Newzulu charges commission on both the dispatcher and the freelancer.

### Social Media Reporter

Newzulu Social Media Reporter sources user-generated news, photos and videos through its proprietary Social Media Reporter (SMR) technology. SMR operates as an automated system for sourcing contributions on an integrated basis with social networking sites including Twitter, Facebook and Instagram. Sourced images are licensed from the people that have contributed them to social networks through an automated process, integrated with the Newzulu back-office technology, processes and news wire distribution network.

### Newzulu Brands - "White Label" Campaign Manager

Newzulu Brands offers brands the opportunity for audience reach and engagement with online full-service functionality that allows deployment of brand-funded content campaigns, with calls for contributions of brand-related editorial, photos and videos from the Newzulu user base along with sponsored editorial messaging in a similar manner to Facebook Sponsored Stories. The Newzulu Brands platform allows advertisers and brands to promote themselves and engage and interact with their potential. Brands and agencies can use the platform to crowd-source creative material for campaigns or entirely crowd-source the production of their advertisements.

### Direct Sales through Newzulu Wire

Newzulu seeks to achieve territorial sales partnerships with leading news agencies to conduct content sales, however it maintains its own direct sales capability through Newzulu Wire to service markets where partnerships are not in place. It is also intended that the Newzulu Wire platform be used in the future to service editorial white-label partners with editorial services such as back-up validation, offering an interface between Newzulu's editorial team and the white-label partner.

### Web Advertising

Newzulu is not envisaged as a media outlet but is capable of generating advertising revenues on Newzulu sites.

### 6.3 Capital Structure

The shareholders of Newzulu at the date of our Report are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Matilda Media Pty Ltd <Matilda Media Trust>	4,536	31.21%
Wyuna Group Pty Ltd <Wyuna Group Trust>	3,641	25.05%
Gandalf Holding (NSW) Pty Ltd <Gandalf Trust>	2,907	20.00%
Mr Peter Michael Scarf	800	5.50%
Mr Alexander James Hartman	776	5.34%
Hartpower Pty Limited <The Keith Hartman No 2 Superannuation Fund>	581	4.00%
Dominet Digital Investments Pty Ltd <Dominet Digital Investments Family Trust>	363	2.50%
eCrucis Pty Ltd <Kiely Family Trust>	363	2.50%
Mrs Divonne Holmes a Court	116	0.80%
G.B.D SC	116	0.80%
Stefani And Co	73	0.50%
Belford Productions Pty Ltd	44	0.30%
David John Hickie	44	0.30%
Larang Pty Ltd <The AMT Family Trust>	44	0.30%
Campbell Keith Handbury	44	0.30%
Ms Zoe Wane	44	0.30%
Mr Olivier Corgeron	44	0.30%
<b>Total ordinary shares on Issue</b>	<b>14,536</b>	<b>100.00%</b>

Source: Share registry information

## 6.4 Historical Statement of Financial Position

Statement of Financial Position		Newzulu (consolidated) Unaudited as at 30-Apr-14 \$
CURRENT ASSETS		
Cash and cash equivalents		53,126
Trade and other receivables		181,346
TOTAL CURRENT ASSETS		234,472
NON-CURRENT ASSETS		
Related party receivable- Matilda Media Pty Ltd		357
Property, plant and equipment		11,402
Intangible assets		2
TOTAL NON-CURRENT ASSETS		11,761
TOTAL ASSETS		246,233
CURRENT LIABILITIES		
Accounts payables		412,739
Employee benefits		167,144
Related party loan- Peter Scarf		49,764
TOTAL CURRENT LIABILITIES		629,647
NON-CURRENT LIABILITIES		
Related party loan- Matilda Media Pty Ltd		794,169
Related party loan- Peter Scarf		162,998
TOTAL NON-CURRENT LIABILITIES		957,167
TOTAL LIABILITIES		1,586,814
NET ASSETS		(1,340,581)
EQUITY		
Issued capital		14,536
Accumulated losses brought forward		(968,054)
Current period losses		(387,063)
TOTAL EQUITY		(1,340,581)

Source: Consolidated unaudited management accounts for Newzulu as at 30 April 2014

We have not undertaken a review of Newzulu's unaudited management accounts in accordance with Australian Auditing and Assurance Standard 2405 'Review of Historical Financial Information' and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis.

We note the following in relation to Newzulu's Statement of Financial Position:

- Following completion of the Acquisition the related party loan of \$794,169 from Matilda Media Pty Ltd will be forgiven.



- The related party loan from Peter Scarf has increased to \$320,000 since 30 April 2014. Newzulu has also entered into an agreement to borrow up to an additional \$350,000 from Peter Scarf. These adjustments are detailed in Section 11.1.2. The current portion of the related party loan from Peter Scarf is due within five days of completion of the Acquisition.

## 6.5 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income		Newzulu (consolidated) Unaudited for the ten months ended 30-Apr-14 \$
Expenses		
ASIC and equivalent costs		1,113
Business development costs		31,500
Editorial costs		36,880
License IP expense		98,573
Transaction costs		188,114
Travel expenses		4,654
Rent		1,195
Depreciation		165
Provision for non-recoverability of related party loans		14,000
Other expenses		10,870
Loss from continuing operations before income tax		387,063
Income tax expense		-
Loss from continuing operations after income tax		387,063

Source: Consolidated unaudited management accounts for Newzulu for the ten months ended 30 April 2014

We have not undertaken a review of Newzulu's unaudited management accounts in accordance with Australian Auditing and Assurance Standard 2405 'Review of Historical Financial Information' and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis.

We note the following in relation to the financial performance of Newzulu:

- The main expenses incurred over the period are IP expenses and Transaction costs which relate to the Acquisition by PIE.

## 7. Economic analysis

Growth in the global economy is continuing at a moderate pace, helped by firmer conditions in the advanced countries. China's growth appears to have slowed a little in early 2014 but remains generally in line with policymakers' objectives. Commodity prices in historical terms remain high, but some of those important to Australia have continued to decline of late.

Financial conditions overall remain very accommodative. Long-term interest rates have fallen further and risk spreads remain low. Emerging market economies are once again receiving capital inflows. Volatility in many financial prices is currently unusually low. Markets appear to be attaching a very low probability to any rise in global interest rates over the period ahead.

In Australia, the economy grew at a below-trend pace in 2013 overall, but growth looks to have been somewhat firmer around the turn of the year. This has resulted partly from very strong increases in resource exports as new capacity has come on stream, but smaller increases in such exports are likely in coming quarters. Moderate growth has been occurring in consumer demand and a strong expansion in housing construction is now under way. At the same time, resources sector investment spending is set to decline significantly. Signs of improvement in investment intentions in some other sectors are emerging, but these plans remain tentative, as firms wait for more evidence of improved conditions before committing to significant expansion. Public spending is scheduled to be subdued.

There has been some improvement in indicators for the labour market in recent months, but it will probably be some time yet before unemployment declines consistently. Recent data confirm that growth in wages has declined noticeably. If these and other domestic costs remain contained, inflation should remain consistent with the target over the next one to two years, even with lower levels of the exchange rate.

Monetary policy remains accommodative. Interest rates are very low and for some borrowers have edged lower over recent months. Savers continue to look for higher returns in response to low rates on safe instruments. Credit growth has picked up a little. Dwelling prices have increased significantly over the past year, though there have been some signs of a moderation in the pace of increase recently. The earlier decline in the exchange rate is assisting in achieving balanced growth in the economy, but less so than previously as a result of the higher levels over the past few months. The exchange rate remains high by historical standards, particularly given the further decline in commodity prices.

Looking ahead, continued accommodative monetary policy should provide support to demand, and help growth to strengthen over time. Inflation is expected to be consistent with the 2-3 per cent target over the next two years.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Glenn Stevens, Governor: Monetary Policy Decision 3 June 2014

## 8. Industry analysis

### Online media

The rapid improvement in information technology networks over the past five years has created several growth opportunities for industry participants, which has limited the industry's downturn. The ease of access to news and directories online has up-ended several traditional industries including newspaper and magazine publishing, with more industries expected to undergo similar struggles going forward.

As more people gain access to the internet, opportunities to access the industry's services will increase, which has been occurring over the past five years. This, coupled with the advent of smartphones has meant that access to online media has improved drastically in the past five years.

Advancements in online data transfer capabilities has been the most significant change to the industry since its origin, as it has enabled easy and instantaneous transfer of information anywhere in the connected world. Capacity advancements in data storage have occurred concurrently with the infrastructure advances, which has allowed firms to hold in one room the information that previously required an entire library. This has fostered dramatic growth among smaller players, who can now offer services of equal quality to the larger market participants. This is leading to a change in the industry's competitive landscape.

The industry, while being capital intensive in the areas of information technology and telecommunications, has a high reliance on other telecommunications service providers (via phone lines, satellite or cable, particularly for broadband access) for the actual delivery of the service. Technological change in that sector has been equally rapid, and feeds into the growth of this industry. Software has an extremely short life cycle relative to most other goods. Most application programs require an upgrade or update after five years. This means that software developers must constantly innovate to remain competitive, which includes increasing the sophistication of existing products. This requires an on-going commitment by operators in research and development and in state-of-the-art hardware and software as well as investment in staff and knowledge.

### Outlook

Greater internet accessibility due to market penetration of smartphones and the construction of the National Broadband Network is expected to lead to greater use of the internet over the next five years. This impacts the online media industry as it results in a greater portion of the population having access to online news articles. The increased use of smartphones has resulted in users not only having greater access to these news articles but in the case of citizen journalism, contributors are better equipped to submit photos, videos and articles to news providers. This upward trend in the number of smartphone users is expected to increase over the next five years, albeit at a decreasing rate.

### Citizen journalism

The concept of citizen journalism (also known as "public", "participatory", "democratic", "guerrilla" or "street" journalism) is based upon public citizens playing an active role in the process of collecting, reporting, analysing, and disseminating news and information. The concept of citizen journalism was introduced in the early 2000's when large news providers such as the 'Daily Mail' in the United Kingdom began to run a page of readers' comments taken from their website.

A significant barrier impeding the expansion of this segment of the online media industry is the fear of legal action from libellous comments posted by its contributors. The dominant participants in the industry protect themselves against this threat through stringent moderating and screening processes. This moderation represents a significant cost to the industry.

## 9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information.

### 9.1. Value of a PIE share prior to the Acquisition

In our assessment of the value of a PIE share prior to the Acquisition we have chosen to employ the following methodologies:

- NAV as our primary methodology; and
- QMP as a secondary methodology.

We have chosen these methodologies for the following reasons:

- The FME approach is not considered appropriate as the Company has been operating at a loss from continuing operations in the last three financial years, meaning that we do not have reasonable grounds on which to base a forecast future maintainable earnings figure;
- The QMP basis is a relevant methodology to consider as PIE's shares are listed on the ASX. This means there is a regulated and observable market where PIE's shares can be traded. However, in order for the QMP methodology to be considered appropriate, the Company's shares should be liquid and the market should be fully informed as to PIE's activities. We have considered these factors in section 10.2 of our Report;
- We also consider the NAV methodology to be an appropriate valuation approach to undertake.
- It should be noted that asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. This is particularly significant if the growth potential of a company is substantial;
- Alternatively, if the company is making losses and earnings are deteriorating, asset based methods ignore the deteriorating financial performance of a company, which may result in the entity's value trading below the realisable value of its assets.

## 9.2. Value of a PIE share following the Acquisition

In our assessment of the value of a PIE share following the Acquisition we have chosen to employ the following methodology:

- Sum-of-parts as our primary methodology.

The value of PIE shares following the Acquisition involves the sum of the following items:

- The value of PIE prior to the Acquisition;
- The value of Newzulu;
  - In our valuation of Newzulu we have considered the NAV and DCF methodologies. We have disregarded the FME and QMP methodologies as a result of the following:
    - The FME approach is not considered appropriate as Newzulu is currently loss making, meaning that we do not have reasonable grounds on which to base a forecast future maintainable earnings figure; and
    - Newzulu is a public unlisted company which means there is no regulated and observable market where Newzulu's shares can be traded.
- The number of shares on issue following the Acquisition will include the issue of shares to the Newzulu Vendors as consideration for the Acquisition, the issue of shares pursuant to the Placement and shares that are to be issued to the Advisors following the completion of the Acquisition.
- A minority discount is applied to the net asset value to arrive at the value of a PIE share following the Acquisition on a minority interest basis.
- We have assessed the value of a PIE share following the Acquisition on both an undiluted and diluted basis. The undiluted basis assumes that the Director Options issued to Mr Alexander Hartman are not exercised. The valuation on a diluted basis assumes that the Director Options are exercised.

## 10. Valuation of PIE prior to the Acquisition

### 10.1. Net Asset Valuation of PIE

The value of PIE's assets on a going concern basis is reflected in our valuation below:

NAV prior to the Acquisition	Note	31-Dec-13 \$	Adjustments \$	Adjusted NAV \$
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	a	1,121,561	335,953	1,457,514
Trade and other receivables		42,517	-	42,517
Inventories		3,944	-	3,944
Current income tax receivables		1,486	-	1,486
Restricted cash deposits	b	129,332	-	129,332
Other current assets		20,324	-	20,324
<b>TOTAL CURRENT ASSETS</b>		<b>1,319,164</b>	<b>335,953</b>	<b>1,655,117</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		18,766	-	18,766
<b>TOTAL NON-CURRENT ASSETS</b>		<b>18,766</b>	<b>-</b>	<b>18,766</b>
<b>TOTAL ASSETS</b>		<b>1,337,930</b>	<b>335,953</b>	<b>1,673,883</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		177,330	-	177,330
Loans and borrowings		2,258	-	2,258
Employee benefits		28,414	-	28,414
Deferred revenue		27,564	-	27,564
Provisions		86,564	-	86,564
<b>TOTAL CURRENT LIABILITIES</b>		<b>322,130</b>	<b>-</b>	<b>322,130</b>
<b>NON-CURRENT LIABILITIES</b>				
Loans and borrowings		2,174	-	2,174
Employee benefits		26,766	-	26,766
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>28,940</b>	<b>-</b>	<b>28,940</b>
<b>TOTAL LIABILITIES</b>		<b>351,070</b>	<b>-</b>	<b>351,070</b>
<b>NET ASSETS</b>		<b>986,860</b>	<b>335,953</b>	<b>1,322,813</b>
Shares on issue (number)	c			78,327,172
Value per share (\$)				0.0169

Source: BDO analysis

We have been advised that there has not been a significant change in the net assets of PIE since 31 December 2013 apart from those adjustments discussed below. The table above indicates that the net asset value of a PIE share prior to the Acquisition is 1.69 cents per share.

We note the following adjustments in relation to the net assets of PIE as at 31 December 2013:

#### Note a)

We have increased cash to \$1,457,514 to reflect the cash balance at 31 March 2014. Cash has increased as a result of the capital raising completed during March 2014, whereby the Company raised \$408,663 (before costs) through the issue of 10,216,588 shares to a sophisticated investor at an issue price of \$0.04 per share. The increase in cash has been partially offset by transaction costs and other corporate costs incurred over the period.

#### Note b)

The restricted cash deposits relate to bank deposits held as security for Westfield New Zealand and AMP Capital Property Portfolio Ltd. As at the date of this report, PIE does not have access to this cash. The licenses held expire on 31 October 2014 and 31 December 2014.

#### Note c)

The number of shares on issue includes the 10,216,588 shares issued as part of the capital raising discussed in Note a) above.

### 10.2. Quoted Market Prices for PIE Securities

To provide a comparison to the NAV of PIE in Section 10.1, we have also assessed the quoted market price for a PIE share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

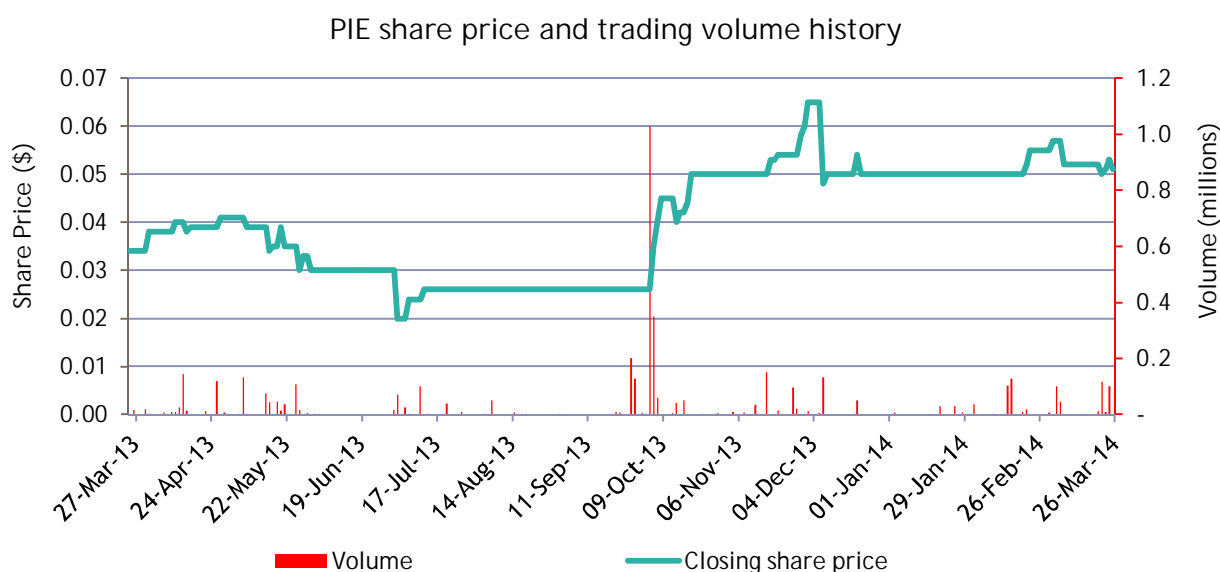
Whilst the Majority Vendors will not be obtaining 100% of PIE, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 13.

Therefore, our calculation of the quoted market price of a PIE share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

## Minority interest value

Our analysis of the quoted market price of a PIE share is based on the pricing prior to the announcement of the Acquisition. This is because the value of a PIE share after the announcement may include the effects of any change in value as a result of the Acquisition. However, we have considered the value of a PIE share following the announcement when we have considered reasonableness in Section 13.

Information on the Acquisition was first announced to the market on 28 March 2014; however the Company's shares were placed into a trading halt on 27 March 2014 pending this initial announcement. Therefore, the following chart provides a summary of the share price movement over the 12 months to 26 March 2014 which was the last full trading day prior to the trading halt.



Source: Bloomberg & BDO analysis

The daily price of PIE shares from 26 March 2013 to 26 March 2014 has ranged from a low of \$0.02 on 5 July 2013 to a high of \$0.065 on 6 December 2013.

There was a spike in trading volume on 7 October 2013, with approximately 1.02 million shares traded, representing approximately 1.3% of the Company's current issued capital. The share price around this time also spiked with the share price increasing from \$0.026 on 4 October 2013 to close at \$0.045 on 9 October 2013. There were no Company announcements made over this period, therefore we consider this an unexplained spike in trading volume and price.

During this period a number of announcements were made to the market. The key announcements are set out below:



Date	Announcement	Closing Share Price Following Announcement		Closing Share Price Three Days After Announcement	
		\$ (movement)		\$ (movement)	
28/02/2014	December 2013 Appendix 4D	0.055	► 0.0%	0.057	▲ 3.6%
30/01/2014	December Quarter Appendix 4C	0.050	► 0.0%	0.050	► 0.0%
31/10/2013	Appendix 4C September Quarter 2013	0.050	► 0.0%	0.050	► 0.0%
30/08/2013	Appendix 4E Preliminary Final Report	0.026	► 0.0%	0.026	► 0.0%
30/04/2013	Quarterly Activities Report and Appendix 4C	0.041	► 0.0%	0.041	► 0.0%
28/03/2013	Share Placement	0.034	► 0.0%	0.038	▲ 11.8%

Source: Bloomberg, BDO analysis

To provide further analysis of the market prices for an PIE share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 26 March 2014.

	26-Mar-14	10 Days	30 Days	60 Days	90 Days
Closing Price	\$0.051				
Weighted Average		\$0.051	\$0.052	\$0.052	\$0.052

Source: Bloomberg, BDO analysis

The above weighted average prices are prior to the date of the announcement of the Acquisition, to avoid the influence of any increase in price of PIE shares that has occurred since the Acquisition was announced.

An analysis of the volume of trading in PIE shares for the twelve months to 26 March 2014 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.051	\$0.051	100,000	0.13%
10 Days	\$0.050	\$0.053	240,474	0.31%
30 Days	\$0.050	\$0.057	654,856	0.84%
60 Days	\$0.045	\$0.057	772,894	0.99%
90 Days	\$0.045	\$0.065	1,110,361	1.42%
180 Days	\$0.026	\$0.065	3,319,360	4.24%
1 Year	\$0.020	\$0.065	4,456,563	5.69%

Source: Bloomberg, BDO analysis

This table indicates that PIE's shares display a low level of liquidity, with only 5.69% of the Company's current issued capital being traded in a twelve month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;

- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of PIE, we do not consider there to be a deep market for the Company's shares, with only 5.69% of the current issued capital being traded in a twelve month period. This assessment is also based on the significant and unexplained price movements that occurred between 4 October 2013 and 9 October 2013. Over this period, the Company's share price increased from \$0.026 to \$0.045.

Our assessment is that a range of values for PIE shares based on market pricing, after disregarding post announcement pricing, is between \$0.050 and \$0.052.

## Control Premium

We have reviewed the control premiums paid by acquirers of companies listed on the ASX. We have summarised our findings below:

Year	Number of Transactions	Average Deal Value (A\$m)	Average Control Premium (%)
2013	36	143.63	50.86
2012	48	364.43	41.32
2011	64	799.28	45.07
2010	63	794.58	40.23
2009	61	328.42	44.87
2008	39	827.80	40.83
2007	81	1045.80	22.20
2006	90	688.47	25.12
	Mean	624.05	38.81
	Median	741.53	41.08

Source: Bloomberg and BDO analysis

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Ability to integrate the acquiree into the acquirer's business;
- Level of pre-announcement speculation of the transaction;
- Level of liquidity in the trade of the acquiree's securities.

The table above indicates that the long term average control premium paid for ASX-listed companies is in the order of 30% to 40%. However, given that PIE is historically loss making and the lack of liquidity for the Company's shares, we consider an appropriate control premium to be in the range of 25% to 35%.

### Quoted market price including control premium

Applying a control premium to PIE's quoted market share price results in the following quoted market price value including a premium for control:

	Low	Midpoint	High
	\$	\$	\$
Quoted market price value	0.050	0.051	0.052
Control premium	25%	30%	35%
Quoted market price valuation including a premium for control	0.0625	0.0663	0.0702

Source: BDO analysis

Therefore, our valuation of a PIE share based on the quoted market price method and including a premium for control is between \$0.062 and \$0.070, with a midpoint value of \$0.066.

### 10.3 Assessment of PIE Value

The results of the valuations performed are summarised in the table below:

	Low	Preferred	High
	cents	cents	cents
Net assets value (Section 10.1)	1.69	1.69	1.69
ASX market prices (Section 10.2)	6.25	6.63	7.02

Source: BDO analysis

We note that the value obtained under the NAV methodology is lower than the values obtained under the QMP methodology in our low, preferred and high scenarios. The difference between the valuations obtained under the NAV and QMP approaches can be explained by the following:

- The NAV value is lower than the QMP value range, which is not uncommon for technology companies, which often trade at a premium to its net asset value. This is because investors anticipate some potential upside or 'bluesky' prospects for the company which are factored into the share price in advance of any such value being warranted.
- The QMP value reflects investors' perception of the future prospects of PIE and may have taken into account the fact that PIE has been actively progressing options to add scale to the Company.
- Our share price analysis in section 10.2 indicates that there is not a deep market for the Company's shares with only 5.69% of the Company's share capital traded in the 12 months prior to the announcement of the Acquisition. There were also significant and unexplained price movements which occurred between 4 October 2013 and 9 October 2013. Over this period, the Company's share

price increased from \$0.026 to \$0.045. As a result of the lack of liquidity, unexplained share price movements and volatility in the Company's share price we have not relied on the QMP value in assessing the value of a PIE share prior to the Acquisition.

For the reasons described above, we conclude that the value obtained under the NAV approach is more reflective of the value of a PIE share prior to the Acquisition. Therefore, we consider the value of a PIE share to be 1.69 cents per share.

## 11. Valuation of PIE following the Acquisition

As discussed in section 9.2, in determining the value of a PIE share following the Acquisition, the sum-of-parts methodology has been used which includes the following:

- The value of PIE prior to the Acquisition, as determined in section 10.3;
- The value of Newzulu after considering the appropriate valuation methodologies approaches; and
- The number of shares on issue following the completion of the Acquisition which will include the issue of shares to the Newzulu Vendors as consideration for the Acquisition, the issue of shares pursuant to the Placement and shares that are to be issued to advisors following the completion of the Acquisition.

We have assessed the value of a PIE share following the Acquisition on both a diluted and an undiluted basis, assuming the Director Options issued to Alexander Hartman are either exercised or not exercised.

### 11.1 Valuation of Newzulu

#### 11.1.1 Discounted cash flow valuation of Newzulu

Management of Newzulu has provided monthly cash flow forecasts for a two year period from 1 July 2014 to 30 June 2016. RG111 stipulates that an expert should not include prospective financial information (including forecasts and projections) or any other statements or assumptions about future matters in its report unless there are reasonable grounds for the forward looking information.

Regulatory Guide 170 ('RG170') gives detailed guidance on what is considered a reasonable basis for stating prospective financial information. While RG 170 is expressed to apply to fundraising documents under Chapters 6 and 7 of the Act, it provides useful guidance for inclusion of prospective financial information in expert reports. RG170 states that indicative factors that may amount to reasonable grounds for stating prospective financial information include when:

- The information relates to options on forward sales contracts or leases that lock in future expenses and revenue;
- The information is underpinned by independent industry experts' reports and/or investigating accountants' reports; and
- The information includes reasonable short term estimates (not exceeding two years).

BDO has reviewed the forecast provided by Newzulu and we do not consider that we have reasonable grounds to include the prospective financial information. Given Newzulu has historically been loss making, has a limited financial history on which to assess the reasonableness of assumptions in the forecast and has a lack of forward sales contracts that provide evidence of secured future revenue we are unable to value Newzulu using the DCF approach. We note that the lack of sales contracts is due to the nature of the industry whereby sales are generated from content relating to future events.

### 11.1.2 Net asset valuation of Newzulu

As shown in section 6.4, Newzulu on a consolidated basis is in a net liability position. The adjustments to the net asset position since 30 April 2014 are detailed below.

Net Asset Value	Newzulu (consolidated) Unaudited as at 30-Apr-14 \$	Adjustments \$	Adjusted NAV \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	53,126	-	53,126
Trade and other receivables	181,346	-	181,346
<b>TOTAL CURRENT ASSETS</b>	<b>234,472</b>	<b>-</b>	<b>234,472</b>
<b>NON-CURRENT ASSETS</b>			
Related party receivable- Matilda Media Pty Ltd	357	-	357
Property, plant and equipment	11,402	-	11,402
Intangible assets	2	-	2
<b>TOTAL NON-CURRENT ASSETS</b>	<b>11,761</b>	<b>-</b>	<b>11,761</b>
<b>TOTAL ASSETS</b>	<b>246,233</b>	<b>-</b>	<b>246,233</b>
<b>CURRENT LIABILITIES</b>			
Accounts payables	412,739	-	412,739
Employee benefits	167,144	-	167,144
Related party loan- Peter Scarf	49,764	-	49,764
<b>TOTAL CURRENT LIABILITIES</b>	<b>629,647</b>	<b>-</b>	<b>629,647</b>
<b>NON-CURRENT LIABILITIES</b>			
Related party loan- Matilda Media Pty Ltd	794,169	(794,169)	-
Related party loan- Peter Scarf	162,998	107,238	270,236
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>957,167</b>	<b>(686,931)</b>	<b>270,236</b>
<b>TOTAL LIABILITIES</b>	<b>1,586,814</b>	<b>(686,931)</b>	<b>899,883</b>
<b>NET ASSETS</b>	<b>(1,340,581)</b>	<b>686,931</b>	<b>(653,650)</b>

Source: BDO analysis

Management of Newzulu has advised that as at 30 April 2014 there was a loan outstanding from Peter Scarf which has increased to a total of \$320,000. On 11 June 2014, Newzulu entered into an agreement with Peter Scarf, which enables Newzulu to draw down an additional \$350,000, with \$49,764 of the balance due within five days of completion of the Acquisition. The remaining balance is due on the earlier of 31 December 2015 and within five days of the completion of a further \$3 million capital raising (in addition to the Placement).

Based on the above we have concluded that Newzulu is in a net liability position. Therefore we consider the net asset value of a Newzulu share to be nil.

### 11.1.3 Assessment of the value of Newzulu

After considering the above valuation methodologies, we have made the following conclusions:

- The DCF approach is often the most appropriate methodology to use in valuing technology companies such as Newzulu. However, we are bound by RG111 and RG170 in relation to the inclusion of prospective financial information and therefore unable to value Newzulu using this methodology as we do not have a reasonable basis to include the forecast financial information provided by Management.
- We do not consider that the NAV methodology accurately reflects the value of Newzulu. Newzulu is a technology company with a limited trading history. The core value of Newzulu is not in the assets on its balance sheet but rather in the technology held and its prospects to utilise this technology to generate revenue streams in the future. These prospects are not factored into the NAV methodology and therefore we consider that the NAV methodology undervalues Newzulu and is not an appropriate methodology to use.

We acknowledge that there is value in Newzulu, however in complying with RG111 we are unable to conclude on this value. As such, we have not included the value of Newzulu in our sum-of-parts valuation of PIE following the Acquisition.

### 11.2 Cash raised from Placement

The Acquisition is conditional upon the success of the Placement, which will raise \$3 million through the issue of 75 million shares at an issue price of \$0.04 per share. We have therefore increased the net asset position of PIE following the Acquisition to reflect the cash raised.

### 11.3 Cash raised from issue of Director Options

The Director Options are issued to Mr Alexander Hartman at an issue price of \$0.001 per option.

### 11.4 Discount for minority interest

The net asset value of a PIE share following the Acquisition is reflective of a controlling interest. This suggests that the acquirer obtains an interest in the company which allows them to have an individual influence in the operations and value of that company. Therefore, if the Acquisition is completed Shareholders may become minority interest shareholders in PIE as the Majority Vendors will hold a controlling interest, meaning that their individual holding will not be considered significant enough to have an individual influence in the operations and value of the Company.

Therefore, we have adjusted our valuation of a PIE share following the Acquisition, to reflect a minority interest holding. A minority interest discount is the inverse of a premium for control and is calculated using the formula  $1 - (1/1 + \text{control premium})$ . As discussed in Section 10.2, we consider an appropriate control premium for PIE to be in the range of 25% to 35%, giving rise to a minority interest discount in the range of 20% to 26%.

## 11.5 Number of shares on issue

Our adjustment to the number of shares on issue following the completion of the Acquisition and assuming the issue of the Advisor shares is set out in the table below.

Shares on issue following the Acquisition (undiluted basis)	
Number of shares on issue prior to the Acquisition	78,327,172
Shares to be issued on completion of the Acquisition	178,230,977
Shares issued pursuant to Placement	75,000,000
Shares to be issued to the Advisors	5,838,318
Number of shares on issue following the Acquisition (undiluted)	337,396,467

## 11.6 Valuation of PIE following the Acquisition on an undiluted basis

The value of a PIE share following the Acquisition on an undiluted basis is set out below:

Value of PIE following the Acquisition (undiluted basis)	Note	Low \$	Preferred \$	High \$
Net assets of PIE prior to the Acquisition		1,322,813	1,322,813	1,322,813
Value of Newzulu shares	11.1	N/A	N/A	N/A
Cash raised from Placement	11.2	3,000,000	3,000,000	3,000,000
Cash raised from issue of Director Options	11.3	20,000	20,000	20,000
Value of PIE following the Acquisition		4,342,813	4,342,813	4,342,813
Discount for minority interest	11.4	26%	23%	20%
Value of PIE following the Acquisition (minority interest basis)		3,213,682	3,343,966	3,474,250
Number of shares on issue (undiluted)	11.5	337,396,467	337,396,467	337,396,467
Value per share (\$) (undiluted)		0.0095	0.0099	0.0103

The table above shows our assessed value of a PIE share on an undiluted basis is between 0.95 cents and 1.03 cents, with a preferred value of 0.99 cents.

## 11.7 Valuation of PIE following the Acquisition on a diluted basis

Value of PIE following the Acquisition (diluted basis)	Note	Low \$	Preferred \$	High \$
Value of PIE following the Acquisition (undiluted)		4,342,813	4,342,813	4,342,813
Cash raised from exercise of Options	11.7.1	2,000,000	2,000,000	2,000,000
Value of PIE following the Acquisition (diluted)		6,342,813	6,342,813	6,342,813
Discount for minority interest		26%	23%	20%
Value of PIE following the Acquisition (diluted minority interest basis)		4,693,682	4,883,966	5,074,250
Number of shares on issue (diluted)	11.7.2	357,396,467	357,396,467	357,396,467
Value per share (\$) (diluted)		0.0131	0.0137	0.0142

The table above shows our assessed value of a PIE share on a diluted basis is between 1.31 cents and 1.42 cents with a preferred value of 1.37 cents.

### 11.7.1 Cash raised from exercise of Director Options

On completion of the Acquisition, the Company will issue 20 million Director Options exercisable at \$0.10 to Mr Alexander Hartman. In valuing a share in PIE following the Acquisition on a diluted basis, we have assumed these Director Options will be exercised and have adjusted cash accordingly.

### 11.7.2 Number of shares on issue

We have increased the number of shares on issue as a result of the Director Options being exercised by Mr Alexander Hartman.



## 12. Is the Acquisition fair?

We have compared the value of a PIE share prior to the Acquisition on a controlling interest basis with the value of a PIE share following the Acquisition on a minority interest basis on both an undiluted basis and diluted basis as detailed below:

	Ref	Low cents	Preferred cents	High cents
Value of a PIE share prior to the Acquisition on a controlling interest basis	10.3	1.69	1.69	1.69
Value of a PIE share following the Acquisition on a minority interest basis (undiluted)	11.6	0.95	0.99	1.03
Value of a PIE share following the Acquisition on a minority interest basis (diluted)	11.7	1.31	1.37	1.42

We note from the table above that the value of a share in PIE prior to the Acquisition on a controlling interest basis is greater than the value of a share in PIE following the Acquisition. Therefore, we consider that the Acquisition is not fair for Shareholders.

We note that the value of a PIE share following the Acquisition on a diluted basis is greater than the value of a PIE share on an undiluted basis. The diluted scenario is dilutive to existing Shareholders on a percentage held basis, but is not dilutive in terms of value. This is a result of the exercise price of the Director Options being greater than the value of a PIE share following the Transaction, therefore the cash generated from the exercise of the Director Options more than offsets the dilution arising from the issue of the shares.

In assessing fairness we have been bound by the guidelines of RG111 and RG170. As such, we were unable to assign a value to the interest in Newzulu being acquired under the Acquisition. We have considered the value to PIE of acquiring Newzulu in reasonableness in Section 13 of our Report.

### 13. Is the Acquisition reasonable?

#### 13.1. Advantages of approving the Acquisition

##### 13.1.1 Creation of a complementary business model

If the Acquisition is completed Newzulu brings the potential to enhance PIE's existing kiosks to become richer media collection and distribution points. PIE's existing network may provide Newzulu with an edge in collecting media in regions that are poorly networked and less accessible for other media groups.

##### 13.1.2 Integration of the businesses may provide synergies

PIE intends to integrate both management and technical development resources, which may offer opportunities for improvements to intellectual property, sales and marketing and administrative functions, thereby reducing overhead costs.

Whilst the magnitude of synergies is not determinable at this point, it is anticipated that, given the complementary nature of PIE's internet related services to Newzulu's citizen news and advertising platform, there may be significant synergy benefits in combining the two businesses. In particular, the Company has identified that the Newzulu business may benefit from the Company using Newzulu's webpage as the homepage for its WiFi hot spots, kiosks and terminals. This will allow the Company to obtain access to news provider content without incurring the prohibitive costs that other users would incur. It may also provide Newzulu with an advertising platform in which it can use PIE's WiFi hot spots, kiosks and terminals to inform users of how to contribute to the Newzulu webpage and mobile applications.

##### 13.1.3 Creation of a combined group with a more diversified business

If the Acquisition is completed PIE will create a group that has a more diverse set of operations. The Company will continue to provide its pieWebphone, pieInternet and pieWi-Fi services whilst incorporating Newzulu's operations as detailed in section 6.2.

With the increased use and availability of mobile technology, coupled with the decline in prices and increased availability of wireless internet connections, the demand for PIE's products and services are in a declining trend. This is evident from section 5.4 which shows the Company recorded operating losses for each of the years ended 30 June 2012 and 2013 and the half year ended 31 December 2013. As outlined in section 8, this evolution of mobile technology is the basis for the growth opportunities in the online media industry with Newzulu relying on this technology.

Therefore, the Acquisition allows the company to diversify its exposure to this business risk.

##### 13.1.4 Opportunity for further growth of the combined businesses

Currently PIE operates in a relatively mature industry, with limited growth prospects, whereas the online citizen journalism industry is in a startup phase and therefore provides the Company with significant growth opportunities. If the Acquisition is completed, PIE will have the opportunity to capitalise on this growth area of the online media industry.

### 13.1.5 The Placement provides the Company with funding

A condition precedent to the Acquisition is PIE completing the Placement, whereby the Company will raise \$3 million through the issue of 75 million shares to sophisticated and professional investors at \$0.04 per share. This funding will be retained by the Company for working capital and to further develop Newzulu's business model. The success of the Placement is conditional on the Acquisition being completed.

### 13.1.6 The Acquisition will increase the market capitalisation of the Company

If the Acquisition is completed the Company will increase its market capitalisation. As a larger company, there is a potential for greater broker coverage and presence in the Australian market. This may increase the Company's ability to secure funding going forward.

## 13.2. Disadvantages of approving the Acquisition

### 13.2.1 The Acquisition is not fair

As outlined in Section 12, the Acquisition is not fair for Shareholders.

### 13.2.2 Dilution of existing Shareholders' interests

If the Acquisition is completed then existing Shareholders' interests will be diluted. On an undiluted basis, assuming the Director Options issued to Mr Alexander Hartman are not exercised, Shareholders will be diluted from holding 100% of the Company to holding an interest of 45.44%. On a diluted basis, assuming Mr Alexander Hartman exercises the Director Options, existing Shareholders' interests will be diluted from 100% to 42.90%.

### 13.2.3 Potential lower liquidity of shares

If the Acquisition is completed, trading in PIE shares may be negatively affected by the presence of the Majority Vendors holding a potential 49.03% ownership interest. The existing shares will therefore have a materially lower free float on a proportional basis which may reduce liquidity. We note that if the Acquisition is completed, given the potential growth of the Company, absolute liquidity may increase. However, as noted in section 10.2, the Company's shares already demonstrate a low level of liquidity.

## 13.3. Other considerations

### 13.3.1 Alternative Proposals

We are unaware of any alternative proposal that might offer the Shareholders of PIE a premium over the value ascribed to, resulting from the Acquisition.

### 13.3.2 Value evident from comparable market transactions

Given the constraints of RG111 and RG170 in relation to prospective financial information, we have been unable to rely on management's forecast cash flows in assessing the value of Newzulu. As a result, we have not incorporated the value of Newzulu into our assessment of the value of PIE following the Acquisition. Therefore the value of Newzulu has not been captured in our fairness assessment in section 12.

Despite us not being able to reliably value Newzulu, we still consider there to be value in Newzulu. We have considered recent comparable market transactions in order to give an indication of the value that

the marketplace assigns to company's operating in a similar industry. Set out below is a brief description of the transactions that we consider most comparable to Newzulu.

### Storyful

On 20 December 2013, News Corporation ('NewsCorp') announced its 100% acquisition of Crowdflash Limited (trading as 'Storyful') for US\$25 million. Storyful was founded in 2010 and operates in a similar space to Newzulu with the main difference between the two companies being that Storyful deals only in videos. The company's newswire allows newsrooms to quickly and accurately source breaking news on the social web, with Storyful delivering approximately 1,000 verified videos to its news partners. Storyful also has the first verified and licensed archive of user-generated content with over 110,000 videos that have generated billions of views.

### Demotix

On 14 November 2012, Corbis Corporation acquired Demotix Ltd ('Demotix') for an undisclosed amount. Demotix was incorporated in 2008 and is based in London. It operates a picture and video newswire community which enables users, and photo and video journalists to upload their news stories, images, and videos to the platform. The company also licenses its users work directly to newspapers and broadcasters all over the world. At the time of acquisition it was estimated that Demotix have 6,500 active freelance professional and semi-professional photographers who contribute approximately 50,000 images per month.

### IStock

On 9 February 2006, Getty Images Inc completed its acquisition of IStock International Inc ('IStock') for reported consideration of approximately US\$50 million. IStock is an image and design community which enables its members to buy and sell photos, illustrations, videos and audio online. Once approved, photographers can begin uploading their work through the website. They supply keywords, categorize the images, and submit them to the inspection queue, where each image is examined to ensure that it meets the standards of quality, usefulness and copyright and trademark laws. Contributors then receive a commission of between 15% and 40% of each sale, depending on the exclusivity and quality of the item submitted. We note that in 2006, IStock recorded earnings of approximately US\$22 million, which indicates that at the time of acquisition, its business was further progressed than Newzulu's current business.

### BigStockPhoto

On 23 September 2009, Shutterstock Inc ('Shutterstock') announced the acquisition of SS SPV LLC (trading as 'BigStockPhoto'). BigStockPhoto was founded in California in 2004 and at the time of the acquisition had approximately 3.7 million royalty-free photos. The company also provides a platform for its members to sell images to media outlets. The cash consideration paid by Shutterstock for its acquisition of BigStockPhoto was US\$3.3 million.

Given the lack of information available in the public domain, we have been unable to rely on these transactions to value Newzulu, however it does indicate there is a market for social media and citizen journalist web platforms which provides evidence that there is value in the Newzulu acquisition.

### 13.3.3 Practical Level of Control

If the Acquisition is completed then the Majority Vendors will hold a maximum interest of approximately 49.03% in PIE (assuming Mr Alexander Hartman exercises the Director Options). In addition to this, Mr Alexander Hartman, the Managing Director will be appointed to the Board of PIE.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter. If the Acquisition is completed then the Majority Vendors will be able to block special resolutions.

PIE's Board currently comprises three directors. If the Acquisition is completed, Newzulu will nominate one additional director which will take PIE's Board to four directors.

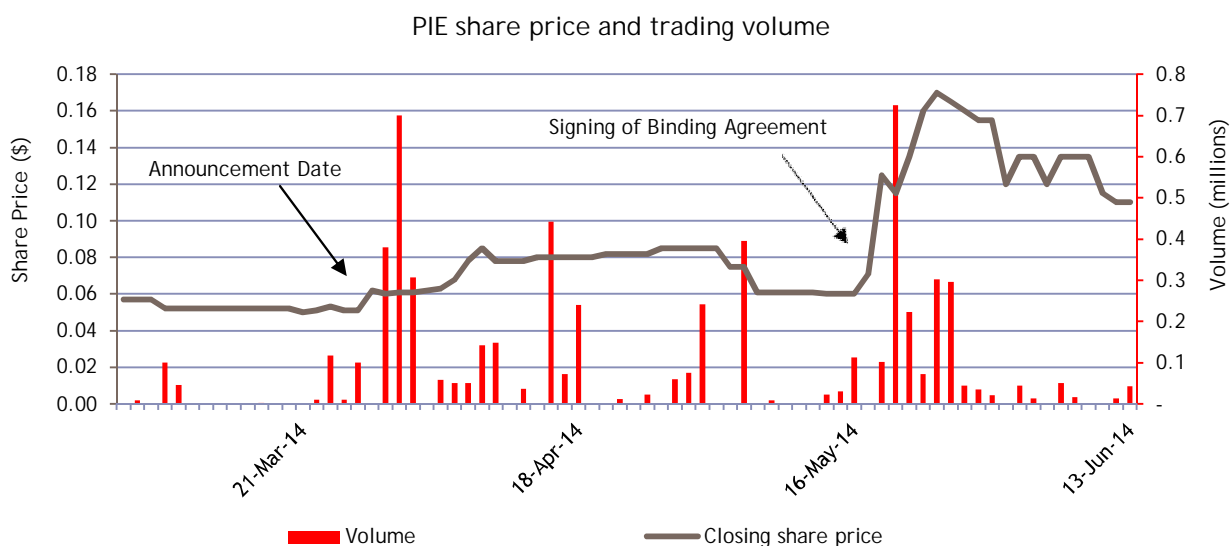
### 13.3.4 Change in risk profile of investment

If the Acquisition is completed the Company will go from being predominantly a web kiosk provider to an online media and citizen journalism platform. This shift in the Company's focus may not suit the risk profile and appetite of Shareholders.

### 13.3.5 Consequences of not Approving the Acquisition

#### Potential decline in share price

We have analysed movements in PIE's share price since the Acquisition was announced. A graph of PIE's share price since the announcement is set out below.



Source: Bloomberg

The Acquisition was announced to the market on 28 March 2014. On that day, approximately 0.38 million shares were traded and PIE's share price closed 21.57% higher to \$0.062. Since the announcement, PIE's share price has traded between \$0.050 and \$0.18. On 16 May 2014, the Company announced that it had entered into a binding agreement to acquire Newzulu, with the terms of the Acquisition being modified to

replace the contingent consideration with upfront consideration. On the day of the announcement of the signing of the binding agreement, PIE's share price closed 1.64% lower at \$0.060 per share.

PIE's share price on 26 March 2014 closed at \$0.051, being the day prior to the trading halt imposed on the Company's shares. On 26 May 2014, the share price of PIE reached \$0.180 per share, closing at \$0.170.

Given the above analysis it is possible that if the Acquisition is not completed then PIE's share price may decline to its pre-announcement level.

## 14. Conclusion

We have considered the terms of the Acquisition as outlined in the body of this report and have concluded that the Acquisition is not fair but reasonable to the Shareholders of PIE.

## 15. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Share Sale Agreement between PIE and Newzulu;
- Audited financial statements of PIE for the years ended 30 June 2013 and 30 June 2012;
- Reviewed financial statements of PIE for the half year ended 31 December 2013;
- Unaudited Management Accounts of Newzulu for the ten months ended 30 April 2014;
- Share registry information for PIE and Newzulu;
- Information in the public domain; and
- Discussions with Directors and Management of PIE and Newzulu.

## 16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$35,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by PIE in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the PIE, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Newzulu and PIE and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Newzulu and PIE and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with PIE, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to PIE and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

## 17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty five years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 200 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 16 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

## 18. Disclaimers and consents

This report has been prepared at the request of PIE for inclusion in the Notice of Meeting which will be sent to all PIE Shareholders. PIE engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proposed acquisition of Newzulu through the issue of greater than 20% of the issued capital of PIE.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Notice of Meeting. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Notice of Meeting other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Newzulu. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

The forecasts provided to BDO Corporate Finance (WA) Pty Ltd by Newzulu and its advisors are based upon assumptions about events and circumstances that have not yet occurred. Accordingly, BDO Corporate Finance (WA) Pty Ltd cannot provide any assurance that the forecasts will be representative of results that will actual be achieved. BDO Corporate Finance (WA) Pty Ltd disclaims any possible liability in respect of these forecasts. We note that the forecasts provided do not include estimates as to the effect of any future emissions trading scheme should it be introduced as it is unable to estimate the effects of such a scheme at this time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Acquisition, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of PIE, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD



Adam Myers  
Director



Sherif Andrawes  
Director



## Appendix 1 – Glossary of Terms

Reference	Definition
AAP	Australian Associated Press
AFP	Agence France Press
The Act	The Corporations Act 2001 (Cth)
Acquisition	The issue of 178,230,977 shares in PIE for the acquisition of 100% of the issued capital of Newzulu.
The Advisors	TMT Partners Pty Ltd and Wentworth Global Capital Partners Pty Ltd
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
BigStockPhoto	SS SPV LLC (trading as BigStockPhoto)
The Company	PieNetworks Limited
DCF	Discounted Future Cash Flows
Demotix	Demotix Ltd
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
eCrucis	eCrucis Pty Ltd (a company associated with Mr Phil Kiely)
FME	Future Maintainable Earnings
IStock	IStock International Inc
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
Matilda Media	Matilda Media Pty Ltd

Majority Vendors	Mr Alex Hartman, Mr Peter Scarf and all associated entities
Minority Vendors	Other Newzulu Vendors, not associated with the Majority Vendors
NAV	Net Asset Value
NewsCorp	News Corporation
Newzulu	Newzulu Limited
Newzulu Vendors	The collective shareholders of Newzulu
Newzulu Wire	Newzulu Wire and Photo Agency Operations
Our Report	This Independent Expert's Report prepared by BDO
PIE	PieNetworks Limited
QMP	Quoted market price
RG 74	Acquisitions Approved by Members
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
RG 170	Prospective Financial Information
Shutterstock	Shutterstock Inc
Storyful	Crowdfunder Limited, trading as Storyful
TMT	TMT Partners Pty Ltd
The Acquisition	The proposal to issue 178,230,977 PIE shares to the Newzulu Vendors as consideration for the acquisition of Newzulu. The Company will also issue 20 million Director Options to Mr Alexander Hartman, the Managing Director of Newzulu and 5,838,318 shares to Advisors.
Shareholders	Shareholders of PieNetworks Limited not associated with Newzulu Limited
Placement	The Acquisition is conditional upon the Company completing a placement to sophisticated and professional investors to raise \$3 million through the issue of 75 million shares at an issue price of \$0.04 per share.
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or

	Assignment available to the Valuer at that time.
Director Options	On completion of the Acquisition, the Company will issue 20 million options exercisable at \$0.10 on or before 30 June 2017, to Mr Alexander Hartman, the Managing Director of Newzulu
VWAP	Volume Weighted Average Price
Wentworth Capital	Wentworth Global Capital Partners Pty Ltd

## Appendix 2 – Valuation Methodologies

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Methodologies commonly used for valuing assets and businesses are as follows:

♦ *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

♦ *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

♦ *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

♦ *Discounted future cash flows ('DCF')*

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

♦ *Market Based Assessment*

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.