

**DEPARTMENT 13
INTERNATIONAL LIMITED**
[ABN 36 155 396 893]
(the Company)

PROSPECTUS

For an issue of up to 75,000,000 convertible notes (**the Convertible Notes**) at an issue price and having face value of \$0.10 (ten cents) each (**the Offer**).

The Offer is only made to and able to be accepted by invitees determined by the Company who receive a personalised application form.

THIS DOCUMENT IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY

It is important that you read this Prospectus carefully before deciding to accept the Offer. If you do not understand its contents you should consult your stockbroker, accountant or other professional adviser.

The Convertible Notes offered under this Prospectus are considered speculative

henslow^o

Manager of the Offer

CORPORATE DIRECTORY

Department 13 International Limited
[ABN 36 155 396 893]

Directors

Jonathan Hunter – Chairman and Chief Executive Officer

Steven James Shattil – Executive Director

Kathleen Louise Kiernan – Executive Director

Alvin Norman Teller – Executive Director

Philip George – Non-Executive Director

Timothy John Davies – Non-Executive Director

Company Secretary

Tharun Kuppanda

Registered Office

Suite 5, 531 Hay Street, Subiaco, Western Australia, 6008

Correspondence

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ASX Code

D13

Web Site

www.department13.com

IMPORTANT NOTICES

This prospectus (**Prospectus**) is dated 21 March 2018. A copy of this Prospectus was lodged with the Australian Securities & Investments Commission (**ASIC**) on the same date. Neither ASIC nor ASX Limited (**ASX**) nor their respective officers take any responsibility as to the contents of this Prospectus.

This Prospectus has been issued by, and the Offer in this Prospectus is being made by, Department 13 International Limited (**D13** or **the Company**).

Subject to the *Corporations Act* 2001 (Cth) (**the Corporations Act**), the ASX listing rules and other applicable laws, the Company reserves the right to close the Offer early, to extend the closing date and/or any other dates, or not to proceed with the Offer described in this Prospectus.

This Prospectus is for an offer of convertible securities (the Convertible Notes) convertible to continuously quoted securities (shares). Accordingly is not required by the Corporations Act to contain all the information normally required to be set out in a document of this type.

The Company's shares are currently suspended from trading on ASX, pending completion of the issue of the Convertible Notes and ASX being satisfied that the shares should be reinstated to trading. A reference to shares as being quoted securities or being listed is a reference to the shares subject to suspension from trading.

The Prospectus incorporates by reference certain information contained in documents lodged with ASIC. A document incorporated in the Prospectus in this manner may be obtained free of charge from the Company during the application period.

No person is authorised to give any information or make any representation in connection with this Prospectus that is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with the Offer.

No account has been taken of particular objectives, financial situation or needs of recipients of this Prospectus. Recipients of this Prospectus should have regard to their own objectives, financial situation and needs. Recipients of this Prospectus should make their own independent investigation and assessment of the Company, its business, assets and liabilities, prospects and profits and losses, and risks associated with investing and seek independent expert advice before making any decision regarding accept the Offer, applying for or acquiring Convertible Notes, converting Convertible Notes, or making an investment in the Company.

Any references to documents included on the Company's or any other websites (if any) are provided for convenience only, and unless otherwise stated none of the documents or other information on those websites is incorporated by reference into this Prospectus.

The Offer of Convertible Notes under this Prospectus and any application concerning the issue of Convertible Notes under this Prospectus, shall be governed and construed in accordance with the laws applying in the State of Victoria, Australia.

All monetary amounts in this Prospectus are in Australian dollars unless otherwise stated. All dates and times are dates and times in Melbourne, Victoria, Australia unless otherwise stated.

TIMETABLE

Lodgement of Prospectus	21 March 2018
Offer Period opens	21 March 2018
Closing Date	22 March 2018 at 6:00pm Melbourne time

*The above dates should be regarded as **indicative only and may change without notice**. All dates and times are Melbourne, Victoria, Australia time. Subject to the Corporations Act, the ASX listing rules and other applicable laws, the Company reserves the right to change the above dates, close the Offer before the date stated above, extend the Closing Date, and subsequent dates, to accept eligible applications after the Closing Date, or not to proceed with the Offer.*

No securities will be issued on the basis of this Prospectus after 20 April 2019, being the expiry date of this Prospectus.

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TRANCHE 1 AND 2 CONVERTIBLE NOTES

The Offer in this Prospectus is for an initial tranche (tranche 1) of up to 75,000,000 Convertible Notes.

As announced on 5 February 2018, the Company proposes issuing a further tranche (tranche 2) of up to 45,000,000 Convertible Notes to raise up to \$4,500,000 before issue costs. The tranche 2 Convertible Notes would have the same issue price and face value, same maturity date and substantially the same terms as the tranche 1 Convertible Notes. The issue of the tranche 2 Convertible Notes will be subject to shareholder approval.

The Company will make further announcements to ASX about the tranche 2 Convertible Notes, including (if issued) releasing a copy of the notice of the general meeting at which approval to issue the tranche 2 Convertible Notes is sought.

The tranche 2 Convertible Notes are not offered under this Prospectus. If shareholders approve the issue of the tranche 2 Convertible Notes, the Company will issue a further prospectus and/or a cleansing notice (depending on and in accordance with the requirements of the Corporations Act as applying to the Company at that time).

The Offer and issue of tranche 1 Convertible Notes are not dependent upon or subject to shareholder approval, nor dependent upon or subject to the issue of the tranche 2 Convertible Notes, and it should not be assumed that any or all of the proposed tranche 2 Convertible Notes will be issued at any particular time or at all.

All references to Convertible Notes in this Prospectus, other than where expressly referring to tranche 2 Convertible Notes, are to tranche 1 Convertible Notes only.

KEY INVESTMENT RISKS – SUMMARY

Please read and consider this Prospectus in full in conjunction with any specific matters which have or may be referred to in the Company's ASX announcements before making any decision regarding applying for Convertible Notes, converting Convertible Notes, or making an investment in the Company. In particular, the risks described in Section 5 include risk areas considered specific to the Company including:

- Dependency on government budgets
- Patent rights
- Protection of intellectual property rights
- Infringement of third party intellectual property rights
- Technology risk
- Drone usage
- Regulatory environment
- Competition and new technologies
- Research and development activities
- Sufficiency of funding
- Limited trading history
- Reliance on key personnel
- Research and development
- Dependence on outside parties
- Foreign exchange risks
- Dilution

In addition to the above, there are other risks of a more general nature, such as general economic and market conditions that are applicable to the Company.

ABOUT THE OFFER - SUMMARY

The following summary provides only a limited overview of the Offer. Further detail is set out in this Prospectus. Please read and consider this Prospectus in full before making any decision regarding applying for Convertible Notes, converting Convertible Notes, or making an investment in the Company.

Topic	Summary	For more information see:
What is the Offer?	An offer of Convertible Notes to invitees determined by the Company (called the Offer).	Section 1.1
What is the purpose of the Offer?	To facilitate the issue of up to 75,000,000 Convertible Notes.	Section 2.1
How much will be raised by the Offer?	Up to \$7,500,000 before costs of the Offer. Anticipated costs of the Offer are set out in Section 4.3.	Sections 1.1 and 4.3
Is there a minimum subscription?	There is no minimum subscription amount.	Section 1.2
Is the Offer underwritten?	No.	Section 1.2
Who is manager of the Offer?	The Offer is managed by Henslow Markets Pty Ltd [ACN 618 849 844] ("Henslow"), a corporate representative of Henslow Pty Ltd [ACN 605 393 137] [AFSL 483168].	Section 1.3
Will the Convertible Notes be quoted?	The Convertible Notes offered under this Prospectus will not be quoted (listed). The Company will apply for quotation (listing) of shares issued upon conversion of Convertible Notes.	Section 1.5
What are the terms of the Convertible Notes?	A summary of the terms of the Convertible Notes is set out in Annexure A. Shares issued if Convertible Notes are converted will be fully paid ordinary shares that rank equally in all respects with the Company's shares already on issue.	Section 1.6 and Annexure A.
What is the Offer price?	Each Convertible Notes has an issue price and face value of 10 cents (\$0.10).	Section 4.1 and Annexure A
What is the term and maturity date of the Convertible Notes?	Two years, ending on the second anniversary of the first date of issue of Convertible Notes (the "maturity date").	Section 4.1 and Annexure A
What is the interest rate (coupon)?	12% per annum, payable in cash in arrears on the last day of each three month period (a "quarter"), with the first quarter commencing on the first date of issue of the Convertible Notes, and on the maturity date.	Annexure A
When can Convertible Notes convert?	Each holder of Convertible Notes can choose to convert all, some or none of its Convertible Notes on the last day of each quarter (described above). The last day that a holder may convert Convertible Notes is the maturity date.	Annexure A

Topic	Summary	For more information see:
What happens on the maturity date if Convertible Notes have not been converted?	The Company must repay the face value of the then remaining Convertible Notes to the holder, together with any then unpaid interest, in cash.	Annexure A
Are the Convertible Notes secured?	Yes. The Convertible Notes will be secured by a first ranking security interest over all the assets and undertaking of the Company and its subsidiaries.	Annexure A
Are there risks associated with investment in the Company?	<p>There are risks associated with investment in the Company. These include risks relating to the Company, risks relating to the Offer and the Convertible Notes, and risks associated with financial investment generally.</p> <p>Please carefully consider the risks and the information contained in this Prospectus in conjunction with any specific matters which have or may be referred to in the Company's ASX announcements before making any decision regarding applying for or acquiring Convertible Notes or otherwise making an investment in the Company.</p>	Page 5 and Section 5
Am I eligible to apply for Convertible Notes?	You will only be eligible to apply for and receive Convertible Notes under the Offer if you receive a written invitation to apply and personalised application form from the Company.	Section 1.1
What if I am not invited to participate in the Offer?	If you do not receive a written invitation from the Company to participate in the Offer and a personalised application form then you will be unable to apply for and receive Convertible Notes.	Section 1.1
How do I accept the Offer?	<p>Only recipients of a written invitation and personalised application form from the Company may apply for Convertible Notes.</p> <p>If you have received a written invitation and personalised application form from the Company to participate, to accept the applicable Offer complete and return the form to the Company by no later than 6 pm (Melbourne time) on the Closing Date.</p>	Section 6
What are the taxation implications of participating in the Offer?	Taxation implications will vary depending upon the specific circumstances of the investor. You should obtain professional advice as to the taxation treatment applicable to you.	Section 10
How and when will I know if my application was successful?	Certificates are anticipated to be dispatched on or about 22 March 2018.	Section 6.2
Where can I find more information about the Company?	For more information on the Company please see the Company's website (www.department13.com) or refer to the Company's ASX announcements (available on the ASX's website www.asx.com.au under the code "D13").	Section 8

Topic	Summary	For more information see:
What if I have questions about the Offer or how to apply?	<p>You should consult your stockbroker, accountant, solicitor or other professional adviser before making any decision regarding applying for Convertible Notes.</p> <p>If you have any questions regarding how to complete and return the acceptance form, contact details will be included in the form.</p> <p>Questions concerning the Offer can also be directed to the Company Secretary, Mr Tharun Kuppanda, on +61 2 9290 9600.</p>	Section 17

1. Details of the Offer

1.1 The Offer

The Offer are only made to and able to be accepted by persons who receive an invitation to participate in the Offer and a personalised application form.

The issue of the Convertible Notes offered under this Prospectus will be made under the Company's existing capacity under the listing rules of ASX to issue or agree to issue securities without requiring shareholder approval.

The Offer closes on 22 March 2018 at 6:00 pm Melbourne time (unless closed early or extended).

1.2 No Underwriting or Minimum Subscription

The Offer is not underwritten. There is no minimum subscription for Convertible Notes under the Offer.

1.3 Manager

The Offer is managed by Henslow. Details of the fees and commissions payable to Henslow are set out in Section 4.3.

1.4 Issue of Securities after Closing Date

The Board reserves the right to issue securities in response to applications received after the Closing Date.

1.5 ASX Listing

The Convertible Notes offered under this Prospectus will not intended be quoted (listed). Official quotation of the Convertible Notes offered under this Prospectus is not being applied for and is not a condition of the Offer. It is expressly not stated or implied that permission will be sought for the official quotation of the Convertible Notes, or that official quotation of the Convertible Notes will granted within three months or any other period after the date of this Prospectus.

The Company will apply to ASX for admission of the shares issued upon conversion of Convertible Notes to official quotation within 7 days of the date of this Prospectus. The fact that ASX may grant official quotation to the shares is not to be taken in any way as an indication of the merits of the Company or its securities.

1.6 Terms of the Convertible Notes

A summary of the terms of the Convertible Notes is set out in Annexure A.

2. Purpose and effect of the Offer

2.1 Purpose of the Offer

The purpose of this Prospectus (and the Offer made under it) is to facilitate the issue of Convertible Notes, under the Convertible Note Deed and related transaction documents, as announced by the Company to ASX on 5 February 2018.

2.2 Use of the proceeds of the Offer

The funds raised by the issue of the Convertible Notes are intended to be applied as follows:

	\$
Working capital and general administration	4,955,000
Intellectual property acquisition	1,800,000
Costs of issue (see Section 4.3)	745,000
TOTAL	7,500,000

The above table assumes all the Convertible Notes offered are issued. The amounts are approximate and subject to change in accordance with the Board's assessment of circumstances at the relevant time.

3. Effect of the Offer on the Company

The effect of the Offer on the Company in combination will be to:

- increase the Company's cash reserves as described in Section 4.3;
- give rise to the Company having a liability for the amount of the face value of the Convertible Notes, as described in Section 4.3;
- increase the number of unquoted secured Convertible Notes on issue from nil to up to 75,000,000 as set out in Section 4.1;
- if all the Convertible Notes offered were to be converted, increase the number of shares on issue at that time by 75,000,000 shares as described in Section 4.2.

4. Effect on the Capital Structure of the Company

4.1 Capital Structure (Shares, Options, Performance Rights and Convertible Notes)

The tables below set out the existing capital structure of the Company and the effect on the Company's capital structure of the Offer.

SHARES

Existing issued ordinary shares (fully paid) 529,111,967

- Notes:
1. 11,250,000 shares are subject to voluntary escrow to 3 August 2018.
 2. The Company proposes seeking shareholder approval (at the general meeting at which shareholder approval to issue the tranche 2 Convertible Notes will be sought) for the voluntary escrow of 200 million existing shares owned by management and founders until 18 December 2018, as announced to ASX on 16 November 2017.
 3. Does not include shares which may be issued upon exercise of options or conversion of performance rights.
 4. If all the Convertible Notes offered were to be converted the number of shares on issue would increase by 75,000,000 (see Section 4.2).

OPTIONS

Existing Options (all unlisted)

Number of options	Vesting Date*	Expiry Date*	Exercise price
36,625,268	Fully vested	18 December 2020	2.5 cents
1,350,000	28 December 2020	28 December 2022	25 cents
1,525,000	28 December 2020	28 December 2022	40 cents
1,640,000	28 December 2020	28 December 2022	50 cents

* Subject to earlier lapse or cancellation in accordance with the applicable terms of issue.

PERFORMANCE RIGHTS

Existing Performance Rights (all unlisted)

Number of Performance Rights	Expiry/ Last date for fulfilment of performance condition(s)/conversion*
40,000,000	18 December 2018
3,275,000	3 August 2024
8,000,000	28 December 2024
5,250,000	28 December 2020

* Subject to earlier lapse or cancellation in accordance with the applicable terms of issue.

CONVERTIBLE NOTES

Convertible Notes to be issued under the Offer (all unlisted)

Maximum number of Convertible Notes	Maturity Date	Conversion price
75,000,000	Two years after the first date of issue	\$0.10 (10 cents)

4.2 Dilution and control

The percentage shareholding in the Company of shareholders will be diluted if Convertible Notes offered were to be converted.

If all the Convertible Notes offered were to be converted, the number of shares on issue at the time would increase by 75,000,000. The existing total shares on issue (529,111,967 shares) would represent 87.6% of the total shares on issue, and the shares issued if all the Convertible Notes offered were to be converted would represent approximately 12.4% of the total shares on issue, if no other shares had been issued before the Convertible Notes converted. There is no certainty that all the Convertible Notes offered would be converted at any particular time or at all.

The dilutive effect if all the Convertible Notes offered were to be converted outlined below does not consider shares received by an example existing shareholder (if any) upon exercise of options or conversion of performance rights.

Examples of the impact of dilution on existing shareholders who do not receive Convertible Notes if all the Convertible Notes offered were to be converted are set out below:

Shareholder (example)	Example share holding	Existing shares %	% of total shares if all the offered Convertible Notes convert
A	1,000,000	0.19%	0.17%
B	5,300,000	1.00%	0.88%
C	13,250,000	2.50%	2.19%
D	25,000,000	4.72%	4.14%
E	30,200,000	5.71%	5.00%

As at the date of this Prospectus the Company had received notice of four holdings of relevant interests in 5% or more of the Company's voting shares (substantial shareholdings). The impact of dilution on the existing substantial shareholders, assuming there has been no change in the respective holdings since last reported to the Company and that these holders do not acquire or convert Convertible Notes, if all the Convertible Notes offered were to be converted, are set out below:

Substantial holder (and/or associates)	Current relevant interest	Existing shares %	% of total shares if all the offered Convertible Notes convert
Jonathan Hunter	41,600,000	7.86%	6.89%
Robi Sen	40,000,000	7.56%	6.62%
Roger Davies	33,200,000	6.27%	5.50%
Paul McCarthy	30,800,000	5.82%	5.10%

4.3 **Financial effect - Pro-Forma Consolidated Statement of Financial Position of the Company**

		Reviewed Consolidated Group	Pro Forma Adjustments	Pro Forma Consolidated Group (Unaudited)
		31 Dec 2017		31 Dec 2017
	Note	\$	\$	\$
ASSETS				
Current Assets				
Cash and cash equivalents	1	890,488	4,955,000	5,845,488
Trade and other receivables		708,650	-	708,650
Inventory		463,226	-	463,226
Total Current Assets		2,062,364	4,955,000	7,017,364
Non-Current Assets				
Trade and other receivables		42,817	-	42,817
Property plant and equipment		279,540	-	279,540
Internally developed software	2	3,717,413	1,800,000	5,517,413
Total Non-Current Assets		4,039,770	1,800,000	5,839,770
Total Assets		6,102,134	6,755,000	12,857,134
LIABILITIES				
Current Liabilities				
Trade and other payables		1,170,111	-	1,170,111
Total Current Liabilities		1,170,111	-	1,170,111
Non-Current Liabilities				
Financial liabilities	3	-	6,755,000	6,755,000
Total Non-Current Liabilities		-	6,755,000	6,755,000
Total Liabilities		1,170,111	6,755,000	7,925,111
Net Assets		4,932,023	-	4,932,023
EQUITY				
Contributed equity		20,266,585	-	20,266,585
Reserves		(62,588)	-	(62,588)
Accumulated losses		(15,271,974)	-	(15,271,974)
Equity		4,932,023	-	4,932,023

Pro Forma Adjustments and Assumptions

The Pro Forma Historical Consolidated Financial Information give effect to the placement of \$7,500,000 in Secured Convertible Notes contemplated under this Prospectus, assuming all the Convertible Notes offered are issued, as if they had occurred on the date being presented, being 31 December 2017. Unless specifically described, the Pro Forma Historical Consolidated Financial

Information does not include adjustments for business occurring after 31 December 2017 that do not relate to the Placement contemplated under this Prospectus. The pro forma adjustments are as follows:

1. Anticipated cash position following the issue of the Convertible Note is as follows:

	\$
Convertible Note proceeds	7,500,000
Less:	
Anticipated costs of issuing Convertible Note	
- Brokerage and arrangement fees*	(550,000)
- Legal fees^	(179,000)
- Other fees	(16,000)
Net Convertible Note proceeds	<u>6,755,000</u>
Asset purchase (see Note 2)	<u>(1,800,000)</u>
Net increase in Cash and Cash Equivalents	<u>\$4,955,000</u>

* Henslow has been or will be paid a monthly retainer of \$10,000 per month (a total \$20,000 to the date of this Prospectus), a management fee of 2% and a commission of 4% of the amount raised by the Offer, and a success fee of \$40,000. Further payments of the monthly retainer amount will be made until the retainer is terminated. Henslow will also be reimbursed for its reasonable out of pocket expenses. In the past two years \$60,000 has been paid or has accrued for previous services provided by Henslow.

^ Includes anticipated security trustee's and investors' legal fees where payable by the Company.

2. A payment of approximately \$1,800,000 in connection with an acquisition of intellectual property, details of which were included in the Company's announcement to ASX on 21 March 2018.
3. The issue of \$7,500,000 in Secured Convertible Notes (assuming all Convertible Notes offered are issued), the proceeds of which are recognised as follows:

	\$
Convertible Note – debt host component	3,920,301
Convertible Note – derivative liability	<u>2,834,699</u>
	<u>6,755,000</u>

The term of the loan is two years and interest is due and payable at a rate of 12% per annum quarterly in cash. The Convertible Note agreement provides that the lender may convert the amount outstanding to ordinary shares at A\$0.10 per share.

The assessed fair values of the embedded derivatives are determined using a Black-Scholes option pricing model and will be revalued at conversion and/or reporting date.

Key Inputs

Underlying share price	\$0.088
Deemed exercise price (27 March 2018)	\$0.100
Risk free rate	1.96%
Volatility	85%
Expected term	24 months
Anticipated costs to issue Convertible Note (Brokerage, legal and lodgement fees etc)	\$745,000

Basis of preparation of pro-forma statement of financial position

The above pro-forma statement has been prepared in accordance with ASIC Regulatory Guide 230 Disclosing non-IFRS Financial Information issued in December 2011.

The Financial Statements for the half-year ended 31 December 2017 have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. The auditor's report in the Financial Statements for the half-year ended 31 December 2017 included a conclusion regarding material uncertainty relating to the company's ability to continue as a going concern. Investors may request a copy of the 31 December 2017 half-year Financial Report and Annual Financial Report for the year ended 30 June 2017. In addition, a copy may be downloaded from the Company's announcement page on the ASX web-site.

The pro-forma statement of financial position is based on half-year accounts at 31 December 2017 which have been subject to audit review and has been prepared to provide shareholders with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company following completion of the Offer assuming all Convertible Notes offered are issued. The pro-forma financial information is presented in abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards application to half-year financial statements

All amounts are shown in Australian dollars and are plus GST where applicable.

5. Risks

The Company's business activities are subject to a range of risks that may in the future affect the performance of the Company and the value of its securities.

The summary below represents some of the major risk factors to be aware of in evaluating the Company's business and the risks of an investment in the Company before making any decision regarding the Convertible Notes or other securities of the Company. The summary is not exhaustive.

The Company will make announcements regarding its activities and proposals in accordance with its obligations as a continuously disclosing entity. Shareholders should therefore also refer to and consider announcements made by the Company to ASX after the date of this Prospectus.

All information contained in this Prospectus should be considered, in conjunction with any specific matters which have or may be referred to in the Company's ASX announcements, and professional advisors consulted before making any decision regarding the Convertible Notes or other securities of the Company.

5.1 Company Specific Risks

(A) Dependency on government budgets

The Company is currently involved with a number of US Federal Government agencies in the defence and law enforcement sectors, and is reliant on those government agencies remaining a customer of the Company and as a partner for product development activities. If US Federal Government agencies' budgets are reduced or their funding priorities reallocated, this may have an adverse effect on the Company's business activities, sales and potential research and development programmes, as well as on the Company's ability to fund those activities.

(B) Patent rights

The Company relies heavily for its success on its ability to obtain and maintain patent protection for its technology. The Company holds both granted and pending patent applications (intellectual property rights) in respect of the Company's technologies. Whilst the Company holds current granted patents, the prospect of obtaining patent protection for products and the technology such as those proposed under the patent applications is highly uncertain and involves complex and continually evolving factual and legal questions. These include legislative and judicial changes, or changes in the examination guidelines of governmental patent offices, which may negatively affect the Company's ability to obtain patents for its products and technologies. In addition, the scope of patent applications can be significantly reduced during prosecution of the patent applications, with the result that the scope of protection in the issued patent being significantly less than the scope of protection sought by the Company. As a result, the Company's patent application may not proceed to issued patents and, if issued, may not be of commercial benefit to the Company, or may not afford the Company adequate protection from competing products.

Objections may be raised in relation to the patent applications. If the Company is not able to overcome objections, there is a risk that it will not be awarded the applicable patents. Alternatively, in modifying the relevant claims to address objections, there is a risk that the scope of protection in the issued patents being significantly less than the scope of protection sought by the Company.

In addition, since most patent applications remain secret for eighteen months from the time of filing, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that it is the first to make the inventions covered by the pending patent applications or that its patent applications for such inventions was the first to be filed.

Even if the Company succeeds in obtaining patent protection for its products, its patents could be partially or wholly invalidated following challenges by third parties.

(C) Protection of intellectual property rights

The Company holds granted and pending patent applications. The Company may be required to spend significant resources to monitor and protect its intellectual property. It may initiate or otherwise be involved in litigation against third parties for infringement, or to establish the validity, of its rights. Any litigation, whether or not it is successful, could result in significant expense to the Company and divert the efforts of its personnel. In addition, unauthorised use of the Company's technology and brand in counterfeit products or services could not only result in potential revenue loss, but also have an adverse impact on its brand value and perceptions of its product qualities.

(D) Infringement of third party intellectual property rights

If a third party accuses the Company of infringing its intellectual property rights or if a third party commences litigation against the Company for the infringement of patent or other intellectual property rights, the Company may incur significant costs in defending such action, whether or not it ultimately prevails. Typically, patent litigation is expensive. Costs that the Company incurs in defending third party infringement actions would also include diversion of management's and technical personnel's time.

In addition, parties making claims against the Company may be able to obtain injunctive or other equitable relief that could prevent the Company from further developing discoveries or commercialising its products. In the event of a successful claim of infringement against the Company, it may be required to pay damages and obtain one or more licenses from the prevailing third party. If it is not able to obtain these licenses at a reasonable cost, if at all, it could encounter delays in product introductions and loss of substantial resources while it attempts to develop alternative products. Defence of any lawsuit or failure to obtain any of these licenses could prevent the Company from commercialising available products and could cause it to incur substantial expenditure.

(E) Technology risk

The Company has developed its own technology in house and will continue to develop and seek advancements in its technology. The development and advancement of technology is complex, and progression may be subject to unexpected difficulties and external factors. Further, operating systems, components, hardware and software will require updating and maintenance, which may also affect the ability of the Company to effectively maintain, develop and upgrade its technology, which may in turn have a detrimental effect on the Company's operating and financial performance.

The Company's primary technology is focused on delivering counter-drone defence systems. Drone manufacturers may seek to block the manner of control used by the Company or radically change the way drones are controlled by users. For the Company's technology and products to remain relevant and effective, the Company will need to continue to advance its technology to counter advancements that may be made by drone manufacturers.

(F) Drone usage

Drone usage has become prevalent and grown rapidly in recent years and the Company considers that drone usage will continue to be prevalent in future. The Company's primary technology is focused on delivering counter-drone defence systems and the success of its business is therefore dependent upon drone usage becoming more prevalent. If, however, drone usage does not continue to increase significantly then the need for drone defence systems may be reduced, which will adversely affect the Company's operations and prospects.

(G) Regulatory environment

The Company's operations are involved in potentially sensitive areas. Matters involving government and law enforcement, property rights (buildings, air space and public open space), security, cyber security, communications and privacy are subject to numerous regulatory requirements and constraints, which are likely to evolve over time. Some of the Company's proposed activities may become restricted through regulatory changes, including if government authorities were to decide that

some of the Company's technology is nationally sensitive or contrary to public interests. This could detrimentally affect the Company's ability to offer certain services, or may require the Company to comply with a range of regulatory requirements.

Regulatory changes could otherwise see the Company being required to obtain and hold licences in some jurisdictions or otherwise comply with specific regulations. Failure to comply with such obligations could result in remedial action or litigation, which could potentially lead to the Company being required to take remedial actions, including paying compensation or a fine. Regulatory changes may also result in increased costs and resources for regulatory compliance, which could impact upon the Company's financial position and financial performance.

Technologies such as those of the Company which effectively take control of a drone owned by a third party may have legal ramifications and in some cases may be illegal in some jurisdictions. Such regulatory issues may impact on the extent to which the Company is able to commercialise its drone defence technology outside the defence, law enforcement and public safety sectors.

(H) Competition and new technologies

The industry in which the Company is involved is highly competitive and is subject to increasing competition which is fast-paced and fast-changing. While the Company will undertake all reasonable due diligence in its business decisions and operations, it will have no influence or control over the activities or actions of its competitors, whose activities or actions may positively, or negatively affect the operating and financial performance of the Company's projects and business.

For instance, new technologies could overtake the advancements made by the Company which could negatively impact on the financial position and financial performance of the Company. Competing technologies could be developed or could get to market with a solution before the Company and reduce the market opportunity, even with a less comprehensive solution. This may be particularly true of large well-resourced defence integrators. Similarly, aggressive pricing or additional service offerings from competitors could require the Company to adjust its own pricing and service offerings to continue to generate business, which could negatively impact on the financial position and financial performance of the Company.

(I) Research and development activities

Research and development activities for products are expensive, time consuming and difficult to design and implement. Even if the results of the Company's research and development activities are favourable, some product development activities may be expected to continue for several years and may take significantly longer to complete. In addition, regulatory authorities, including state and local, may suspend, delay or terminate research and development activities at any time for various reasons. Any of the foregoing could have a material adverse effect on the Company's business, results of operations and financial condition.

(J) Sufficiency of funding

The Company's business strategy will require substantial expenditure and there can be no guarantees that the Company's cash reserves, the funds raised under the Offer and funds (if any) generated over time by the Company will be sufficient to successfully achieve all the objectives of the Company's business strategy. Further funding of projects may be required by the Company to support the ongoing activities and operations of the Company including the need to conduct further research and development, enhance its operating infrastructure and to acquire complementary businesses and technologies.

Accordingly, the Company may need to engage in further equity or debt financing to secure additional funds. If the Company is unable to use debt or equity to fund expansion after utilising existing working capital, there can be no assurance that the Company will have sufficient capital resources for that purpose, or other purposes, or that it will be able to obtain additional resources on terms acceptable to the Company or at all.

Any additional equity financing may be dilutive to the Company's existing Shareholders and any further debt financing, if available, may involve restrictive covenants, which limit the Company's operations and business strategy. If the Company is unable to raise capital if and when needed, this could delay or suspend the Company's business strategy and could have a material adverse effect on the Company's activities.

(K) Limited trading history

Given its limited trading history, there is inherent uncertainty in relation to the Company's business, and investors should consider the Company's prospects in light of its limited trading history. There can be no guarantee that the Company's research and development initiatives will be successful, or even if they are successful, to be able to generate commercially viable levels of revenue. Consequently, there can be no forecast or confirmation as to the Company's future performance.

(L) Reliance on key personnel

The recent developments of the Company have been in large part due to the talent, effort and experience of its senior management team. Although these individuals have entered into Executive Services Agreements, there is no assurance that such contracts will not be terminated. If such contracts are terminated or breached, or if these individuals no longer continue in their current roles, new personnel will need to be employed which may adversely affect the business.

The Company is also substantially dependent on the continued service of its existing engineering personnel because of the complexity of its services and technologies. There is no assurance that the Company will be able to retain the services of these persons.

(M) Research and development

The Company can make no representation that any of its research into or development of its security and surveillance technologies will be successful, that the development milestones will be achieved, or that the security and surveillance technologies will be developed into products that are commercially exploitable.

There are many risks inherent in the development of technology related products, particularly where the products are in the early stages of development. Projects can be delayed or fail to demonstrate any benefit, or research may cease to be viable for a range of scientific and commercial reasons.

(N) Dependence on outside parties

The Company may pursue a strategy that forms strategic business relationships with other organisations in relation to potential products and services. There can be no assurance that the Company will be able to attract such prospective organisations and to negotiate appropriate terms and conditions with these organisations or that any potential agreements with such organisations will be complied with.

(O) Foreign exchange risks

The Company will be operating in numerous jurisdictions, including the USA. Consequently, it may generate revenue and incurs costs and expenses in more than one currency. Accordingly, the depreciation and/or the appreciation of the US dollar, for example, relative to the Australian Dollar would result in a foreign currency loss/gain. Any depreciation of the foreign currencies relative to the Australian Dollar may result in lower than anticipated revenue, profit and earnings.

(L) Dilution

The percentage shareholding in the Company of existing shareholders will be diluted if Convertible Notes are converted. Further details of the potential dilutive impact of the Offer are set out in Section 4.1.

5.2 **General Risks**

(A) Market conditions

Share market conditions may affect the value of the Convertible Notes, shares and other securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- i) general economic outlook;
- ii) introduction of tax reform or other new legislation;
- iii) interest rates and inflation rates;
- iv) changes in investor sentiment toward particular market sectors;
- v) the demand for, and supply of, capital; and
- vi) terrorism or other hostilities.

The market price of Convertible Notes, shares and other securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and technology related stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company, payment of dividends or any return on an investment in the Company.

(B) Economic and government risks

The future viability of the Company is also dependent on a number of other factors affecting performance of all industries and not just the technology industry including, but not limited to, the following:

- i) general economic conditions in jurisdictions in which the Company operates;
- ii) changes in government policies, taxation and other laws in jurisdictions in which the Company operates;
- iii) the strength of the equity and share markets in Australia and throughout the world, and in particular investor sentiment towards the technology sector;
- iv) movement in, or outlook on, interest rates and inflation rates in jurisdictions in which the Company operates; and
- v) natural disasters, social upheaval or war in jurisdictions in which the Company operates.

(C) Insurance coverage

The Company faces various risks in conducting its business and may lack adequate insurance coverage or may not have the relevant insurance coverage. The Company proposes to arrange and maintain insurance coverage for its employees, as well as professional indemnity, product liability and third party liability insurance, however it does not currently propose to arrange and maintain business interruption insurance or insurance against claims for certain property damage. The Company will need to review its insurance requirements periodically. If the Company incurs substantial losses or liabilities and its insurance coverage is unavailable or inadequate to cover such losses or liabilities, the Company's financial position and financial performance may be adversely affected.

(D) Litigation

The Company is exposed to possible litigation risks including, but not limited to, intellectual property and patent claims. Further, the Company may be involved in disputes with other parties in the future which may result in litigation. Any such claim or dispute if proven, may impact adversely on the Company's operations, financial performance and financial position.

(E) Force Majeure

The Company's projects now or in the future may be adversely affected by risks outside the control of the Company, including labour unrest, civil disorder, war, subversive activities or sabotage, malicious cyber hacking, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

(F) Unforeseen risk

There may be other risks which the Directors are unaware of at the date of this Prospectus which may impact on the Company, its operation and/or the valuation and performance of the Convertible Notes, shares and other securities.

(G) Combination of risks

The Company may not be subject to a single risk. A combination of risks, including any of the risks outlines in this Section could affect the performance valuation, financial performance and prospects of the Company.

(H) Unforeseen expenditure risk

Expenditure may need to be incurred that has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

(I) Growth

There is a risk that the Company may be unable to manage its future growth successfully. The ability to hire and retain skilled personnel and third party personnel may also be a significant obstacle to growth.

(J) Investment Highly Speculative

Acquiring or dealing with Convertible Notes, shares and other securities involves risks. An investment in the Company involves risks that may be higher than the risks associated with an investment in other companies. The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above may, in the future, materially affect the financial performance of the Company and the value of the Convertible Notes, shares and other securities.

No guarantee can be given about the market value or price of the Convertible Notes or other securities of the Company (which may be less than the issue price) and the Convertible Notes, shares and other securities carry no guarantee with respect to the payment of dividends, returns of capital or the market value of the Convertible Notes, shares and other securities.

5.3 Above risk factors not exhaustive

The above risk factors should not be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Convertible Notes offered under this Prospectus.

Potential investors should consider that investment in the Company is speculative and should consult their professional advisors before making any decision regarding applying for Convertible Notes, converting Convertible Notes or investing in the Company.

6. Acceptance Instructions

6.1 Completing an application form

The Offer are only made to and able to be accepted by persons who receive an invitation to participate in the Offer and a personalised application form.

Any applications for Convertible Notes under the Offer contained within this Prospectus must be made on a personalised application form accompanying this Prospectus in accordance with the instructions set out in the form.

Prior to lodging a completed personalised application form, ensure you have read this Prospectus and the personalised application form in their entirety and seek professional advice if necessary.

An application for Convertible Notes may not be effective if received after the time on the Closing Date specified in the personalised application form (or by such later time or date the Company may specify), in which case no Convertible Notes would be issued to you in respect of your application, and any payment (if any) received will be refunded to you after the date of allotment in accordance with the Corporations Act, without interest.

If your personalised application form is not completed correctly it may still be treated as a valid application for Convertible Notes. The Directors' decision whether to treat a form as valid and how to construe, amend or complete the form is final. Late applications may be accepted at the discretion of the Directors, but the Directors are under no obligation to consider late applications.

6.2 Further Information

If you have any questions about the Offer please contact the Company Secretary, Mr Tharun Kuppanda, on +61 2 9290 9600. Alternatively, contact your stockbroker or other professional adviser.

The issue of Convertible Notes offered under this Prospectus is expected to occur after the Offer has closed, on or before the dates set out in the timetable on page 4 of this Prospectus (which date may change without notice). Thereafter certificates for the Convertible Notes are anticipated to be dispatched on or about 22 March 2018. It is the responsibility of recipients to determine their allocation. Anyone purporting to transfer Convertible Notes before they receive their certificate does so at their own risk.

7. Continuous Disclosure Obligations

This Prospectus is issued by the Company in accordance with the provisions of the Corporations Act applicable to a prospectus for convertible securities (the Convertible Notes) convertible into continuously quoted securities.

Section 713 of the Corporations Act enables a company to issue a special prospectus where the securities offered under that prospectus are convertible securities convertible into continuously quoted securities within the meaning of the Corporations Act. This generally means that the relevant securities are in a class of securities that were quoted enhanced disclosure securities at all times during the 3 months before the date of this Prospectus and that other requirements relating to the Company not being subject to various exemptions and orders under the Corporations Act within the last 12 months are met.

In summary, special prospectuses are required to contain information in relation to the effect of the offer of securities on the company and the rights and liabilities attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company. Accordingly, this Prospectus does not contain the same level of disclosure as a prospectus of an unlisted company or an initial public offering prospectus.

Having taken such precautions and having made such enquiries as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 12 months before the date of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

For the purpose of satisfying section 713(5) of the Corporations Act a prospectus must incorporate information if such information:

- (a) has been excluded from a continuous disclosure notice in accordance with the ASX listing rules; and
- (b) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
 - the assets and liabilities, financial position and performance, profit and losses and prospects of the Company; and
 - the rights and liabilities attaching to the securities being offered.

The Prospectus must contain this information only to the extent to which it is reasonable for investors and their professional advisors to expect to find such information in the Prospectus. The Company is not aware of any matters that need to be disclosed under this section of the Corporations Act that have not been previously disclosed or which have not been set out in this Prospectus.

The Company operates an ongoing business and reports regularly on its activities. The Company also seeks and engages in discussions and negotiations from time to time or on an ongoing basis in respect of potential new opportunities including potential acquisitions of complementary or strategic assets such as third party intellectual property. The identification of potential new opportunities is a key component of the Company's business and the Company may use funds raised by the Offer and/or existing capital to meet the costs associated with identifying, investigation and pursuing new opportunities.

While the Company continues to seek and negotiate potential opportunities, there is no certainty that any arrangement(s) will be finalised on particular terms, at a specific time, or at all. The Company will make further announcements in respect of any such discussions, negotiations, acquisitions or other events in accordance with its disclosure obligations as developments occur (however no guarantee can be given that such developments will occur).

As a disclosing entity under the Corporations Act, the Company is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASX and ASIC in relation to the Company may be obtained from or inspected by accessing the respective web sites.

Any person may request, and the Company will provide free of charge, a copy of each of the following documents during the application period of this Prospectus. Such documents are also available on-line from the ASX web site.

- (a) The annual financial report of the Company for the financial year ended 30 June 2017 (lodged with ASIC on 29 September 2017), being the most recent annual financial report of the Company before the lodgement of this Prospectus with ASIC;
- (b) The Interim Consolidated Financial Report of the Company for the six months ended 31 December 2017 (lodged with ASX on 28 February 2018); and
- (c) Any continuous disclosure notices given by the Company since the lodgement of the Annual Financial Report referred to in (b) above before lodgement of this Prospectus. Continuous disclosure notices given by the Company since the lodgement of the Annual Financial Report to the date of this Prospectus are listed in Section 8 of this Prospectus.

8. ASX Announcements

The following announcements (continuous disclosure notices) have been made by the Company to ASX since lodging its annual financial report for the year ended 30 June 2017:

Date	Headline
21/03/2018	D13 Acquires Carrier Interferometry Patent Portfolio
20/03/2018	March 2018 Trading Update
14/03/2018	Appendix 3X - S Shattil
12/03/2018	Director Appointment – Steve Shattil
09/03/2018	Extension of Voluntary Suspension
05/03/2018	Suspension From Official Quotation
01/03/2018	Trading Halt
28/02/2018	Half Yearly Report and Accounts
09/02/2018	Appendix 3B
05/02/2018	Placement of up to \$12m in Convertible Notes
01/02/2018	Trading Halt
31/01/2018	First Positive Operating Cash Flow Quarter
31/01/2018	Appendix 4C – quarterly
24/01/2018	Change of Company Secretary
18/01/2018	Reinstatement to Official Quotation
18/01/2018	Response to ASX Query
15/01/2018	Suspension from Official Quotation
08/01/2018	D13 and Raytheon team to provide counter-drone technologies
29/12/2017	Exclusive Japanese Distribution Agreement Signed
28/12/2017	Change of Director's Interest Notice x 5
28/12/2017	Appendix 3B
19/12/2017	Appendix 3B - Release of Restricted Securities from Escrow
14/12/2017	Additional MESMER Sales & Update
29/11/2017	Response to ASX Appendix 4C Query
28/11/2017	Results of Meeting
28/11/2017	D13 Annual General Meeting 2017
16/11/2017	Escrow, Trading Update & Award
31/10/2017	Appendix 4C – quarterly
30/10/2017	Exclusive India Based Distribution Agreement Signed
27/10/2017	Notice of Annual General Meeting/Proxy Form
25/10/2017	Patent that Improves Power Efficiency of 5G Systems
25/10/2017	Patent for Airborne Radio and 5G Networks
23/10/2017	October 2017 Investor Presentation
17/10/2017	Appointment of Sundeep Patel as CFO
12/10/2017	Update on Sales to Latin American Federal Prison Operator
10/10/2017	First MESMER sales to Latin American Federal Prison Operator
03/10/2017	D13 partners with University of Michigan –Dearborn
02/10/2017	US Patent for Scheduling Resources in Cloud Networks

Any person may request, and the Company will provide free of charge, a copy of any of the above announcements during the application period of this Prospectus.

The Company may make further announcements to ASX from time to time. Announcements are released by ASX on its website, www.asx.com.au under the Company's ASX code "D13" and copies of announcements can be obtained from the Company upon request and are available on the Company's website www.department13.com. Prospective investors are advised to refer to ASX's website for updated releases about events or matters affecting the Company.

In making statements in this Prospectus it is noted that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

9. Director's interests

9.1 Securities

The Directors' direct and indirect interests in securities of the Company as at the date of this Prospectus are set out below.

The Directors and their associates do not hold any Convertible Notes. No Convertible Notes will be issued to Directors or their associates under the Offer.

SHARES, OPTIONS & PERFORMANCE RIGHTS

Director/Shareholder (and/or associate(s))	Jonathan Hunter	Timothy Davies	Philip George	Alvin Teller	Kathleen Kiernan	Steven Shattil
Shares:						
Number	41,600,000	600,000	1,300,000	3,050,000	3,125,000	20,800,000
% of existing issued shares	7.86%	0.11%	0.25%	0.58%	0.59%	3.93%

Options:						
Exercise price \$0.25 expiring 28/12/2022 [^]	1,350,000					
Exercise price \$0.40 expiring 28/12/2022 [^]	1,525,000					
Exercise price \$0.50 expiring 28/12/2022 [^]	1,640,000					

Performance Rights[^]:						
1/3 vesting per year, commencing December 2018	12,500,000					5,000,000
1/3 rd vesting per year, commencing December 2018		3,000,000				
1/3 rd vesting per year, commencing December 2018			750,000	750,000	750,000	

* Vesting 28 December 2020.

[^] Subject to earlier lapse or cancellation in accordance with the applicable terms of issue.

9.2 Remuneration & Payments to Directors

Fees and other remuneration

Directors are entitled to receive directors' fees and other remuneration (which may include consulting fees) from the Company in relation to services provided to the Company.

Details of the remuneration or agreed to be paid to Directors in the two years prior to the lodgement of this Prospectus (excluding GST if applicable) are as follows:

Director	April 2017 - March 2018	April 2016 - March 2017
Jonathan Hunter	226,052	212,352
Steven Shattil	226,052	224,039
Philip George	39,294	26,280
Timothy Davies	59,721	Nil
Alvin Teller	71,803	78,457
Kathleen Kiernan	47,906	41,469

Notes: 1. Philip George, Alvin Teller, and Kathleen Kiernan were each issued 750,000 performance rights and Timothy Davies was issued 3,000,000 performance rights on 28 December 2017. Each of these Directors will receive 1/3rd of these rights converted into shares on each of the first, second and third anniversaries of receipt of the rights, subject to continuing as a Director. The above table includes as remuneration the expense recognised by the Company for the shares to be issued upon conversion of these rights, based on the Company's estimate of the probability of the Director continuing as a Director over the three year period, pro-rated over the three year period.

2. The total for Steven Shattil includes remuneration received before being appointed as a Director of the Company. An associated entity of Steven Shattil is entitled to receive payments for intellectual property rights. In the two years prior to the date of this Prospectus a payment of \$50,000 has become due. This is in addition to the above remuneration amounts.

Other

Except as disclosed in this Prospectus:

- (a) no person has paid or agreed to pay any amount to any Director or has given or agreed to give any benefit to any Director, to induce the Director to become, or to qualify as, a Director of the Company or otherwise for services rendered by the Director in connection with the formation or promotion of the Company or the Offer.
- (b) no Director or proposed Director has, or has had within two years of lodgement of this Prospectus, any interest in:
 - the formation or promotion of the Company; or
 - any property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Offer; or
 - the Offer.

10. Taxation

Recipients of the Offer should seek and obtain their own taxation advice before applying for Convertible Notes under the Offer so that they may first satisfy themselves of any taxation implications associated with acquiring Convertible Notes.

11. Overseas Investors

This Prospectus does not constitute an offer of securities in any place where, or to any person whom, it would be unlawful to make such an offer. No action has been taken to register or qualify the securities or the Offer or otherwise to permit a public offering of the securities in any jurisdiction outside Australia. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law. Persons outside Australia who come into possession of this Prospectus should consult their professional advisers as to whether governmental or other consent is required or whether formalities need to be observed for them to acquire, hold or dispose of Convertible Notes or other securities of the Company or whether restrictions may apply, and obtain such consents, and observe any such formalities or restrictions. Any failure to obtain such consents or to comply with such formalities or restrictions may constitute a violation of applicable securities laws. Return of a personalised application form will be taken by the Company to constitute a representation that there has been no breach of such requirements.

The Offer has not been, and will not be, registered under the US Securities Act and have not been made in the United States of America. The securities have not been, and will not be, registered under the United States Securities Act of 1933 and are not to be offered or sold within the USA.

12. Privacy

Personal information is collected on application forms by the Company and the Share Registry for processing applications, maintaining registers of security holders, facilitating distribution payments and other corporate actions and communications. Acceptances might not be processed efficiently, or at all, if the information requested is not provided. Personal information about recipients may be disclosed to external service providers such as print or mail service providers as required or permitted by law. A recipient who would like details of their personal information held by the Company or its Share Registry, or who would like to correct information that is incorrect or out of date, should contact the Company by email, by telephone or at the address shown in the Corporate Directory. In accordance with the Corporations Act, recipients may be sent material (including marketing material) in addition to general corporate communications. Recipients may elect not to receive marketing material by contacting the Share Registry's Privacy Officer. Recipients can also request access to, or corrections of, personal information held by the Company by writing to the Company.

13. Electronic Prospectus

This Prospectus is available in electronic format via the ASX website, www.asx.com.au and via the Company's website at www.department13.com.

Persons having received this Prospectus in electronic form may, during the offer period, obtain a paper copy of this Prospectus (free of charge) by contacting Mr Tharun Kuppanda, on +61 2 9290 9600.

Applications for Convertible Notes under the Offer may only be made on a personalised application form which accompanied or was attached to a copy of this Prospectus in its paper copy form or a print out of the form which formed part of or was accompanied by the complete and unaltered electronic version of this Prospectus. The Corporations Act prohibits any person from passing on to another person a personalised application form unless it is attached to or accompanied by a hard copy of this Prospectus or by the complete and unaltered electronic version of this Prospectus.

The Company reserves the right not to accept an application form from a person if it has reason to believe that when that person was given access to the electronic application form, it was not provided together with the complete and unaltered electronic version of this Prospectus.

14. Investment Decisions

The information in this Prospectus does not constitute financial product advice. This Prospectus does not take into account the investment objectives, financial situation, tax position and particular needs of individual investors. Investors should obtain their own independent advice and consider the appropriateness of the Offer pursuant to this Prospectus having regard to their own objectives, financial situation, tax position and needs.

15. Future Performance

Except as required by law, and only then to the extent so required, neither the Company nor any other person warrants the future performance of the Company, or any return on any investment made pursuant to this Prospectus. An investment through applying for and receiving Convertible Notes under the Offer or converting Convertible Notes should be considered speculative.

16. Consents

Automic Pty Ltd [ACN 152 260 814] trading as Automic Registry Services has given and, as at the date hereof, not withdrawn, its written consent to be named as share registry in the form and context in which it is named. Automic Pty Ltd has had no involvement in the preparation of any part of this Prospectus other than being named as share registry to the Company. Automic Pty Ltd has not authorised or caused the issue of any part of this Prospectus and, to the extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus.

Henslow Markets Pty Ltd [ACN 618 849 844] has given and, as at the date hereof, not withdrawn, its written consent to be named as the manager of the Offer in the form and context in which it is named. Henslow Markets Pty Ltd has had no involvement in the preparation of any part of this Prospectus other than being named as manager to the Company. Henslow Markets Pty Ltd has not authorised or caused the issue of any part of this Prospectus and, to the extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus.

17. Enquiries

If you have any questions regarding the content of this Prospectus or how to complete the personalised application form, you should contact your stockbroker, accountant or independent professional financial adviser prior to accepting the Offer.

Any questions concerning the Offer should be directed to Mr Tharun Kuppanda, on +61 2 9290 9600.

No person is authorised to give information or make any representation in connection with this Prospectus which is not contained in this Prospectus. Any such information not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of the Company have authorised the lodgement of this Prospectus with ASIC.



Jonathan Hunter
Chairman and Chief Executive Officer

Annexure A

The terms of the Convertible Notes offered under this Prospectus

On 16 March 2018, the Company entered into a Convertible Note Deed in relation to the issue of up to 75,000,000 Convertible Notes with a total issue price and face value of \$7,500,000 (the **Convertible Note Deed** or the **Deed**).

If converted, each Convertible Note under the Deed converts to one (1) share in the Company with a deemed issue price of \$0.10 (10 cents) per Share. The Convertible Notes are to be issued to investors who complete and return the written invitation to apply and personalised application form from the Company (each a **Noteholder**).

The following is a summary of the rights, privileges and restrictions attaching to the Convertible Notes. The summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of the Noteholders.

For the purposes of this Annexure A, the term "Obligor" has the same meaning as in the Deed, being the Company, its wholly owned subsidiary Department 13, Inc. (a company incorporated under the laws of Delaware USA) or any other person (being an individual, partnership, corporation, body corporate, company, trust or other entity of any kind, whether domestic or foreign) who enters into or grants a collateral security in relation to the Convertible Notes.

(a) **Term**

The Convertible Notes have a term of 24 months from the first issue date.

(b) **Issue Price and Face Value and**

Each Convertible Note will be issued at an issue price and face value of \$0.10 (10 cents).

(c) **Issue date**

Convertible Notes will be issued as soon as practicable. The Company will announce to ASX when the Convertible Notes are issued.

(d) **Priority**

The Convertible Notes will have a first-ranking priority and will rank in priority to the issued share capital and all preference shares and senior to all other debt of the Company. The Convertible Notes will at all times rank pari passu without priority amongst themselves.

Without approval of a 75% majority of holders of the Convertible Notes (by number of convertible notes held) and the tranche 2 Convertible Notes (if issued), the Company must not issue any convertible notes with an issue price or face value of more than \$12,000,000 in aggregate or raking in priority to the Convertible Notes.

(e) **Quotation**

The Convertible Notes will not be quoted (listed).

(f) **Interest**

The Company must pay interest at a rate equal to 12% per annum compounding quarterly, calculated on a daily basis (at the per annum rate for the actual number of days in the relevant period) and payable in cash quarterly in arrears on the dates which in each calendar year are 3, 6, 9 and 12 months after the date upon which the Convertible Notes are issued, including

on the maturity date (**Interest Instalment Dates**). Interest is to be paid pro rata for interest periods of less than 3 months.

(g) **Security**

The Convertible Notes are secured by a first ranking security interest over all of the Company's present and after-acquired property to secure its obligations to the Noteholders. AET Corporate Trust Pty Ltd has been appointed as security trustee.

(h) **Conversion**

A Noteholder may elect to convert Convertible Notes into shares as at each conversion date at the conversion price, being the face value of each Convertible Note:

- i. upon giving written notice to the Company specifying the number of Convertible Notes to be converted not more than 10 business days and not fewer than 5 business days before an Interest Instalment Date and making payment of the conversion price to the Company in cash; and
- ii. the number of Convertible Notes specified in the notice will be converted (and deemed cancelled) on that Interest Instalment Date.

(i) **Redemption and Repayment**

- i. Unless the Noteholders have given a conversion notice for all the remaining Convertible Notes, the Convertible Notes (or balance of Convertible Notes, as applicable) will be redeemed at face value by payment of cash to the holder of the Convertible Notes on the maturity date.
- ii. Any interest accrued but unpaid at the maturity date will be paid in cash.
- iii. The Company and the Noteholders may vary any dates or time periods, or waive or vary any of the conversion, redemption or repayment requirements by written agreement.

(j) **Reconstruction**

If the shares of the Company are reconstructed (by being divided or consolidated, or re-classified), the Convertible Notes then on issue will be reconstructed and the conversion price adjusted on the same basis as if the Convertible Notes immediately held by an investor before the reconstruction were a parcel of pre-reconstruction shares which would have been issued upon conversion of the Convertible Notes immediately before the reconstruction and the total face value of all the Convertible Notes held by that investor remains the same (but for rounding).

If the Company is admitted to the official list of ASX or another securities exchange at the time Shares are reconstructed (by being divided or consolidated, or re-classified), the Convertible Notes will be reconstructed (including the adjustment of the conversion price and face value per Convertible Note) in accordance with the listing rules of ASX (or equivalent rules of the other securities exchange, as applicable) applying at the time of the reconstruction. The reconstruction clauses of the Deed will apply with such modifications as are necessary to give effect to the applicable listing rules.

(k) **Covenants**

The following summarises covenants by the Company which are to be performed and observed from the date of the Deed and for so long as any Convertible Notes are on issue and have not been converted or redeemed:

- i. the Company will give the Noteholder:

- (A) a copy of the Company's audited consolidated financial statements in respect of each financial year;
 - (B) a copy of the Company's reviewed consolidated financial statements in respect of each half-financial year; and
 - (C) notice in writing of certain events promptly after an Obligor becomes aware of such event, including an event of default or any material litigation being commenced against an Obligor;
- ii. the Company will maintain not less than \$1,500,000 as cash or assets readily convertible to cash;
 - iii. the Company (and each Obligor) will abide by the terms of the security granted to secure the Convertible Notes;
 - iv. the Company will not declare or pay any dividends nor buy back any shares;
 - v. the Company will not (and will ensure that each other Obligor will not) amend its constitution;
 - vi. the Company will not (and will ensure that each other Obligor will not) dispose or transfer any of its assets, other than in ordinary course of trading;
 - vii. the Company will not (and it shall ensure that each other Obligor will not) enter into any amalgamation, demerger or merger, or a consolidation or corporate reconstruction with or involving any other entity(ies);
 - viii. the Company shall take out and maintain (and shall ensure that each other Obligor takes out and maintains) insurances with a reputable insurer in the manner and to the extent which is in accordance with prudent business practice having regard to the nature of the business and assets of the Company and its subsidiary;
 - ix. the Company must not issue any shares at an issue price below ten cents (\$0.10) per share, other than upon exercise or conversion of an option or other convertible security issued before the date of the Deed, unless shareholder approval has been received for the issue of tranche 2 convertible notes, tranche 1 and tranche 2 Convertible Notes with a total issue price of at least \$8,000,000 have not been issued, and the total of the issue price of the shares issued (if less than 10 cents) multiplied by the number of shares issued does not exceed the amount calculated by deducting the total issue price of tranche 1 and tranche 2 Convertible Notes that have been issued from \$8,000,000.

The Deed also includes other covenants that would be expected to be found in a commercial document of that type.

The Company has also agreed with certain investors, as a condition of their subscription for Convertible Notes, to the appointment one eligible person to the Company's Board as a casual vacancy appointment, if those investors taken up their allocation of tranche 2 Convertible Notes and (collectively) elect to make the nomination.

(l) **Events of Default**

The following are examples of Events of Default under the Deed:

- i. An Obligor fails to pay when due any interest or other amount payable by it in respect of a Convertible Note, including redemption of all or part of the Convertible Notes pursuant to the terms of the Deed;
- ii. Failure to redeem then remaining Convertible Notes on the maturity date (unless a conversion notice for all the then remaining Convertible Notes has been given to the Company);
- iii. Failure to issue Shares in accordance with the terms of the Convertible Notes upon valid conversion of Convertible Notes;
- iv. An insolvency event occurring in relation to an Obligor;

- v. a person obtaining 50% or more voting power (as defined in section 610 of the Corporations Act) in the Company (unless such person already had such voting power at the date of the Deed);
- vi. an Obligor repudiating or stating an intention not to be bound by a transaction document;
- vii. the Company reducing its capital including by buying back shares, making a capital distribution, cancelling shares or capital for consideration or by distributing assets *in specie*; and
- viii. an Obligor (other than the Company) ceasing to be a wholly owned subsidiary of the Company.

The Deed also includes other events of default that would be expected to be found in a commercial document of that type.

A failure to obtain shareholder approval for the issue of tranche 2 Convertible Notes and the non-issue of tranche 2 Convertible Notes are not breaches of or defaults under the Deed.

If an event of default (other than an insolvency event) occurs, the Company will have 5 business days from the earlier of being aware of or receiving notice of default to remedy the default. If the default is not remedied within that timeframe, the Noteholder may at its election demand immediate redemption or conversion (at face value) of the Convertible Notes.

(m) **Prohibited issues**

The Company will not be obliged to issue Convertible Notes or shares to a Noteholder under the Deed which would result in the Noteholder holding a relevant interest in more than 20% of the issued voting shares of the Company, except to the extent permitted under section 611 of the Corporations Act.

(n) **Transferability**

The Convertible Notes will not be quoted but may be assigned or transferred in accordance with the terms of the Deed. Any transfer must be by written transfer instrument in any usual or common form and to a person who does not require a disclosure document in connection with the offer and issue of the shares under Chapter 6D of the Corporations Act, nor to whom it would be unlawful to make an offer to issue or transfer Convertible Notes.

The Deed also includes other provisions that would be expected to be found in a commercial document of that type.

Persons eligible to apply for Convertible Notes under the Offer (being recipients of a written invitation and personalised application form from the Company) will have received, and should refer to, copies of the Deed and the associated security documents which contain further, detailed terms.

Terms of shares issued upon conversion of the Convertible Notes

The shares issued upon conversion of the Convertible Notes (if converted) will be fully paid ordinary shares in the capital of the Company, which will rank equally with, and will have the same voting and other rights as the existing issued shares of the Company. The rights attaching to the Company's shares are set out in the Company's constitution, the listing rules of ASX and the Corporations Act. The Company's constitution has been lodged with ASIC. The constitution contains provisions of the kind common for public companies in Australia and are taken to be included in this Prospectus by operation of section 712 of the Corporations Act. Any person may request a copy of the constitution during the application period of the Prospectus, which the Company will provide free of charge.

DEPARTMENT 13 INTERNATIONAL LIMITED

[ABN 36 155 396 893]

Personalised invitation and application form

Prospectus dated 21 March 2018 (**the Prospectus**) for an issue of up to 75,000,000 convertible notes (**the Convertible Notes**) at an issue price and having face value of \$0.10 (ten cents) each (**the Offer**).

The Company invites the Investor named or described below to apply for the number of Convertible Notes set out below pursuant to the Prospectus. The issue of the Convertible Notes is subject to the Investor executing a deed poll in the form provided by the Company by which the Investor, among other things, agrees to be bound by the Convertible Note Deed referred to in the Prospectus.

The Investor:

.....
.....
.....
.....

HIN (if applicable):

Purchase price:

\$

(for
Convertible Notes at the Issue Price of ten cents (\$0.10) each).

Investor's addresses for service

Street address:

Postal address:

Email:

By returning this application form the Investor applies for the number of Convertible Notes and agrees to pay the purchase price by the date each as set out or determined above pursuant to the Prospectus.

No signature required.