



DRONESHIELD LIMITED
ACN 608 915 859
Notice of 2018 Annual General Meeting
Explanatory Statement
Proxy Form

Time: 9:00am (Sydney time)
Date: Tuesday, 29 May 2018
Place: Whittens & McKeough
Level 29, 201 Elizabeth Street
Sydney NSW

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

This Notice of Meeting can be accessed on the Company's website at www.droneshield.com.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 2) 8072 1400.

Contents

Notice of Annual General Meeting (setting out the proposed Resolutions)	3
Explanatory Statement (explaining the proposed Resolutions)	12
Glossary	36
Proxy Form	Attached

Venue

The Annual General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 9:00am (Sydney time) on Tuesday, 29 May 2018 at:

Whittens & McKeough
Level 29, 201 Elizabeth Street
Sydney NSW

Your vote is important

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

Voting in person

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

Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and either:

1. deliver the Proxy Form:
 - (a) by hand to:

Automatic Registry Services
Level 3, 50 Holt Street, Surry Hills NSW 2010; or
 - (b) by post to:

Automatic Registry Services
PO Box 2226, Strawberry Hills NSW 2012; or
2. lodge the Proxy Form online at <https://investor.automic.com.au/#/loginsah> by following the below instructions:

Login to the Automic website using the holding details as shown on the Proxy Form. Click on 'Meetings' – 'Vote'. To use the online lodgement facility, Shareholders will need their holder number (Securityholder Reference Number (SRN) or Holder Identification Number (HIN)) as shown on the front of the Proxy Form.

Your Proxy Form must be received not later than 48 hours before the commencement of the Meeting.

Proxy Forms received later than this time will be invalid.

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Shareholders of DroneShield Limited ACN 608 915 859 will be held at 9:00am (Sydney time) on Tuesday, 29 May 2018 at Whittens & McKeough, Level 29, 201 Elizabeth Street, Sydney NSW.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement forms part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders at 9:00am (Sydney time) on Sunday, 27 May 2018. Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

Agenda

Ordinary business

Financial statements and reports

“To receive and to consider the Annual Financial Report of the Company for the financial year ended 31 December 2017 together with the declaration of the Directors, the Directors’ Report, the Remuneration Report and the Auditor’s Report for that financial year.”

Note: This item of ordinary business is **for discussion only and is not a resolution**.

However, pursuant to the Corporations Act, Shareholders will be given a reasonable opportunity at the Meeting to ask questions about, or make comments in relation to, each of the aforementioned reports during consideration of these items.

Resolutions

Part A: Remuneration Report

1. Resolution 1 – Adoption of Remuneration Report

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

“That, for the purpose of Section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report as contained in the Company’s Annual Financial Report for the financial year ended 31 December 2017.”

Note: The vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Exclusion Statement: In accordance with the Corporations Act, the Company will disregard any votes cast on Resolution 1 by or on behalf of a member of the Company’s key management personnel (including the Directors), whose remuneration details are included in the Remuneration Report (**KMP**), or any of that person’s Closely Related Parties (such as close family members and any controlled companies of those persons) (collectively referred to as **Restricted Voter**). However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on Resolution 1; and
- (b) it is not cast on behalf of a Restricted Voter.

If you appoint the person chairing the Meeting (**Chair**) and you are not a Restricted Voter, by submitting the Proxy Form you authorise the person chairing the Meeting to exercise the proxy even though Resolution 1 is connected directly or indirectly with the remuneration of a KMP, and you will be taken to have directed the Chair to vote in accordance with his or her stated intention to vote in favour of Resolution 1. If you do not want your vote exercised in favour of Resolution 1, you should direct the person chairing the Meeting to vote “against”, or to abstain from voting on, this Resolution.

Part B: Re-election of Directors

2. Resolution 2 – Re-election of Mr Peter James as Director

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

“That Mr Peter James, a Director who retires by rotation in accordance with the Company’s Constitution and ASX Listing Rule 14.4, and being eligible offers himself for re-election as a Director of the Company, effective immediately.”

3. Resolution 3 – Re-election of Mr Bradley Buswell as Director

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

“That Mr Bradley Buswell, a Director appointed as an additional Director and holding office until the next annual general meeting of the Company after his appointment in accordance with the Company’s Constitution and ASX Listing Rule 14.4, be re-elected as a Director of the Company, effective immediately.”

Part C: Ratification of Prior Issues of Equity Securities

4. Resolution 4 – Ratification of Prior Issue of Equity Securities

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Shareholders ratify the allotment and prior issue of 955,971 fully paid ordinary shares issued on 28 June 2017 (**June Shares**), and on terms and conditions all of which are described in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”*

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 4 by:

- (a) a person who participated in the issue and received June Shares;
- (b) a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed; or
- (c) an Associate of any person described in (a) or (b).

However, the Company will not disregard a vote if:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (ii) it is cast by the Chair 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.

5. Resolution 5 – Ratification of Prior Issue of Equity Securities

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Shareholders ratify the allotment and prior issue of 11,610,000 fully paid ordinary shares issued on 1 November 2017 (**November Shares**), and on terms and conditions all of which are described in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”*

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 5 by:

- (a) a person who participated in the issue and received November Shares;
- (b) a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed; or
- (c) an Associate of any person described in (a) or (b).

However, the Company will not disregard a vote if:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (ii) it is cast by the Chair 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.

6. Resolution 6 – Ratification of Prior Issue of Equity Securities

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Shareholders ratify the allotment and prior issue of 3,869,984 listed options issued on 1 November 2017 (**November Listed Options**), and on terms and conditions all of which are described in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”*

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 6 by:

- (a) a person who participated in the issue and received November Listed Options;
- (b) a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed; or
- (c) an Associate of any person described in (a) or (b).

However, the Company will not disregard a vote if:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (ii) it is cast by the Chair 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.

7. Resolution 7 – Ratification of Prior Issue of Equity Securities

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Shareholders ratify the allotment and prior issue of 2,000,000 unlisted options issued on 1 November 2017 (**November Unlisted Options**), and on terms and conditions all of which are described in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”*

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 7 by:

- (a) a person who participated in the issue and received November Unlisted Options;
- (b) a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed; or
- (c) an Associate of any person described in (a) or (b).

However, the Company will not disregard a vote if:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (ii) it is cast by the Chair 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.

8. Resolution 8 – Ratification of Prior Issue of Equity Securities

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Shareholders ratify the allotment and prior issue of 12,166,193 fully paid ordinary shares issued on 29 March 2018 (**March Shares**), and on terms and conditions all of which are described in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”*

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 8 by:

- (a) a person who participated in the issue and received March Shares;
- (b) a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed; or
- (c) an Associate of any person described in (a) or (b).

However, the Company will not disregard a vote if:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (ii) it is cast by the Chair 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.

9. Resolution 9 – Ratification of Prior Issue of Equity Securities

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Shareholders ratify the allotment and prior issue of 3,041,548 unlisted options issued on 29 March 2018 (**March Unlisted Options**), and on terms and conditions all of which are described in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”*

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 9 by:

- (a) a person who participated in the issue and received March Unlisted Options;
- (b) a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed; or
- (c) an Associate of any person described in (a) or (b).

However, the Company will not disregard a vote if:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (ii) it is cast by the Chair 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.

Part D: ASX Listing Rule 7.1A

10. Resolution 10 – ASX Listing Rule 7.1A Approval of Future Issue of Securities

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

“That, for the purposes of ASX Listing Rule 7.1A and for all other purposes, the Shareholders approve the issue of equity securities up to 10% of the issued capital of the Company (at the time of issue) calculated in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 and otherwise on the terms out in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 10 by:

- (a) a person who is expected to participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed; or
- (b) an Associate of those persons.

However, the Company will not disregard a vote if:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (ii) it is cast by the Chair 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.

Part E: ASX Listing Rule 10.11 and sections 195(4) and 208 of the Corporations Act

11. Resolution 11 – Approval of Issue of Options to Director – Oleg Vornik

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

“That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, the Shareholders approve the Company to issue 12,400,000 Options to Oleg Vornik, a Director (or his nominee) on the terms set out in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 11 by or on behalf of Oleg Vornik (or his nominee) or any of their associates (**Resolution 11 Excluded Party**). However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or, provided the Chair is not a Resolution 11 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on Resolution 11 if:

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

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

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

12. Resolution 12 – Approval of Issue of Options to Director – Peter James

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

“That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, the Shareholders approve the Company to issue 6,600,000 Options to Peter James, a Director (or his nominee) on the terms set out in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 12 by or on behalf of Peter James (or his nominee) or any of their associates (**Resolution 12 Excluded Party**). However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or, provided the Chair is not a Resolution 12 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on Resolution 12 if:

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

Provided the Chair is not a Resolution 12 Excluded Party, the above prohibition does not apply if:

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

13. Resolution 13 – Approval of Issue of Options to Director – Robert Clisdell

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

“That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, the Shareholders approve the Company to issue 1,600,000 Options to Robert Clisdell, a Director (or his nominee) on the terms set out in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 13 by or on behalf of Robert Clisdell (or his nominee) or any of their associates (**Resolution 13 Excluded Party**). However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or, provided the Chair is not a Resolution 13 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on Resolution 13 if:

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

Provided the Chair is not a Resolution 13 Excluded Party, the above prohibition does not apply if:

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

14. Resolution 14 – Approval of Issue of Options to Director – Brad Buswell

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

“That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, the Shareholders approve the Company to issue 1,800,000 Options to Brad Buswell, a Director (or his nominee) on the terms set out in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 14 by or on behalf of Brad Buswell (or his nominee) or any of their associates (**Resolution 14 Excluded Party**). However, the Company need not disregard a vote if it is cast by a **person** as

a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or, provided the Chair is not a Resolution 14 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on Resolution 14 if:

- (a) the proxy is either:
 - (1) a member of the KMP; or
 - (2) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 14 Excluded Party, the above prohibition does not apply if:

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

Part F: ASX Listing Rule 7.1

15. Resolution 15 – Approval of Issue of Options to Management and Employees

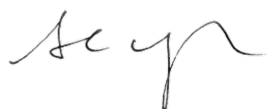
To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, the Shareholders approve the Company to issue up to 2,459,384 Options to management and employees on the terms set out in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 15 by or on behalf of a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of that person (or those persons) However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Dated: 27 April 2018

BY ORDER OF THE BOARD



Alistair McKeough
Company Secretary

Explanatory Statement

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Annual General Meeting to be held at 9:00am (Sydney time) on Tuesday, 29 May 2018 at Whittens & McKeough, Level 29, 201 Elizabeth Street, Sydney, NSW.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

If you are in any doubt about what to do in relation to the Resolutions contemplated in the Notice of Meeting and this Explanatory Statement, it is recommended that you seek advice from an accountant, solicitor or other professional advisor.

Full details of the business to be considered at the Annual General Meeting are set out below.

Agenda

Ordinary business

Financial statements and reports

In accordance with the Constitution, the business of the Annual General Meeting will include receipt and consideration of the Annual Financial Report of the Company for the financial year ended 31 December 2017 together with the declaration of the Directors, the Director's Report, the Remuneration Report and the Auditor's Report.

In accordance with the amendments to the Corporations Act, the Company is no longer required to provide a hard copy of the Company's Annual Financial Report to Shareholders unless a Shareholder has specifically elected to receive a printed copy. These amendments may result in reducing the Company's printing costs.

Whilst the Company will not provide a hard copy of the Company's Annual Financial Report unless specifically requested to do so, Shareholders may view the Company Annual Financial Report on its website at www.droneshield.com.

No resolution is required for this item, but Shareholders will be given the opportunity to ask questions and to make comments on the management and performance of the Company.

Resolutions

Part A: Remuneration Report

Resolution 1 – Adoption of Remuneration Report

In accordance with section 250R(2) of the Corporations Act, the Company is required to present to its Shareholders the Remuneration Report as disclosed in the Company's Annual Financial Report.

The vote on the Resolution is advisory only and does not bind the Directors or the Company. The Remuneration Report is set out in the Company's Annual Financial Report and is also available on the Company's website at www.dronesshield.com.

However, if at least 25% of the votes cast are against the adoption of the Remuneration Report at the Meeting (subject of this Notice of Meeting), and then again at the 2019 Annual General Meeting (**2019 AGM**), the Company will be required to put to the vote a resolution (**Spill Resolution**) at the 2019 AGM to approve the calling of a further meeting (**Spill Meeting**). If more than 50% of Shareholders vote in favour of the Spill Resolution, the Company must convene the Spill Meeting within 90 days of the 2019 AGM. All of the Directors who were in office when the Directors' Report for the financial year ended 31 December 2018 was approved, other than the Managing Director, will (if desired) need to stand for re-election at the Spill Meeting.

The Remuneration Report explains the Board's policies in relation to the nature and level of remuneration paid to KMPs (including Directors) and sets out remuneration details, service agreements and the details of any share-based compensation.

Voting

Note that a voting exclusion applies to Resolution 1 in the terms set out in the Notice of Meeting. In particular, the Directors and other Restricted Voters must not vote on this Resolution and must not cast a vote as proxy, unless the appointment gives a direction on how to vote, or the proxy is given to the Chair and you submit the Proxy Form, authorising the Chair to exercise the proxy even though Resolution 1 is connected directly or indirectly with the remuneration of a KMP and that in doing so you will be taken to have directed him to vote in accordance with his stated intention to vote in favour of Resolution 1.

Shareholders are urged to read carefully the Proxy Form and to provide a direction to the proxy on how to vote on this Resolution.

Part B: Re-election of Directors

Resolution 2 – Re-election of Mr Peter James as Director

Clause 11.3 of the Company's Constitution requires that one third of the Directors for the time being, or, if their number is not 3 nor a multiple of 3, then the number nearest one third, and any other Director not in such one-third who has held office for 3 years or more (except the Managing Director), must retire from office. Similarly under ASX Listing Rule 14.4, a Director must not hold office (without re-election) past the third annual general meeting following the Director's appointment or 3 years, whichever is longer.

Clause 11.4 of the Constitution notes that a retiring Director is eligible for re-election.

Mr Peter James was appointed a Director of the Company on 1 April 2016, and has since served as a Director of the Company.

Under this Resolution, Mr James seeks re-election at this AGM.

Mr. James has over 30 years' experience in the Technology, Telecommunications and Media Industries, and has extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies. He is currently Chair of ASX-listed companies Macquarie Telecom Group Limited, Nearmap Ltd, UUV Aquabotix Ltd and Dreamscape Networks Limited.

Mr. James has completed 12 years as a Non-Executive Director for ASX listed iiNet, Australia's second largest DSL Internet Services Provider, chairing iiNet's Strategy and Innovation Committee. iiNet was acquired by TPG Telecom for AUD \$1,560,000,000.

He travels extensively reviewing innovation and consumer trends primarily in the US and also Asia and he is a successful investor in a number of Digital Media, ecommerce and Technology businesses in Australia and the US.

Mr. James is an experienced business leader with significant strategic and operational expertise. He is a Fellow of the Australian Institute of Company Directors, a Member of the Australian Computer Society and holds a BA Degree with Majors in Computer Science and Business.

Mr. James does not expect that his other directorships will impact his ability to act as a Director of the Company.

Directors' recommendation

The Directors (excluding Mr James) recommend that Shareholders vote for this Resolution.

Resolution 3 – Re-election of Mr Bradley Buswell as Director

Clause 11.10 of the Constitution notes that the Directors of the Company may at any time appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors.

Clause 11.11 of the Constitution requires that a Director appointed to fill a casual vacancy or as an addition to the existing Directors holds office until the next annual general meeting of the Company and is then eligible for re-election but is not to be taken into account in determining the Directors who are to retire by rotation at that meeting. Similarly under ASX Listing Rule 14.4, a Director appointed to fill a casual vacancy or as an addition to the board must not hold office (without re-election) past the next annual general meeting of the entity.

Mr Bradley Buswell was appointed as an additional Director of the Company on 29 December 2017 and has held office as a Director since this time.

Under this Resolution, Mr Buswell seeks re-election at this AGM.

Mr Buswell is based in Washington, DC and brings to the Board extensive experience in successfully

leading businesses and U.S. government agencies. From September 2013 to July 2015, Mr Buswell was president of the North Americas division of Rapiscan Systems, Inc., a world leader in state of the art security screening products, services and solutions. Amongst other initiatives, Mr Buswell led the launch of the Real Time Tomography product line, ensuring U.S. government certification of the technology for aviation screening and securing the first competitive contracts for installation in European airports.

Before joining Rapiscan, Mr Buswell served as President and CEO of Morpho Detection, Inc. (previously General Electric Homeland Protection prior to being acquired by Safran, a French aerospace and defense company) from July 2010 to July 2013. Mr Buswell developed and implemented a growth-targeted strategy for Morpho Detection, translating global security needs into a market leading products and services portfolio through internal investment and strategic acquisitions.

He joined Morpho Detection from his previous role at the United States Department of Homeland Security as Deputy Under Secretary for Science and Technology where he led a 1,200 person staff in the development of technologies in support of DHS operating components including the Transportation Security Administration, Customs & Border Protection, the U.S. Secret Service and the Federal Emergency Management Agency, as well as state and local first responders. Following that role, he served as the acting Undersecretary during the first year of the Obama administration.

Mr Buswell's previous experience includes Government Relations Manager for General Electric's Global Research Center, and over 20 years as a submarine officer in the U.S. Navy where he served in a variety of assignments at sea and ashore including Congressional Liaison for Navy R&D programs at the Navy Office of Legislative Affairs and Chief of Staff at the Office of Naval Research.

Mr Buswell graduated from the U.S. Naval Academy with a Bachelor of Science in Systems Engineering, and the George Washington University with a Master of Business Administration.

Directors' recommendation

The Directors (excluding Mr Buswell) recommend that Shareholders vote for this Resolution.

Part C: Ratification of Prior Issues of Equity Securities

Resolution 4 – Ratification of Prior Issue of Equity Securities

Background to the issue of the June Shares

On 1 June 2017, the Company announced that:

- (a) the Company was undertaking a share purchase plan (**SPP**) to provide an opportunity for eligible shareholders to subscribe up to \$15,000 worth of shares each at an issue price which would be calculated by applying a 20% discount to the volume weighted average price (**VWAP**) of shares traded on the ASX during the 5 trading days immediately prior to the issue date of the shares under the SPP;
- (b) the SPP was underwritten up to the amount of \$1,000,000; and
- (c) under the terms of the SPP, the Directors reserved the right to also undertake a placement of additional shares at the same price as those under the SPP (**Top-Up Placement**).

On 28 June 2017, the Company announced that it had raised \$1.25 million via the SPP which had closed raising \$1,052,000 and an additional Top-Up Placement for \$225,000 to sophisticated and professional investors. The Company noted that the issue price of the SPP shares (which is a 20% discount applied to the VWAP for the 5 trading days immediately prior to the issue date) was calculated to be \$0.237. The shares under the Top-Up Placement were issued on the same terms as the SPP shares.

The Top-Up Placement was completed by utilising the Company's existing capacity under Listing Rule 7.1, resulting in the issue of 955,971 fully paid ordinary shares.

ASX Listing Rule 7.1

Resolution 4 proposes that Shareholders of the Company approve and ratify the issue and allotment of 955,971 fully paid ordinary shares issued (as the Top-Up Placement) on 28 June 2017 (**June Shares**).

All of the June Shares were issued utilising the Company's existing capacity under ASX Listing Rule 7.1.

ASX Listing Rule 7.1 allows the Board of an ASX listed entity to issue up to 15% of the Company's issued capital in any 12 month period without the approval of the Shareholders of the Company.

ASX Listing Rule 7.4 provides that where a company in a general meeting ratifies the previous issue of securities made pursuant to Listing Rule 7.1 (and provided that the previous issue did not breach Listing Rule 7.1), those securities will be deemed to have been made with Shareholder approval for the purposes of Listing Rule 7.1.

The effect of approval of this Resolution 4 is to allow the Board of the Company to issue additional securities within the 15% limit under Listing Rule 7.1 instead of having to wait 12 months after the issue.

Information required by ASX Listing Rule 7.5

The following information is provided to Shareholders for the purposes of Listing Rule 7.5.

- (a) The Company issued 955,971 June Shares.
- (b) The June Shares were issued at \$0.237 per Share.
- (c) Each of the June Shares were fully paid on issue and ranked equally in all aspects with all existing fully paid ordinary shares previously issued by the Company.
- (d) The June Shares were issued to the following investors:
 - (1) BVB Custodian Pty Ltd <BVB A/C>;
 - (2) Retire In Style Pty Ltd <Spies Family Super Fund A/C>;
 - (3) Mr William Henry Hernstadt;
 - (4) Chalkstick Pty Ltd <The Fragomeni Super Fund A/C>;

- (5) Mr Terrence Peter Williamson & Ms Jonine Maree Jancey <The Wiljan Super Fund A/C>;
 - (6) Beirne Trading Pty Ltd;
 - (7) Primston Pty Ltd; and
 - (8) Mr Christopher Lindsay Bollam.
- (e) Funds raised from the issue of the June Shares have been and will be used by the Company to contribute to the Company's development of its multi-method detect-and-defeat capability and to address substantial user demand for those products.

Resolution 5 – Ratification of Prior Issue of Equity Securities

Background to the issue of the November Shares

On 27 October 2017, the Company announced that:

- (a) the Company had received commitments from institutional, professional and sophisticated investors to raise \$2.32 million via a placement of 11.61 million fully paid ordinary shares at an issue price of \$0.20 per share (**Placement**);
- (b) as part of the Placement, each participant would receive one free attaching option for every three shares subscribed for under the Placement;
- (c) each of the free attaching options would have the same terms as the Company's existing listed DROO options which expire on 14 June 2018 and have an exercise price of \$0.22 per option; and
- (d) as part of their fees, Patersons Securities Limited, lead manager of the Placement, would receive 2,000,000 unlisted Class A options, which expire on 14 June 2019 and have an exercise price of \$0.22 per option.

On 1 November 2017, the Company completed the issue of these securities utilising the Company's existing capacity under Listing Rules 7.1 and 7.1A.

ASX Listing Rule 7.1A

Resolution 5 proposes that Shareholders of the Company approve and ratify the issue and allotments of 11,610,000 fully paid ordinary shares issued (as the Placement) on 1 November 2017 (**November Shares**).

The November Shares were issued utilising the Company's existing capacity under ASX Listing Rule 7.1A.

The Company sought and obtained Shareholder approval at its 2017 annual general meeting to issue up to 10% (in addition to the 15% under Listing Rule 7.1) of the Company's issued capital under ASX Listing Rule 7.1A.

ASX Listing Rule 7.4 provides that where a company in a general meeting ratifies the previous issue of securities made pursuant to Listing Rule 7.1A (and provided that the previous issue did not breach Listing Rule 7.1A), those securities will be deemed to have been made with Shareholder approval for the purposes of Listing Rule 7.1A.

The effect of approval of this Resolution 5 is to allow the Board of the Company to issue additional securities within the 10% limit under Listing Rule 7.1A, instead of having to wait 12 months after the issue and for shareholder approval to be obtained at the next annual general meeting for the additional 10% (which is being sought under Resolution 10).

Information required by ASX Listing Rule 7.5

The following information is provided to Shareholders for the purposes of Listing Rule 7.5.

- (a) The Company issued 11,610,000 November Shares.
- (b) The November Shares were issued at \$0.20 per Share.
- (c) The November Shares were fully paid on issue and ranked equally in all aspects with all existing

fully paid ordinary shares previously issued by the Company.

- (d) The November Shares were issued to institutional, professional and sophisticated investors as part of the Placement.
- (e) Funds raised from the issue of the November Shares have been and will be used by the Company for:
 - (1) development and integration of detection and countermeasure technologies, to enable the Company to be a prime counterdrone integrator to militaries, and civil infrastructure and other customers;
 - (2) the rollout of products, such as DroneSentry (with an integrated detect and defeat capability);
 - (3) expansion of the Company's sales and marketing effort globally; and
 - (4) general working capital.

Resolution 6 – Ratification of Prior Issue of Equity Securities

Background to the issue of the November Listed Options

A summary of the Placement is set out in the Explanatory Statement for Resolution 5 above.

On 1 November 2017, as part of the Placement as free attaching options, the Company issued 3,869,984 listed options (**November Listed Options**).

ASX Listing Rule 7.1

Resolution 6 proposes that Shareholders of the Company approve and ratify the issue and allotments of 3,869,984 November Listed Options (as part of the Placement as free attaching options) on 1 November 2017, which were issued utilising the Company's existing capacity under ASX Listing Rule 7.1.

ASX Listing Rule 7.1 allows the Board of an ASX listed entity to issue up to 15% of the Company's issued capital in any 12 month period without the approval of the Shareholders of the Company.

ASX Listing Rule 7.4 provides that where a company in a general meeting ratifies the previous issue of securities made pursuant to Listing Rule 7.1 (and provided that the previous issue did not breach Listing Rule 7.1), those securities will be deemed to have been made with Shareholder approval for the purposes of Listing Rule 7.1.

The effect of approval of this Resolution 6 is to allow the Board of the Company to issue additional securities within the 15% limit under Listing Rule 7.1 instead of having to wait 12 months after the issue.

Information required by ASX Listing Rule 7.5

The following information is provided to Shareholders for the purposes of Listing Rule 7.5.

- (a) The Company issued 3,869,984 November Listed Options.
- (b) The November Listed Options were issued for nil cash consideration as free attaching options to the fully paid ordinary shares issued under the Placement (on a one for three basis).
- (c) The November Listed Options are quoted, expire on 14 June 2018 and have an exercise price of \$0.22 per option.
- (d) The November Listed Options were issued to participants in the Placement.
- (e) No funds were raised from the issue of the November Listed Options. The November Listed Options were issued as free attaching options to investors who purchased the fully paid ordinary shares under the Placement.

Resolution 7 – Ratification of Prior Issue of Equity Securities

Background to the issue of the November Unlisted Options

A summary of the Placement is set out in the Explanatory Statement for Resolution 5 above.

On 1 November 2017, as part of their fees, Patersons Securities Limited, lead manager of the Placement, received 2,000,000 unlisted Class A options, which expire on 14 June 2019 and have an exercise price of \$0.22 per option (**November Unlisted Options**).

ASX Listing Rules 7.1

Resolution 7 proposes that Shareholders of the Company approve and ratify the issue and allotment of 2,000,000 November Unlisted Options, which were issued utilising the Company's existing capacity under ASX Listing Rule 7.1.

ASX Listing Rule 7.1 allows the Board of an ASX listed entity to issue up to 15% of the Company's issued capital in any 12 month period without the approval of the Shareholders of the Company.

ASX Listing Rule 7.4 provides that where a company in a general meeting ratifies the previous issue of securities made pursuant to Listing Rule 7.1 (and provided that the previous issue did not breach Listing Rule 7.1), those securities will be deemed to have been made with Shareholder approval for the purposes of Listing Rule 7.1.

The effect of approval of this Resolution 7 is to allow the Board of the Company to issue additional securities within the 15% limit under Listing Rule 7.1 instead of having to wait 12 months after the issue.

Information required by ASX Listing Rule 7.5

The following information is provided to Shareholders for the purposes of Listing Rule 7.5.

- (a) The Company issued 2,000,000 November Unlisted Options.
- (b) The November Unlisted Options were issued for nil cash consideration as part of the fees payable to the lead manager of the Placement.
- (c) The key terms of the November Unlisted Options are as follows:
 - (i) Exercise price: \$0.22 per option; and
 - (ii) Expiry date: 14 June 2019.
- (d) The November Unlisted Options were issued on the terms and conditions set out in Schedule 1.
- (e) The November Unlisted Options were issued to Melshare Nominees Pty Ltd, a nominee of Patersons Securities Limited.
- (f) No funds were raised from the issue of the November Unlisted Options. The November Unlisted Options were issued to Melshare Nominees Pty Ltd as part Patersons Securities Limited's fees in acting as lead manager of the Placement.

Resolution 8 – Ratification of Prior Issue of Equity Securities

Background to the issue of the March Shares

On 23 March 2018, the Company announced that:

- (a) it had received commitments from institutional, professional and sophisticated investors to raise \$2.55 million via a placement of 12.17 million fully paid ordinary shares at an issue price of \$0.21 per share (**March Placement**); and
- (b) as part of their fees, Patersons Securities Limited, lead manager of the March Placement, and the other brokers participating in the March Placement, would receive 3,041,548 unlisted Class A options, which expire on 14 June 2019 and have an exercise price of \$0.22 per option.

On 29 March 2018, the Company completed the issue of these securities utilising the Company's

existing capacity under Listing Rules 7.1 and 7.1A.

ASX Listing Rules 7.1 and 7.1A

Resolution 8 proposes that Shareholders of the Company approve and ratify the issue and allotments of 12,166,193 fully paid ordinary shares issued (as the March Placement) on 29 March 2018 (**March Shares**).

The March Shares were issued utilising the Company's existing capacity under ASX Listing Rules 7.1 and 7.1A.

ASX Listing Rule 7.1 allows the Board of an ASX listed entity to issue up to 15% of the Company's issued capital in any 12 month period without the approval of the Shareholders of the Company. Separately, the Company sought and obtained Shareholder approval at its 2017 annual general meeting to issue up to a further 10% (in addition to the 15% under Listing Rule 7.1) of the Company's issued capital under ASX Listing Rule 7.1A.

ASX Listing Rule 7.4 provides that where a company in a general meeting ratifies the previous issue of securities made pursuant to Listing Rules 7.1 and 7.1A (and provided that the previous issue did not breach Listing Rule 7.1 and/or 7.1A), those securities will be deemed to have been made with Shareholder approval for the purposes of Listing Rules 7.1 and 7.1A.

The effect of approval of this Resolution 8 is to allow the Board of the Company to issue additional securities within the 15% limit under Listing Rule 7.1 and within the additional 10% limit under Listing Rule 7.1A after this Resolution is adopted, instead of having to wait 12 months after the issue (insofar as the securities issued under Listing Rule 7.1 and 7.1A is concerned) and instead of having to wait until Shareholder approval is obtained at the next annual general meeting (insofar as the securities issued under Listing Rule 7.1A is concerned).

Information required by ASX Listing Rule 7.5

The following information is provided to Shareholders for the purposes of Listing Rule 7.5.

- (a) The Company issued 12,166,193 March Shares.
- (b) The March Shares were issued at \$0.21 per Share.
- (c) The March Shares were fully paid on issue and ranked equally in all aspects with all existing fully paid ordinary shares previously issued by the Company.
- (d) The March Shares were issued to institutional, professional and sophisticated investors as part of the March Placement:
- (e) Funds raised from the issue of the March Shares have been and will be used by the Company to:
 - (i) Further development and integration of detection and countermeasure technologies, consistently with end-user requirements;
 - (ii) an increase in stock levels (detection and countermeasure products);
 - (iii) expansion of the Company's sales and marketing effort globally; and
 - (iv) general working capital.

Resolution 9 – Ratification of Prior Issue of Equity Securities

Background to the issue of the March Unlisted Options

On 29 March 2018, as part of their fees, Patersons Securities Limited, lead manager of the March Placement, and nominees of the other brokers participating in the March Placement, received 3,041,548 unlisted Class A options, which expire on 14 June 2019 and have an exercise price of \$0.22 per option (**March Unlisted Options**).

ASX Listing Rule 7.1

Resolution 9 proposes that Shareholders of the Company approve and ratify the issue and allotments of

3,041,548 March Unlisted Options, which were issued utilising the Company's existing capacity under ASX Listing Rule 7.1.

ASX Listing Rule 7.1 allows the Board of an ASX listed entity to issue up to 15% of the Company's issued capital in any 12 month period without the approval of the Shareholders of the Company.

ASX Listing Rule 7.4 provides that where a company in a general meeting ratifies the previous issue of securities made pursuant to Listing Rule 7.1 (and provided that the previous issue did not breach Listing Rule 7.1), those securities will be deemed to have been made with Shareholder approval for the purposes of Listing Rule 7.1.

The effect of approval of this Resolution 9 is to allow the Board of the Company to issue additional securities within the 15% limit under Listing Rule 7.1 instead of having to wait 12 months after the issue.

Information required by ASX Listing Rule 7.5

The following information is provided to Shareholders for the purposes of Listing Rule 7.5.

- (a) The Company issued 3,041,548 March Unlisted Options.
- (b) The March Unlisted Options were issued for nil cash consideration as part of the fees payable to the lead manager of, and the other brokers participating in, the March Placement.
- (c) The key terms of the March Unlisted Options are as follows:
 - (i) Exercise price: \$0.22 per option; and
 - (ii) Expiry date: 14 June 2019.
- (d) The March Unlisted Options were issued on the terms and conditions set out in Schedule 1.
- (e) The March Unlisted Options were issued to Melshare Nominees Pty Ltd, a nominee of Patersons Securities Limited, and nominees of other brokers participating in the March Placement.
- (f) No funds were raised from the issue of the March Unlisted Options. The March Unlisted Options were issued to Melshare Nominees Pty Ltd (a nominee of Patersons Securities Limited) and to nominees of the other brokers participating in the March Placement as part of their fees.

Part D: ASX Listing Rule 7.1A

Resolution 10 – ASX Listing Rule 7.1A Approval of Future Issue of Securities

Under Listing Rule 7.1A, certain companies may seek Shareholder approval by special resolution passed at an annual general meeting to have the additional capacity to issue equity securities (which must be in the same class as an existing quoted class of equity securities of the Company) which do not exceed 10% of the existing ordinary share capital without further Shareholder approval. The ability of the Company to make an issue under Listing Rule 7.1A is in addition to its 15% placement capacity under Listing Rule 7.1.

Approval under this Resolution is sought for the Company to issue equity securities under Listing Rule 7.1A.

If this Resolution is approved the Company may make an issue of equity securities under Listing Rule 7.1A at any time (either on a single date or progressively) up until the earlier of:

- (a) the date which is 12 months after the date of the 2018 Annual General Meeting; or
- (b) the date on which Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

or such longer period if allowed by the ASX.

Accordingly, the approval given if this Resolution is passed will cease to be valid on the earlier of 29 May 2019 or the date on which holders of the Company's ordinary securities approve a transaction under Listing Rules 11.1.2 or 11.2.

At the date of this Explanatory Statement, the Company is an 'eligible entity', and therefore able to seek approval under Listing Rule 7.1A, as it is not included in the S&P/ASX300 and has a market capitalisation less than the amount prescribed by ASX (currently \$300 million). If at the time of the Annual General Meeting the Company is no longer an eligible entity this Resolution will be withdrawn.

The maximum number of equity securities which may be issued in the capital of the Company under the approval sought by this Resolution will be determined in accordance with the following formula prescribed in Listing Rule 7.1A.2:

$$(A \times D) - E$$

where:

A is the number of shares on issue 12 months before the date of issue or agreement to issue:

- (i) plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;
- (ii) plus the number of partly paid shares that became fully paid in the 12 months;
- (iii) plus the number of fully paid shares issued in the 12 months with approval of the holders of shares under Listing Rules 7.1 and 7.4 (this does not include an issue of fully paid ordinary shares under the entity's 15% placement capacity without Shareholder approval); and
- (iv) less the number of fully paid shares cancelled in the 12 months.

D is 10%.

E is the number of equity securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of Shareholders under Listing Rules 7.1 or 7.4.

The ability of the Company to make an issue under Listing Rule 7.1A is in addition to its 15% placement capacity under Listing Rule 7.1. The effect of Resolution 10 will be to allow the Company to issue equity securities under Listing Rule 7.1A without using the Company's 15% placement capacity under Listing Rule 7.1.

As at 5 April 2018, the Company has on issue 169,659,835 ordinary shares and therefore has capacity to issue:

- (a) subject to Shareholder approval being obtained under Resolutions 4, 5, 6, 7, 8 and 9, 25,448,975 equity securities under Listing Rule 7.1; and
- (b) subject to Shareholder approval being sought under this Resolution 10, 16,965,983 equity securities under Listing Rule 7.1A.

The issue price of the equity securities issued under Listing Rule 7.1A will be determined at the time of issue. The minimum price at which the equity securities the subject of this Resolution will be issued is 75% of the VWAP of the Company's equity securities over the 15 days on which trades in that class were recorded immediately before either:

- (a) the date on which the price at which the equity securities are to be issued is agreed; or
- (b) if the equity securities are not issued within 5 ASX trading days of the date in paragraph (a) the date on which the securities are issued.

If this Resolution is approved, and the Company issues equity securities under Listing Rule 7.1A, the existing Shareholders' voting power in the Company will be diluted. There is a risk that:

- (a) the market price for the Company's equity securities may be significantly lower on the issue date than on the date of the approval of this Resolution; and
- (b) the equity securities issued under Listing Rule 7.1A may be issued at a price that is at a discount (as described above) to the market price for the Company's equity securities on the issue date;

which may have an effect on the amount of funds raised by the issue.

The table set out below shows the dilution of existing Shareholders on the basis of:

- The market price of the Company's ordinary shares and the number of ordinary shares as at 5 April 2018.
- Two examples where the number of ordinary shares on issue ("A") has increased, by 50% and 100%. The number of ordinary shares on issue may increase as a result of issues of ordinary shares that do not require Shareholder approval (for example, pro-rata entitlements issues) or as a result of future specific placements under Listing Rule 7.1 that are approved by Shareholders.
- Two examples of where the issue price of ordinary shares has decreased by 50% and increased by 100% as against the market price as at close on 4 April 2018.

Variable "A" ASX Listing Rule 7.1A.2		Dilution		
		\$0.095 50% decrease in issue price	\$0.190 Issue price **	\$0.380 100% increase in issue price
"A" is the number of shares on issue, being 169,659,835 *** shares	10% voting dilution	16,965,983	16,965,983	16,965,983
	Funds raised	\$1,611,768	\$3,223,537	\$6,447,047
"A" is a 50% increase in shares on issue, being 254,489,752 *** shares	10% voting dilution	25,448,975	25,448,975	25,448,975
	Funds raised	\$2,417,653	\$4,835,305	\$9,670,611
"A" is a 100% increase in shares on issue, being 339,319,670 *** shares *	10% voting dilution	33,931,967	33,931,967	33,931,967
	Funds raised	\$3,223,537	\$6,447,074	\$12,894,147

Notes:

- (i) The table assumes that the Company issues the maximum number of equity securities available under Listing Rule 7.1A.
- (ii) The table assumes that no options are exercised in ordinary shares before the date of the issue of equity securities under Listing Rule 7.1A.
- (iii) The table does not show an example of dilution that may be caused to a particular Shareholder by reason of issues of equity securities under Listing Rule 7.1A based on that Shareholder's holding at the date of this Explanatory Statement.
- (iv) The table shows the effect of an issue of equity securities under Listing Rule 7.1A, not under the Company's 15% placement capacity under Listing Rule 7.1.
- (v) The issue of equity securities under the Listing Rule 7.1A consists only of ordinary shares. If the issue of equity securities includes options, it is assumed that those options are exercised into ordinary shares for the purposes of calculating the voting dilution effect on existing Shareholders.
- * Any issue of equity securities is required to be made in accordance with the Listing Rules. Any issue made other than under the Company's 15% capacity (Listing Rule 7.1) or the Company's additional 10% capacity (Listing Rule 7.1A) and not otherwise made under an exception in Listing Rule 7.2 (for example, a pro-rata rights issue) would require Shareholder approval.
- ** Based on the closing price of the Company's Shares on ASX on 4 April 2018.
- *** Based on the Company's Share structure as at 5 April 2018.

If this Resolution is approved the Company will have the ability to issue up to 10% of its issued capital without further Shareholder approval and therefore allow it to take advantage of opportunities to obtain further funds if required and available in the future.

As at the date of this Explanatory Statement, the Company has not formed an intention to offer any equity securities under Listing Rule 7.1A to any particular person or at any particular time. The total amount that may be raised by the issue of equity securities under Listing Rule 7.1A will depend on the issue price of the equity securities which will be determined at the time of issue. In some circumstances, the Company may issue equity securities under Listing Rule 7.1A for non-cash consideration (for example, in lieu of cash payments to consultants, suppliers or vendors). While the Company has not formed an intention to offer any equity securities under Listing Rule 7.1A, some of the purposes for which the Company may issue equity securities under Listing Rule 7.1A include (but are not limited to):

- (a) raising funds to further develop the Company's business;
- (b) raising funds to be applied to the Company's working capital requirements;
- (c) acquiring assets. In these circumstances, the issue of the ordinary shares may be made in substitution for the Company making a cash payment for the assets; and
- (d) paying service providers or consultants of the Company.

Details regarding the purposes for which any particular issue under Listing Rule 7.1A is made will be more fully detailed in an announcement to the ASX made pursuant to Listing Rule 7.1A.4 and Listing Rule 3.10.5A at the time the issue is made. The identity of the allottees of equity securities under Listing Rule 7.1A will be determined at the time the Company decides to make an issue having regard to a number of factors including:

- (a) the capital raising and acquisition opportunities available to the Company and any alternative methods for raising funds or acquiring assets that are available to the Company;
- (b) the potential effect on the control of the Company;
- (c) the Company's financial situation and the likely future capital requirements; and
- (d) advice from the Company's corporate or financial advisors.

Offers made under Listing Rule 7.1A may be made to parties including professional and sophisticated investors, existing Shareholders of the Company, clients of Australian Financial Service Licence holders and/or their nominees, or any other person to whom the Company is able to make an offer of equity securities.

The allocation policy the Company may adopt for a particular issue of equity securities under Listing Rule 7.1A and the terms on which those equity securities may be offered will depend upon the circumstances existing at the time of the proposed capital raising under Listing Rule 7.1A. Subject to the requirements of the Listing Rules and the Corporations Act, the Directors reserve the right to determine at the time of any issue of equity securities under Listing Rule 7.1A, the allocation policy that the Company will adopt for that issue.

As the Company has previously obtained Shareholder approval under Listing Rule 7.1A, it is required by Listing Rule 7.3A.6 to provide details of all issues of equity securities in the 12 months preceding the date of the Meeting. The details of all issues of equity securities by the Company during the 12 months preceding the date of the Meeting are detailed below:

Number/Class of equity securities issued	Terms of the securities issued	Price and discount to closing market price on the date of issue (if any)	Consideration details	Allottees of the Securities
<i>Securities issued on 28 April 2017</i>				
69,950 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 69,950 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 37.5 cents, which represents a discount of 41.33%.	Cash consideration of \$15,389. 100% of the cash has been spent on general working capital.	Option holders.
<i>Securities issued on 5 May 2017</i>				
120,000 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 120,000 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 33 cents, which represents a discount of 33.33%.	Cash Consideration of \$26,400. 100% of the cash has been spent on general working capital.	Option holders.
<i>Securities issued on 12 May 2017</i>				
50,000 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 50,000 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 34.5 cents, which represents a discount of 36.23%.	Cash consideration of \$11,000. 100% of the cash has been spent on general working capital.	Option holders.
<i>Securities issued on 19 May 2017</i>				
290,000 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 290,000 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 34 cents, which represents a discount of 35.29%.	Cash consideration of \$63,800. 100% of the cash has been spent on general working capital.	Option holders.
<i>Securities issued on 24 May 2017</i>				
1,800,000 unlisted and unvested options	Issue of unlisted and unvested options to 2	N/ A – Issued for nil cash consideration.	N/ A – Issued for nil cash consideration.	Messrs Oleg Vornik and Robert Clisdell,

	directors under the Company's Employee Share Option Plan.			Directors of the Company.
<i>Securities issued on 26 May 2017</i>				
100,000 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 100,000 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 33 cents, which represents a discount of 33.33%.	Cash consideration of \$22,000. 100% of the cash has been spent on general working capital.	Option holders.
<i>Securities issued on 2 June 2017</i>				
90,000 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 90,000 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 27.5 cents, which represents a discount of 20%.	Cash consideration of \$19,800. 100% of the cash has been spent on general working capital.	Option holders.
<i>Securities issued on 21 June 2017</i>				
4,438,922 fully paid ordinary shares.	Issue of fully paid ordinary shares to eligible shareholders under the SPP.	Issue price of 23.7 cents per share. Share price on the date of issue was 30 cents, which represents a discount of 21%.	Cash consideration of \$1,052,000. 100% of the cash consideration has been spent on the Company's development of its multi-method detect-and-defeat capability and general working capital purposes.	4,438,922 fully paid ordinary shares issued to existing shareholders of the Company who subscribed for fully paid ordinary shares under the SPP.
<i>Securities issued on 23 June 2017</i>				
50,000 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 50,000 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 26 cents, which represents a discount of 15.38%.	Cash consideration of \$11,000. 100% of the cash has been spent on general working capital.	Option holders.
3 fully paid ordinary shares.	Issue of 3 fully paid ordinary shares to eligible shareholders under the SPP for rounding purposes.	Issue price of 23.7 cents per share. Share price on the date of issue was 26 cents, which represents a discount of 8.85%.	Cash consideration of \$0.71. 100% of the cash has been spent on general working capital.	Issued to eligible shareholders under the SPP.
500,000 unlisted and unvested options.	Issue of unlisted and unvested options to an employee under the Company's	N/ A – Issued for nil cash consideration.	N/A – Issued for nil cash consideration.	Issued to an employee under the Company's Incentive Option Plan.

	Incentive Option Plan.			
<i>Securities issued on 28 June 2017</i>				
955,971 fully paid ordinary shares.	Issue of fully paid ordinary shares to sophisticated and professional investors under the Top-Up Placement on the same terms as the SPP.	Issue price of 23.7 cents per share. Share price on the date of issue was 25.5 cents, which represents a discount of 7.06%.	Cash consideration of \$225,000. 100% of the cash consideration has been used to contribute to the Company's development of its multi-method detect-and-defeat capability, and for general working capital purposes.	Sophisticated and professional investors.
<i>Securities issued on 14 July 2017</i>				
1,000,000 unlisted and unvested options	Issue of unlisted and unvested options to employees under the Company's Incentive Option Plan.	N/ A – Issued for nil cash consideration.	N/ A – Issued for nil cash consideration.	Issued to employees under the Company's Incentive Option Plan.
<i>Securities issued on 1 November 2017</i>				
11,610,000 fully paid ordinary shares.	Issue of shares to institutional, professional and sophisticated investors under the Placement.	Issue price of 20 cents per share. Share price on the date of issue was 21 cents, which represents a discount of 4.76%.	Cash consideration of \$2,322,000. As of the date of this Notice, approximately \$1,500,000 has been spent on the items set out in paragraph (e)(ii) on page 13 of this Notice (use of funds for the issue of November Shares under the Placement). The remaining funds will be spent on the same purposes and for working capital purposes.	Institutional, professional and sophisticated investors.
3,869,984 listed options	Issue of listed DROO options to institutional, professional and sophisticated investors on a 1 for 3 basis for each share issued under the Placement.	N/ A – Issued for nil cash consideration, as free attaching options as part of the Placement.	N/ A – Issued for nil cash consideration, as free attaching options as part of the Placement.	Institutional, professional and sophisticated investors.
2,000,000 unlisted options.	Issue of unlisted options to the lead manager of the Placement, as part of the fees payable to the lead manager.	N/ A – Issued for nil cash consideration.	N/ A – Issued for nil cash consideration.	Patersons Securities Limited, lead manager of the Placement.

250,000 unlisted and unvested options.	Issue of unlisted and unvested options to an employee under the Company's Incentive Option Plan.	N/ A – Issued for nil cash consideration.	N/ A – Issued for nil cash consideration.	Issued to an employee under the Company's Incentive Option Plan.
<i>Securities issued on 19 January 2018</i>				
450,000 unlisted and unvested options.	Issue of unlisted and unvested options to employees under the Company's Incentive Option Plan.	N/ A – Issued for nil cash consideration.	N/ A – Issued for nil cash consideration.	Issued to employees under the Company's Incentive Option Plan.
<i>Securities issued on 25 January 2018</i>				
250,000 unlisted and unvested options.	Issue of unlisted and unvested options to employees under the Company's Incentive Option Plan.	N/ A – Issued for nil cash consideration.	N/ A – Issued for nil cash consideration.	Issued to employees under the Company's Incentive Option Plan.
<i>Securities issued on 6 March 2018</i>				
337,500 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 337,500 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 26.5 cents, which represents a discount of 16.98%.	Cash consideration of \$74,250. None of the funds have been spent as of the date of this Notice. The Company intends to use the funds for working capital purposes.	Option holders, who are also Directors of the Company.
<i>Securities issued on 16 March 2018</i>				
105,000 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 105,000 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 28.0 cents, which represents a discount of 21.43%.	Cash consideration of \$23,100. None of the funds have been spent as of the date of this Notice. The Company intends to use the funds for working capital purposes.	Option holders.
<i>Securities issued on 19 March 2018</i>				
264,349 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 264,349 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 26.0 cents, which represents a discount of 18.18%.	Cash consideration of \$58,157. None of the funds have been spent as of the date of this Notice. The Company intends to use the funds for working capital purposes.	Option holders.

<i>Securities issued on 23 March 2018</i>				
390,900 fully paid ordinary shares.	Issue of fully paid ordinary shares upon the exercise of 390,900 listed DROO options.	Exercise price of 22 cents per option. Share price on the date of issue was 23.0 cents, which represents a discount of 4.55%.	Cash consideration of \$85,988. None of the funds have been spent as of the date of this Notice. The Company intends to use the funds for working capital purposes.	Option holders.
500,000 unlisted and unvested options.	Issue of unlisted and unvested options to an employee under the Company's Incentive Option Plan.	N/ A – Issued for nil cash consideration.	N/ A – Issued for nil cash consideration.	Issued to an employee under the Company's Incentive Option Plan.
<i>Securities issued on 29 March 2018</i>				
12,166,193 fully paid ordinary shares.	Issue of shares to institutional, professional and sophisticated investors under the Placement.	Issue price of 21 cents per share. Share price of the date of issue was 23 cents, which represents a discount of 8.70%	Cash consideration of \$2,554,901. None of the funds have been spent as of the date of this Notice. The Company intends to use the funds for working capital purposes.	Institutional, professional and sophisticated investors.
3,041,548 unlisted options.	Issue of unlisted options to the lead manager of the Placement and other brokers participating in the Placement as part of the fees payable to the lead manager and other brokers.	N/A- Issued for nil cash consideration.	N/A- Issued for nil cash consideration.	Patersons Securities Limited, lead manager of the Placement, and other brokers participating in the Placement.
Total equity securities issued in previous 12 months			44,700,320	
Percentage of total equity securities issued in previous 12 months* represent of the total number of equity securities on issue at the commencement of that 12 month period			18.57%	

*Based on Company's fully diluted capital structure as at date of 2017 Annual General Meeting

This Resolution is a special resolution. For a special resolution to be passed, at least 75% of the votes validly cast on the resolution by Shareholders (by number of ordinary shares) must be in favour of this Resolution.

Part E: ASX Listing Rule 10.11 and sections 195(4) and 208 of the Corporations Act

Resolutions 11 to 14 – Approval of Issue of Options to Directors

General

The Company has agreed, subject to obtaining Shareholder approval, to issue a total of 23,459,384 zero exercise price Options (**Zero Exercise Price Options**) to Directors, management and employees. Of these 23,459,384 Zero Exercise Price Options, the Company has agreed to issue 21,000,000 (**Related Party Zero Exercise Price Options**) to Messrs Vornik, James, Clisdell and Buswell (**Related Parties**) on the terms and conditions set out below. Further, the Company has agreed to issue 700,000 Class F Options and 700,000 Class G Options to Mr Buswell on the terms and conditions set out below.

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

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

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

The issue of the Related Party Zero Exercise Price Options to the Related Parties and the issue of the Class F Options and Class G Options to Mr Buswell constitutes giving a financial benefit and Messrs Vornik, James, Clisdell and Buswell are related parties of the Company by virtue of being Directors.

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

It is the view of the Company that the exceptions set out in sections 210 to 216 of the Corporations Act and ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of the Related Party Zero Exercise Price Options to the Related Parties and also for the issue of the Class F Options and Class G Options to Mr Buswell.

Shareholder Approval (Chapter 2E of the Corporations Act and Listing Rule 10.11)

Pursuant to and in accordance with the requirements of section 219 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Related Party Zero Exercise Price Options to the Related Parties and the proposed issue of the Class F Options and Class G Options to Mr Buswell:

- (a) the related parties are Messrs Vornik, James, Clisdell and Buswell and they are related parties by virtue of being Directors of the Company;
- (b) the maximum number of Options (being the nature of the financial benefit being provided) to be issued to the Related Parties is:
 - (i) 12,400,000 Related Party Zero Exercise Price Options to Oleg Vornik;
 - (ii) 6,600,000 Related Party Zero Exercise Price Options to Peter James;
 - (iii) 1,600,000 Related Party Zero Exercise Price Options to Robert Clisdell; and
 - (iv) 400,000 Related Party Zero Exercise Price Options, 700,000 Class F Options and 700,000 Class G Options to Brad Buswell;
- (c) the Related Party Zero Exercise Price Options will be issued to the Related Parties and the Class F Options and Class G Options will be issued to Mr Buswell no later than 1 month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that the Related Party Zero Exercise Price Options,

Class F Options and Class G Options will be issued on one date;

- (d) the Related Party Zero Exercise Price Options, Class F Options and Class G Options will be issued for nil cash consideration, accordingly no funds will be raised. Further, there is no exercise price payable in respect of the Related Party Zero Exercise Price Options which will vest and be exercisable into Shares for nil consideration in the event the Company achieves \$10,000,000 of revenue in any rolling twelve month period within 36 months of the date of the issue of the Related Party Zero Exercise Price Options or in the event of one of the change of control transactions described in Schedule 2 paragraph (e) occurring. One of these change of control transactions is where a person acquires voting power in over 50% of the Company's Shares, in circumstances where such person's voting power was lower than 50% prior to the date on which the Related Party Zero Exercise Price Options were issued. Shareholders should note that the Company's largest shareholder, Long Hill Capital, LLC, has voting power of approximately 36.11% at the date of this Notice;
- (e) the terms and conditions of the Related Party Zero Exercise Price Options, Class F Options and Class G Options are set out in Schedules 2, 3 and 4 respectively;
- (f) the value of the Related Party Zero Exercise Price Options, Class F Options and Class G Options and the pricing methodology is set out in Schedules 5, 6 and 7 respectively;
- (g) the relevant interests of the Related Parties in securities of the Company are set out below:

Related Party	Shares	Options
Oleg Vornik	163,292	4,500,000 ¹
Peter James	563,292	4,500,000 ²
Robert Clisdell	138,292	500,000 ³
Brad Buswell	nil	nil

¹ 800,000 unquoted Class B Options exercisable at \$0.30 each on or before 14 June 2019, 2,100,000 unquoted Class D Options exercisable at \$0.30 each on or before 22 June 2020, 800,000 unquoted Class F Options exercisable at \$0.30 each on or before 22 June 2021 and 800,000 unquoted Class H Options exercisable at \$0.30 each on or before 22 June 2022.

² 2,000,000 unquoted Class B Options exercisable at \$0.30 each on or before 14 June 2019 and 2,500,000 unquoted Class D Options exercisable at \$0.30 each on or before 22 June 2020.

³ 500,000 unquoted Class D Options exercisable at \$0.30 each on or before 22 June 2020.

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

Related Party	Current Financial Year	Previous Financial Year
Oleg Vornik	\$188,416 ¹	\$223,515 ²
Peter James	\$100,000	\$100,000
Robert Clisdell	\$30,000	\$28,387 ³
Brad Buswell	\$57,600	\$0 ⁴

¹ Translated from US\$ at an exchange rate of US\$1.28 to AU\$1.00.

² In addition, Oleg Vornik received share based payments (Options) valued at \$221,106 during the 2017 financial year.

³ In addition, Robert Clisdell received share based payments (Options) valued at \$85,041 during the 2017 financial year.

⁴ Brad Buswell was appointed as a Director on 29 December 2017.

- (i) if the Related Party Zero Exercise Price Options issued to the Related Parties are exercised, a total of 21,000,000 Shares would be issued. This would increase the number of Shares on issue from 169,659,835 to 190,659,835 (assuming that no other Options are exercised and no other Shares are issued) with the effect that the shareholding of existing Shareholders would be diluted by an aggregate of 11.01%, comprising 6.50% by Oleg Vornik, 3.46% by Peter James, 0.84% by Robert Clisdell and 0.21% by Brad Buswell.

Further, if the Class F Options and Class G Options to be issued to Brad Buswell are exercised, a further 1,400,000 Shares would be issued. This would increase the number of Shares on issue from 169,659,835 to 171,059,835 (assuming that no other Options are exercised and no other Shares are issued) with the effect that the shareholding of existing Shareholders would be diluted by 0.82%.

Ordinarily, the market price for Shares during the term of Options would normally determine whether or not the such Options are exercised. However, Shareholders should note that there is no exercise price payable in respect of the Related Party Zero Exercise Price Options. Rather, the Related Party Zero Exercise Price Options will vest and become exercisable into Shares for nil consideration in the event the Company achieves \$10,000,000 of revenue in any rolling twelve month period within 36 months of the date of the issue of the Related Party Zero Exercise Price Options or in the event of one of the change of control transactions described in Schedule 2 paragraph (e) occurring. As such, any time any of the Related Party Zero Exercise Price Options are exercised and the Shares are trading on ASX, there will be a perceived cost to the Company. The valuation of the Related Party Zero Exercise Price Options is set out in Schedule 5.

Further, if at any time any of the Class F Options or Class G Options to be issued to Brad Buswell are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of such Options, there may be a perceived cost to the Company. The valuation of the Class F Options and Class G Options is set out in Schedules 6 and 7 respectively.

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

	Price	Date
Highest	39.50 cents	26 April 2017
Lowest	17.00 cents	20 December 2017
Last	19.00 cents	5 April 2018

- (k) the Board acknowledges the issue of the Related Party Zero Exercise Price Options to Messrs James, Clisdell and Buswell and the issue of the Class F Options and Class G Options to Mr Buswell is contrary to Recommendation 8.3 of The Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition) as published by The ASX Corporate Governance Council. However, the Board considers the issue of the Related Party Zero Exercise Price Options to Messrs James, Clisdell and Buswell and the issue of the Class F Options and Class G Options to Mr Buswell are reasonable in the circumstances for the reason set out in paragraph (m);
- (l) the primary purpose of the issue of the Related Party Zero Exercise Price Options to the Related Parties and for the issue of the Class F Options and Class G Options to Mr Buswell is to provide a performance linked incentive component in the remuneration package for the Related Parties to motivate and reward the performance of the Related Parties in their respective roles as Directors. In respect of the Related Party Zero Exercise Price Options specifically, the milestones which must be satisfied before they vest and can be exercised into Shares are that the Company achieves \$10,000,000 of revenue in any rolling twelve month period within 36 months of the date of the issue of the Related Party Zero Exercise Price Options or one of the change of control transactions described in Schedule 2 paragraph (e) occurs;

- (m) Oleg Vornik declines to make a recommendation to Shareholders in relation to Resolution 11 due to his material personal interest in the outcome of the Resolution on the basis that he is to be issued Related Party Zero Exercise Price Options in the Company should Resolution 11 be passed. However, in respect of Resolutions 12, 13 and 14, Oleg Vornik recommends that Shareholders vote in favour of those Resolutions for the following reasons:
 - (i) the issue of the Related Party Zero Exercise Price Options to the Related Parties and the issue of the Class F Options and Class G Options to Mr Buswell, and in particular, the vesting conditions of the Related Party Zero Exercise Price Options, will align the interests of the Related Parties with those of Shareholders;
 - (ii) the issue of the Related Party Zero Exercise Price Options to the Related Parties and the issue of the Class F Options and Class G Options to Mr Buswell, represent a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of these benefits will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to the Related Parties; and
 - (iii) it is not considered that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Related Party Zero Exercise Price Options, Class F Options or Class G Options upon the terms proposed;
- (n) Peter James declines to make a recommendation to Shareholders in relation to Resolution 12 due to his material personal interest in the outcome of the Resolution on the basis that he is to be issued Related Party Zero Exercise Price Options in the Company should Resolution 12 be passed. However, in respect of Resolutions 11, 13 and 14, Peter James recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (m);
- (o) Robert Clisdell declines to make a recommendation to Shareholders in relation to Resolution 13 due to his material personal interest in the outcome of the Resolution on the basis that he is to be issued Related Party Zero Exercise Price Options in the Company should Resolution 13 be passed. However, in respect of Resolutions 11, 12 and 14, Robert Clisdell recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (m);
- (p) Brad Buswell declines to make a recommendation to Shareholders in relation to Resolution 14 due to his material personal interest in the outcome of the Resolution on the basis that he is to be issued Related Party Zero Exercise Price Options, Class F Options and Class G Options in the Company should Resolution 14 be passed. However, in respect of Resolutions 11, 12 and 13, Brad Buswell recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraph (m);
- (q) in forming their recommendations, each Director considered the experience of each other Related Party, the milestones attaching to the Related Party Zero Exercise Price Options as well as the current market practices when determining the number of Related Party Options to be granted. Further, each Director other than Brad Buswell considered the current market price of the Shares as well as the exercise price and expiry date of the Class F Options and Class G Options in forming their recommendations in respect of Resolution 14; and
- (r) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 11 to 14.

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

Part F: ASX Listing Rule 7.1

Resolution 15 – Approval of Issue of Options to Management and Employees

General

As set out in Part E above, the Company has agreed, subject to obtaining Shareholder approval, to issue a total of 23,459,384 Zero Exercise Price Options to Directors, management and employees. Resolutions 11 to 14 seek Shareholder approval for the issue of 21,000,000 Zero Exercise Price Options to Directors and also for the issue of 700,000 Class F Options and 700,000 Class G Options to Brad Buswell, a Director.

Resolution 15 seeks Shareholder approval for the issue of up to 2,459,384 Zero Exercise Price Options to management and employees of the Company (**Employee Zero Exercise Price Options**).

A summary of ASX Listing Rule 7.1 is set out in Part C above.

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

Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of the Employee Zero Exercise Price Options:

- (a) the maximum number of Employee Zero Exercise Price Options to be issued is 2,459,384;
- (b) the Employee Zero Exercise Price Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Employee Zero Exercise Price Options will occur on the same date;
- (c) the Employee Zero Exercise Price Options will be issued for nil cash consideration, accordingly no funds will be raised. Further, there is no exercise price payable in respect of the Employee Zero Exercise Price Options which will vest and be exercisable into Shares for nil consideration in the event the Company achieves \$10,000,000 of revenue in any rolling twelve month period within 36 months of the date of the issue of the Employee Zero Exercise Price Options or in the event of one of the change of control transactions described in Schedule 2 paragraph (e) occurring;
- (d) the Employee Zero Exercise Price Options will be issued to management and employees of the Company, none of whom will be a related party of the Company;
- (e) the Employee Zero Exercise Price Options will be issued on the terms and conditions set out in Schedule 2;
- (f) no funds will be raised from the issue of the Employee Zero Exercise Price Options as they are being issued to provide a performance linked incentive component in the remuneration package for management and employees of the Company to motivate and reward their performance. Specifically, the milestones which must be satisfied before the Employee Zero Exercise Price Options vest and can be exercised into Shares are that the Company achieves \$10,000,000 of revenue in any rolling twelve month period within 36 months of the date of the issue of the Employee Zero Exercise Price Options or one of the change of control transactions described in Schedule 2 paragraph (e) occurs. One of these change of control transactions is where a person acquires voting power in over 50% of the Company's Shares, in circumstances where such person's voting power was lower than 50% prior to the date on which the Related Party Zero Exercise Price Options were issued. Shareholders should note that the Company's largest shareholder, Long Hill Capital, LLC, has voting power of approximately 36.11% at the date of this Notice; and
- (g) if the Employee Zero Exercise Price Options issued by the Company are exercised, a total of 2,459,384 Shares would be issued. This would increase the number of Shares on issue from

169,659,835 to 172,119,219 (assuming that no other Options are exercised and no other Shares are issued) with the effect that the shareholding of existing Shareholders would be diluted by an aggregate of 1.43%.

Enquiries

Shareholders are asked to contact Mr Alistair McKeough, Company Secretary, on (+61 2) 8072 1400 if they have any queries in respect of the matters set out in these documents.

Glossary

2019 AGM means the annual general meeting of the Company's Shareholders to consider the financial report for the period ended 31 December 2018.

Annual Financial Report means the 2017 Annual Report to Shareholders for the period ended 31 December 2017 as lodged by the Company with ASX on 22 February 2018.

Annual General Meeting or **AGM** or **Meeting** means an Annual General Meeting of the Company and, unless otherwise indicated, means the meeting of the Company's members convened by this Notice of Meeting.

ASIC means Australian Securities and Investment Commission.

Associate has the meaning given to it by the ASX Listing Rules.

ASX means ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires, of 20 Bridge Street, Sydney, NSW 2000.

ASX Listing Rules or **Listing Rules** means the official ASX Listing Rules of the ASX and any other rules of the ASX which are applicable while the Company is admitted to the official list of the ASX, as amended or replaced from time to time, except to the extent of any express written waiver by the ASX.

Auditor's Report means the auditor's report of HLB Mann Judd Assurance (NSW) Pty Ltd dated 22 February 2018 as included in the Annual Financial Report.

Board means the current board of Directors of the Company.

Business Day means a day on which trading takes place on the stock market of ASX.

Chair means the person chairing the Meeting.

Closely Related Party of a member of the KMP means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependant of the member or of the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the Company;
- (e) a company the member controls; or
- (f) a person prescribed by the *Corporation Regulations 2001* (Cth).

Company means DroneShield Limited ACN 608 915 859.

Constitution means the Company's constitution.

Corporations Act means the *Corporations Act 2001* (Cth) as amended or replaced from time to time.

Director means a current director of the Company.

Directors' Report means the report of Directors as included in the Annual Financial Report.

Dollar or "\$" means Australian dollars.

Employee Zero Exercise Price Options has the meaning given in Section F of the Explanatory Statement.

Explanatory Statement means the explanatory statement accompanying this Notice of Meeting.

June Shares has the meaning given to it by the Explanatory Statement to Resolution 4 of this Notice of Meeting.

KMP means key management personnel (including the Directors) who remuneration details are included in the Remuneration Report.

March Shares has the meaning given to it by the Explanatory Statement to Resolution 8 of this Notice of Meeting.

March Unlisted Options has the meaning given to it by the Explanatory Statement to Resolution 9 of this Notice of Meeting.

Notice of Meeting or **Notice of Annual General Meeting** means this notice of annual general meeting dated 27 April 2018 including the Explanatory Statement.

November Listed Options has the meaning given to it by the Explanatory Statement to Resolution 6 of this Notice of Meeting.

November Shares has the meaning given to it by the Explanatory Statement to Resolution 5 of this Notice of Meeting.

November Unlisted Options has the meaning given to it by the Explanatory Statement to Resolution 7 of this Notice of Meeting.

Option means an option to acquire a Share.

Proxy Form means the proxy form attached to this Notice of Meeting.

Related Parties has the meaning given in Section E of the Explanatory Statement.

Related Party Zero Exercise Price Options has the meaning given in Section E of the Explanatory Statement.

Remuneration Report means the remuneration report as set out in the Annual Financial Report.

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

Restricted Voter means a member of the Company's KMP and any Closely Related Parties of those members.

Securities mean Shares and/or Options (as the context requires).

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

Shareholder means a holder of a Share.

Spill Meeting means the meeting that will be convened within 90 days of the 2018 AGM if a threshold of votes is cast against the adoption of the Remuneration Report at the Meeting and the 2018 AGM.

Spill Resolution means the resolution required to be put to Shareholders at the 2018 AGM if a threshold of votes is cast against the adoption of the Remuneration Report at the Meeting and the 2018 AGM.

VWAP means the volume weighted average price, with respects to the price of Shares.

Zero Exercise Price Options has the meaning given in Section E of the Explanatory Statement.

Schedule 1 – Terms and Conditions of the March Unlisted Options and November Unlisted Options (each of which are ‘Class A Options’)

The unlisted Class A Options (**New Option**) entitle the holder of the New Options (**Optionholder**) to subscribe for fully paid ordinary shares of the Company (**Shares**) on the following terms and conditions:

- (a) Each New Option entitles the holder to subscribe for one Share upon exercise of the Option.
- (b) Subject to paragraph (j), the amount payable upon exercise of each New Option will be \$0.22 (**Exercise Price**).
- (c) Each New Option will expire at 5.00pm (WST) on 14 June 2019 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (d) The New Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).
- (e) The New Options may be exercised during the Exercise Period by notice in writing to the Company in the matter specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each New Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.
- (f) A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each New Option being exercised in cleared funds (**Exercise Date**).
- (g) Within 15 Business Days after the Exercise Date, the Company will:
 - (i) issue the number of Shares required under these terms and conditions in respect of the number of New Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
 - (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
 - (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the New Options.

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

- (h) Shares issued on exercise of the New Options rank equally with the then issued shares of the Company.
- (i) If admitted to the official list of the ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the New Options.
- (j) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

- (k) There are no participation rights or entitlements inherent in the New Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the New Options without exercising the New Options.
- (l) A New Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the New Option can be exercised.
- (m) The New Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

Schedule 2 – Terms and Conditions of the Zero Exercise Price Options

(a) **Entitlement**

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

(b) **Exercise Price**

No consideration is payable upon the exercise of each Option.

(c) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on the date which is 38 months after its date of issue (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

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

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

(e) **Automatic Vesting**

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

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

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

(f) **Notice of Exercise**

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

(g) **Exercise Date**

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

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

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

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

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

(i) **Shares issued on exercise**

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

(j) **Reconstruction of capital**

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

(k) **Participation in new issues**

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

(l) **Change in exercise price**

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

(m) **Transferability**

The Options are not transferable.

Schedule 3 – Terms and Conditions of the Class F Options

The unlisted Class F Options (**New Option**) entitle the holder of the New Options (**Optionholder**) to subscribe for fully paid ordinary shares of the Company (**Shares**) on the following terms and conditions:

- (a) Each New Option is issued pursuant to, and is governed by the Company's Employee and Share Option Plan (**ESOP**) adopted on 11 November 2015, as amended from time to time. Each of the terms and conditions set out in this Schedule 3, is subject to the ESOP and the terms therein.
 - (b) The New Options will vest only upon the Optionholder satisfactorily completing a continuous period of service at the Company commencing from the date of the New Options until 22 June 2018 (**Vesting Condition**).
 - (c) Subject to satisfaction of the Vesting Condition, each New Option gives the Optionholder the right to subscribe for 1 Share for every New Option they own in the Company.
 - (d) If the Vesting Condition is not satisfied, the New Options will automatically lapse, unless determined otherwise by the Board at its absolute discretion.
 - (e) If the Vesting Condition is satisfied and the Optionholder's period of service at the Company remains current, the New Options will expire at 5:00pm (AEST) on 22 June 2021 (**Expiry Date**). Any New Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
 - (f) If the Optionholder ceases employment or engagement with the Company before the Expiry Date, the Board at its absolute discretion may lapse any or all of the New Options.
 - (g) The amount payable upon the exercise of each New Option will be \$0.30 (**Exercise Price**).
 - (h) The New Options may be exercised in whole or in part, and if exercised in part, multiples of 10,000 must be exercised on each occasion.
 - (i) The Optionholder may exercise their New Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised,
- (**Exercise Notice**).
- (j) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
 - (k) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of New Options specified in the Exercise Notice.
 - (l) The New Options are not transferrable without the Company's consent.
 - (m) All Shares allotted upon the exercise of New Options will upon allotment rank pari passu in all respects with other Shares.

- (n) The Company will not apply for quotation of the New Options on ASX. However, the Company will apply for quotation of all Shares allotted pursuant to the exercise of the New Options on ASX immediately after the allotment of those Shares.
- (o) If at any time the issued capital of the Company is reconstructed, all rights of the Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (p) There are no participating rights or entitlements inherent in the New Options and the Optionholder will not be entitled to participate in new issues of capital offered to shareholders during the currency of the New Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 6 Business Days after the issue is announced. This will give the Optionholder the opportunity to exercise the New Options prior to the date for determining entitlements to participate in any such issue.
- (q) In the event the Company proceeds with a pro rata issue (except a bonus issue) of securities to shareholders after the date of issue of the New Options, the exercise price of the Options may be reduced in accordance with the formula set out in ASX Listing Rule 6.22.2.
- (r) In the event the Company proceeds with a bonus issue of securities to shareholders after the date of issue of the New Options, the number of securities over which a New Option is exercisable may be increased by the number of securities which the Optionholder would have received if the New Option had been exercised before the record date for the bonus issue.

Schedule 4 – Terms and Conditions of the Class G Options

The unlisted Class G Options (**New Option**) entitle the holder of the New Options (**Optionholder**) to subscribe for fully paid ordinary shares of the Company (**Shares**) on the following terms and conditions:

- (a) Each New Option is issued pursuant to, and is governed by the Company's Employee and Share Option Plan (**ESOP**) adopted on 11 November 2015, as amended from time to time. Each of the terms and conditions set out in this Schedule 4, is subject to the ESOP and the terms therein.
 - (b) The New Options will vest only upon the Optionholder satisfactorily completing a continuous period of service at the Company commencing from the date of the New Options until 29 March 2019 (**Vesting Condition**).
 - (c) Subject to satisfaction of the Vesting Condition, each New Option gives the Optionholder the right to subscribe for 1 Share for every New Option they own in the Company.
 - (d) If the Vesting Condition is not satisfied, the New Options will automatically lapse, unless determined otherwise by the Board at its absolute discretion.
 - (e) If the Vesting Condition is satisfied and the Optionholder's period of service at the Company remains current, the New Options will expire at 5:00pm (AEST) on 29 March 2022 (**Expiry Date**). Any New Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
 - (f) If the Optionholder ceases employment or engagement with the Company before the Expiry Date, the Board at its absolute discretion may lapse any or all of the New Options.
 - (g) The amount payable upon the exercise of each New Option will be \$0.30 (**Exercise Price**).
 - (h) The New Options may be exercised in whole or in part, and if exercised in part, multiples of 10,000 must be exercised on each occasion.
 - (i) The Optionholder may exercise their New Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised,
- (**Exercise Notice**).
- (j) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
 - (k) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of New Options specified in the Exercise Notice.
 - (l) The New Options are not transferrable without the Company's consent.
 - (m) All Shares allotted upon the exercise of New Options will upon allotment rank pari passu in all respects with other Shares.

- (n) The Company will not apply for quotation of the New Options on ASX. However, the Company will apply for quotation of all Shares allotted pursuant to the exercise of the New Options on ASX immediately after the allotment of those Shares.
- (o) If at any time the issued capital of the Company is reconstructed, all rights of the Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (p) There are no participating rights or entitlements inherent in the New Options and the Optionholder will not be entitled to participate in new issues of capital offered to shareholders during the currency of the New Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 6 Business Days after the issue is announced. This will give the Optionholder the opportunity to exercise the New Options prior to the date for determining entitlements to participate in any such issue.
- (q) In the event the Company proceeds with a pro rata issue (except a bonus issue) of securities to shareholders after the date of issue of the New Options, the exercise price of the Options may be reduced in accordance with the formula set out in ASX Listing Rule 6.22.2.
- (r) In the event the Company proceeds with a bonus issue of securities to shareholders after the date of issue of the New Options, the number of securities over which a New Option is exercisable may be increased by the number of securities which the Optionholder would have received if the New Option had been exercised before the record date for the bonus issue.

Schedule 5 – Valuation of the Related Party Zero Exercise Price Options

5 April 2018

Mr Oleg Vornik
Chief Executive Officer
DroneShield Limited
Level 29, 201 Elizabeth Street
Sydney, NSW 2000

Dear Oleg,

RE: Independent valuation of options

1. Introduction

DroneShield Limited ("**DroneShield**") has requested Leadenhall Services Pty Ltd ("**Leadenhall**") to prepare a valuation of the options proposed to be issued by DroneShield to certain directors and executives of DroneShield ("**Options**") as at a current date. Issuance of the options is subject to DroneShield shareholder approval.

Our valuation is intended for inclusion in the notice of meeting ("**NOM**") to be provided to shareholders and may also be utilised for financial reporting purposes in accordance with the requirements of AASB 2 Share-based Payments ("**AASB 2**") if the issuance of Options is approved.

2. Approach

2.1. Option terms

The key terms of the Options are as follows:

- ◆ Nil exercise price
- ◆ 38 month term
- ◆ The options are subject to the following vesting conditions ("**Vesting Conditions**") being satisfied:
 - DroneShield achieving \$10 million revenue in any 12-month month period within 36 months of the date of the issue of the Options
 - Automatic vesting in the event that DroneShield is subject to a takeover or other change of control transaction.

2.2. Definition of value

According to AASB 2 *Share-based Payment*, fair value is defined as:

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

Further, AASB 2 requires market conditions, such as a target share price, upon which vesting (or exercisability) is conditioned, to be taken into account when estimating the fair value of the equity instruments granted. However, vesting conditions, other than market conditions, are not be taken into account when estimating the fair value of the shares or share options at the measurement date.

For the purpose of our analysis we have utilised the definition and approach to fair value as set out in AASB 2.

2.3. Valuation methodology

We have estimated the value of the Options in accordance with AASB 2. Since the Vesting Conditions are non-market vesting conditions, we have not included their impact in determining the value of the Options. We have therefore utilised the Black-Scholes Option Pricing Model (“**BOPM**”) to estimate the fair value of the Options as this model is the most common approach for valuing simple options.

3. Results and conclusion

3.1. Summary

As there is no exercise price and no near-term expectation of dividends for DroneShield, the value of an Option (excluding the impact of vesting conditions) determined using the BOPM is equivalent to the value of a DroneShield share. This is irrespective of the volatility and risk-free rate adopted in our valuation.

The value of the Options will be based on the spot price of a DroneShield share on the date on which the Options are issued (if approved by Shareholders). The price of a DroneShield share has fluctuated between \$0.17 to \$0.28 cents per share in the previous three months.

To determine the current value of the Options we have utilised the closing share price of DroneShield shares as at 4 April 2018 and as such have estimated the value of the Options to be \$0.19 per Option.

3.2. Other considerations

Pursuant to AASB 2, as at the date of the issue of the Option, the company will be required to estimate the likelihood of the Vesting Conditions being satisfied in determining the number of Options to include as an expense for financial reporting purposes.

Due to the nature of the Vesting Conditions and the early stage nature of the company it is possible that the vesting conditions will not be met and thus no options will vest. Therefore the expense attributable to the Options, and the value received by employees and Directors from them, could range between nil and \$0.28 per Option.

Yours sincerely,



Dave Pearson
Director



Richard Norris
Director

Appendix 1: Valuation methodologies

Option Valuation Methods

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

◆ Black-Scholes

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

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

◆ Binomial

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

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

◆ Monte Carlo

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

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

Selected Method

In assessing the fair value of the Options, we have considered Black-Scholes Option Pricing Model.

Appendix 2: Background to Option

Put and Call Options

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

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

Intrinsic and Time Value

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

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

American and European Options

Options are generally categorised as being one of three types:

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

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

Key Inputs

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

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

Impact of Changes in Inputs

The following highlights the impact on the value of a call option from changes in the key inputs.

- ◆ **Spot price** – The higher the spot price, the higher the option value.
- ◆ **Exercise price** – The higher the exercise price, the lower the option value, due to the option being less in the money / more out of the money.
- ◆ **Life** – In most cases, the longer the expected life of the option, the higher the option value, since there is a greater opportunity for the option to become in the money. With high dividends and a low exercise price (relative to the spot price), the converse applies.
- ◆ **Volatility** – Generally, the higher the volatility, the higher the option value as there is more opportunity for the options to become in the money.
- ◆ **Expected dividend yield** – The higher the dividend yield, the lower the option value as dividends represent leakage to a call option holder.
- ◆ **Risk free rate** – The higher the risk-free rate, the higher the option value in most cases, as this represents a greater cost of holding the underlying shares compared to holding a call option.

Appendix 3: Disclaimers

Responsibility and Purpose

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

Market Conditions

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

Reliance on Information

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

Indemnities

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

Independence

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

Professional Standards

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

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

Our valuation represents a Valuation Engagement in accordance with APES 225.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Dave Pearson, BCom., CA, CFA, CBV, M.App.Fin, ASA and Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin.,

Schedule 6 – Valuation of the Class F Options

The unlisted Class F Options will not be quoted on ASX. The Company has valued the unlisted Class F Options proposed to be issued to Mr Buswell (or his nominee) using the Black and Scholes Option Pricing model. A summary of the valuation inputs are as follows:

- (a) Underlying Share price of \$0.265 as of 22 March 2018.
- (b) The unlisted Class F Options will vest on 22 June 2018.
- (c) Dividend yield of nil as the Company has historically not paid any dividends.
- (d) Risk free rate of 2.18% being the three-year Australian Government bond rate as of March 2018.
- (e) Fair volatility of 87.7%.
- (f) Assuming that the Options have vested, expiry date of 22 June 2021.
- (g) Exercise price of \$0.30 per Option.

Unlisted Class F Options valuation

Description	Expiry Date	Exercise Price	Volatility	Value for one unlisted Class F Option
Unlisted Class F Options	22 June 2021	\$0.30	87.7%	\$0.1483

Schedule 7 – Valuation of the Class G Options

The unlisted Class G Options will not be quoted on ASX. The Company has valued the unlisted Class G Options proposed to be issued to Mr Buswell (or his nominee) using the Black and Scholes Option Pricing model. A summary of the valuation inputs are as follows:

- (a) Underlying Share price of \$0.265 as of 22 March 2018.
- (b) The unlisted Class G Options will vest on 29 March 2019.
- (c) Dividend yield of nil as the Company has historically not paid any dividends.
- (d) Risk free rate of 2.26% being the four-year Australian Government bond rate as of March 2018.
- (e) Fair volatility of 87.7%.
- (f) Assuming that the Options have vested, expiry date of 29 March 2022.
- (g) Exercise price of \$0.30 per Option.

Unlisted Class G options valuation

Description	Expiry Date	Exercise Price	Volatility	Value for one unlisted Class G Option
Unlisted Class G options	29 March 2022	\$0.30	87.7%	\$0.1628



DroneShield Limited | ACN 608 915 859

AGM Registration Card

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

Holder Number:

Vote by Proxy: DRO

Your proxy voting instruction must be received by **9.00am (Sydney time) on Sunday, 27 May 2018**, being **not later than 48 hours** before the commencement of the Meeting. Any Proxy Voting instructions received after that time will not be valid for the scheduled Meeting.

SUBMIT YOUR PROXY VOTE ONLINE

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

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

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



SUBMIT YOUR PROXY VOTE BY PAPER

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

YOUR NAME AND ADDRESS

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

VOTING UNDER STEP 1 - APPOINTING A PROXY

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

DEFAULT TO THE CHAIRMAN OF THE MEETING

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

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

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

APPOINTMENT OF SECOND PROXY

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

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided

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

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

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

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

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

CORPORATE REPRESENTATIVES

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

ATTENDING THE MEETING

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

POWER OF ATTORNEY

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

CONTACT	Return your completed form: <div style="display: flex; align-items: center;"> <div> BY MAIL Automic Registry Services PO Box 2226 Strawberry Hills NSW 2012 </div> </div> <div style="display: flex; align-items: center; margin-top: 10px;"> <div> IN PERSON Automic Registry Services Level 3, 50 Holt Street, Surry Hills NSW 2010 </div> </div>	Contact us – All enquiries to Automic: <div style="display: flex; align-items: center;"> <div> WEBCHAT https://automic.com.au/ </div> </div> <div style="display: flex; align-items: center; margin-top: 10px;"> <div> EMAIL hello@automic.com.au </div> </div> <div style="display: flex; align-items: center; margin-top: 10px;"> <div> PHONE 1300 288 664 (Within Australia) +61 2 9698 5414 (Overseas) </div> </div>
---------	---	---

STEP 1: Please appoint a Proxy	Complete and return this form as instructed only if you do not vote online I/We being a Shareholder entitled to attend and vote at the Annual General Meeting of DroneShield Limited, to be held at 9.00 am (Sydney time) on Tuesday, 29 May 2018 at Whittens & McKeough, Level 29, 201 Elizabeth Street, Sydney NSW hereby:	
	Appoint the Chairman of the Meeting (Chair) OR if you are not appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit and at any adjournment thereof.	
	<div style="border: 1px solid black; height: 30px; width: 100%;"></div>	
	The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote. Unless indicated otherwise by ticking the "for," "against" or "abstain" box you will be authorising the Chair to vote in accordance with the Chair's voting intention.	

AUTHORITY FOR CHAIR TO VOTE UNDIRECTED PROXIES ON REMUNERATION RELATED RESOLUTIONS
 Where I/we have appointed the Chair as my/our proxy (or where the Chair becomes my/our proxy by default), I/we expressly authorise the Chair to exercise my/our proxy on Resolutions 1 and 11 to 14 (except where I/we have indicated a different voting intention below) even though Resolutions 1 and 11 to 14 are connected directly or indirectly with the remuneration of a member of the Key Management Personnel, which includes the Chair.

STEP 2: Your Voting Direction	Resolutions	For	Against	Abstain	Resolutions	For	Against	Abstain
	1 Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11 Ratification of Prior Issue of Equity Securities – March Unlisted Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	2 Re-election of Mr Peter James as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12 ASX Listing Rule 7.1A Approval of Future Issue of Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	3 Re-election of Mr Bradley Buswell as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13 Approval of Issue of Options to Director – Oleg Vornik	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	4 Ratification of Prior Issue of Equity Securities – June Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14 Approval of Issue of Options to Director – Peter James	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	5 Ratification of Prior Issue of Equity Securities – November Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15 Approval of Issue of Options to Director – Robert Clisdell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	6 Ratification of Prior Issue of Equity Securities – November Listed Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
	7 Ratification of Prior Issue of Equity Securities – November Unlisted Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
	8 Ratification of Prior Issue of Equity Securities – March Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3: Sign	SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED		
	Individual or Securityholder 1	Securityholder 2	Securityholder 3
	Sole Director and Sole Company Secretary	Director	Director / Company Secretary
	Contact Name..... Contact Daytime Telephone..... Date ____ / ____ / ____ Email Address _____ By providing your email address, you elect to receive all of your communications despatched by the Company electronically (where legally permissible).		