



DRONESHIELD

DRONESHIELD LIMITED

ACN 608 915 859

NOTICE OF 2016 ANNUAL GENERAL MEETING

EXPLANATORY STATEMENT

PROXY FORM

TIME: 10:30am (AEST)

DATE: 26 April 2017

PLACE: Whittens & McKeough
Level 29, 201 Elizabeth Street
Sydney, NSW 2000

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 <https://www.dronesshield.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.

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The Annual General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 10:30am (AEST) on 26 April 2017 at Whittens & McKeough, Level 29, 201 Elizabeth Street, Sydney NSW 2000

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
2. lodge the Proxy Form online at <https://investor.automic.com.au/#/loginsah> by following the instructions: Login to the Automic website using the holding details as shown on the Proxy Form. Click on 'View 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,

so that it is received no 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 Dronesield Limited ACN 608 915 859 (**Company**) will be held at 10:30am (AEST) on 26 April 2017 at Whittens & McKeough, Level 29, 201 Elizabeth Street, Sydney, NSW, 2000.

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 of the Company at 7:00pm (AEST) on 24 April 2017.

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 2016 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 2016.”

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: Election of Directors

2. RESOLUTION 2 – RE-ELECTION OF MR ROBERT CLISDELL AS A DIRECTOR

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

“That Mr Robert Clisdell, a Director appointed as an additional Director and holding office until the next 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.”

Part C: ASX Listing Rule 7.1A

3. RESOLUTION 3 – 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 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 on Resolution 3 by:

- (a) 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; and
- (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 D: Issue of Options to Directors

4. RESOLUTION 4 – APPROVAL OF ISSUE OF OPTIONS TO MR OLEG VORNIK

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 10.14, section 208 of the Corporations Act, section 200E of the Corporations Act and for all other purposes, the Shareholders of the Company approve the issue of 1,300,000 unlisted Class D options to Mr Oleg Vornik (or his nominee), an Executive Director of the Company pursuant to the Company’s Employee Share Option Plan and otherwise 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 on Resolution 4 by:

- (a) Mr Oleg Vornik;
- (b) any director of the Company who is eligible to participate in the ESOP in respect of which the approval is sought; and
- (c) an Associate of any person described in (a) or (b) above.

However, the Company need not disregard a vote if:

- (i) it is cast by a person acting as a proxy for another person entitled to vote, in accordance with the direction 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 – APPROVAL OF ISSUE OF OPTIONS TO MR ROBERT CLISDELL

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 10.14, section 208 of the Corporations Act, section 200E of the Corporations Act and for all other purposes, the Shareholders of the Company approve the issue of 500,000 unlisted Class D options to Mr Robert Clisdell (or his nominee), a Non-Executive Director of the Company pursuant to the Company’s Employee Share Option Plan and otherwise 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 on Resolution 5 by:

- (a) Mr Robert Clisdell
- (b) any director of the Company who is eligible to participate in the ESOP in respect of which the approval is sought; and
- (c) an Associate of any person described in (a) or (b) above.

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.

Dated: 24 March 2017

BY ORDER OF THE BOARD



Anand Sundaraj
Company Secretary

EXPLANATORY STATEMENT

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 Resolution 1 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.droneshield.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 2017 Annual General Meeting (**2017 AGM**), the Company will be required to put to the vote a resolution (**Spill Resolution**) at the 2017 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 2017 AGM. All of the Directors who were in office when the 2017 Directors' Report 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: Election of Directors

RESOLUTION 2 – RE-ELECTION OF MR ROBERT CLISDELL AS DIRECTOR

The Company's Constitution under Rule 11.10 sets out that the Company at a general meeting may by resolution and the Directors 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. Under Rule 11.11 of the Constitution any Director appointed in this manner 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.

Mr Robert Clisdell was appointed as a Non-Executive Director of the Company on 24 January 2017, as an addition to the existing directors.

Under this Resolution 2, Mr Clisdell seeks re-election at this AGM.

Mr. Clisdell is based in Sydney and is the Vice-President at Bergen Capital (Australia) Ltd, an affiliate of the Company's largest shareholder. Prior to Bergen, Mr. Clisdell led the middle market corporate advisory practice for Credit Suisse's Private Bank in Melbourne. Prior to Credit Suisse, Mr. Clisdell was an M&A banker with Caliburn Partnership (now Greenhill & Co.) in Sydney, and worked in Equity Capital Markets at Ord Minnett Corporate Finance.

Directors' recommendation

The Directors (excluding Mr Clisdell) recommend that Shareholders vote for Resolution 2.

Part C: ASX Listing Rule 7.1A

RESOLUTION 3 – 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.

Shareholder approval under this Resolution 3 is sought for the Company to issue equity securities under Listing Rule 7.1A.

If Resolution 3 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 2016 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 3 is passed will cease to be valid on the earlier of 26 April 2018 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);
 - (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 3 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 24 February 2017 the Company has on issue 138,006,767 Shares and therefore has capacity to issue:

- (a) subject to Shareholder approval being sought under Resolution 20,701,015 equity securities under Listing Rule 7.1; and
- (b) subject to Shareholder approval being sought under this Resolution, 13,800,677 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 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 current market price of the Company's Shares and the current number of ordinary securities as at the date of this Explanatory Statement.
- Two examples where the number of Shares on issue ("A") has increased, by 50% and 100%. The number of Shares on issue may increase as a result of issues of 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 Shares has decreased by 50% and increased by 100% as against the current market price.

Variable “A” Listing Rule 7.1A.2		Dilution		
		\$0.23 50% decrease in issue price	\$0.455 Issue Price **	\$0.91 100% increase in issue price
“A” is the current number of Shares on issue 138,006,767 Shares***	10% voting dilution	13,800,677 shares	13,800,677 shares	13,800,677 shares
	Funds raised	\$3,070,650.57	\$6,141,301.13	\$12,282,602.26
“A” is a 50% increase in current Shares on issue 207,010,150 Shares***	10% voting dilution	20,701,015 shares	20,701,015 shares	20,701,015 shares
	Funds raised	\$4,605,975.84	\$9,211,951.68	\$18,423,903.35
“A” is a 100% increase in current Shares on issue 276,013,534*** Shares *	10% voting dilution	27,601,353 shares	27,601,353 shares	27,601,353 shares
	Funds raised	\$6,141,301.13	\$12,282,602.26	\$24,565,204.53

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 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 Shares. If the issue of equity securities includes options, it is assumed that those options are exercised into 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 24 February 2017.

*** Based on the Company’s Share structure as at 24 February 2017.

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; 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 not obtained Shareholder approval under Listing Rule 7.1A, it is not required by Listing Rule 7.3A.6 to provide details of all issues of securities in the 12 months preceding the date of the Meeting.

This Resolution 3 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.

Directors' recommendation

The Directors of the Company believe that Resolution 3 is in the best interests of the Company and unanimously recommend that Shareholders vote in favour of this Resolution. A voting exclusion statement is set out in the Notice of Meeting.

Part D: Issue of Options to Directors

The independent Board seeks Shareholder approval to issue the following incentive options pursuant to the Company's Employee Share Option Plan (**ESOP**):

- (a) Resolution 4: 1,300,000 unlisted Class D options to Mr Oleg Vornik, Executive Director; and
- (b) Resolution 5: 500,000 unlisted Class D options to Mr Robert Clisdell, Non-Executive Director.

The Company's ESOP was adopted on 11 November 2015, prior to the Company's admission to the official list of the ASX. The terms of the ESOP were disclosed as part of the Company's IPO prospectus, which was lodged with ASX and ASIC on 9 May 2016.

RESOLUTION 4 – APPROVAL OF ISSUE OF OPTIONS TO MR OLEG VORNIK

Background and biography

Mr Oleg Vornik is the Chief Executive Officer and Managing Director of the Company. Mr Vornik also sits on the Board as an Executive Director, having been appointed on 24 January 2017. Prior to his appointment, Mr Vornik served as the Company's Chief Financial Officer for over a year.

Mr Vornik is an experienced financier with investment banking and treasury experience at the Royal Bank of Canada, Leighton Contractors, Brookfield, Deutsche Bank and ABN AMRO. Mr. Vornik was most recently an energy and industrials investment banker with the Sydney office of the Royal Bank of Canada. Prior to RBC, he worked as an investment banker at Brookfield Asset Management, Deutsche Bank and ABN AMRO in Australia and New Zealand and held the position of a Treasurer at Leighton Contractors. Mr. Vornik holds a BSci (Mathematics) and BCom (Hons) from University of Canterbury, New Zealand and has completed a business program with Columbia University in New York.

Information required by ASX Listing Rule 10.15

Listing Rule 10.14 states that a listed company must not permit a director to acquire securities under an employee incentive scheme without Shareholder approval, by ordinary resolution.

Accordingly, as Mr Vornik is a current Director of the Company, the issue of unlisted Class D options to him (or his nominee) requires Shareholder approval in accordance with Listing Rule 10.14.

The following information in relation to the Class D options is provided to Shareholders for the purposes of Listing Rule 10.15:

- (a) Mr Vornik is an Executive Director of the Company.
- (b) The maximum number of unlisted Class D options to be issued to Mr Vornik (or his nominee) is 1,300,000 unlisted Class D options.
- (c) The unlisted Class D options will be issued to Mr Vornik (or his nominee) for nil consideration. Each of the unlisted Class D options will be exercisable at 30 cents per option. Full terms of the unlisted Class D options are set out in Annexure A of this Notice.
- (d) This is the first general meeting of the Company's Shareholders since the Company listed on ASX on 22 June 2016. The following current persons referred to in Listing Rule 10.14 have previously received securities under the Company's ESOP since its adoption, each of whom were issued the securities for nil cash consideration.

- (i) Mr Peter James, Director of the Company was issued 2,000,000 unlisted Class B options and 2,500,000 unlisted Class D options;
 - (ii) Mr Oleg Vornik, Director of the Company was issued 800,000 unlisted Class B options, 800,000 unlisted Class D options, 800,000 unlisted Class F options and 800,000 unlisted Class H options; and
 - (iii) Ms Samantha Ravich, Director of the Company was issued 1,000,000 unlisted Class B options.
- (e) It is intended that all employees, Directors and other eligible will be eligible to participate in the ESOP.
 - (f) A voting exclusion statement has been included in the Notice of Meeting.
 - (g) Pursuant to the ESOP, a participant who is granted options may request the Company to grant a loan up to the total amount payable in respect of the exercise price of the options granted to the participant. A summary of the terms of the loan is set out in Annexure B (as part of the summary of the ESOP) of this Notice.
 - (h) The unlisted Class D options will be issued within 12 months of Shareholder approval being obtained by the Company (or other date as determined by the ASX in the exercise of their discretion).

Information Required by Chapter 2E (Section 208) of the Corporations Act

A “related party” for the purposes of the Chapter 2E of the Corporations Act is widely defined and includes a director of a public company or a spouse of a director of a public company. Given that Mr Vornik is an existing Director of the Company, he is a “related party” of the Company.

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a related party of the Company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the provisions; or
- (b) prior Shareholder approval is obtained prior to the giving of the financial benefit.

The proposed issue of unlisted Class D options to Mr Vornik (or his nominee) constitutes the giving a financial benefit for the purposes of Chapter 2E of the Corporations Act. Accordingly, as the Directors do not consider that any exception applies, the issue of unlisted Class D options to him (or his nominee) requires Shareholder approval in accordance with Corporations Act, and the following information is provided.

Identity of the related party

- (a) Mr Oleg Vornik is a related party of the Company to whom this Resolution 4 would permit the financial benefit to be given.

Nature of the financial benefit and other remuneration to be received by Mr Oleg Vornik

- (b) Mr Vornik is the current Chief Executive Officer, Managing Director and Executive Director of the Company. The nature of the financial benefit to be given to Mr Vornik is the issue of 1,300,000 unlisted Class D options pursuant to the Company’s existing ESOP.

- (c) Mr Vornik's base remuneration is \$250,000 per annum plus superannuation. For the financial year ended 31 December 2016, Mr Vornik's remuneration comprised of salary and fees (\$279,223), a discretionary cash bonus (\$100,000), post-employment benefits (\$24,408) and share-based payments in the form of options (\$166,915). The cash bonus was determined at the sole discretion of the Board in accordance with the Company's short term incentive program. In reaching its decision for the financial year ended 31 December 2016, the Board carefully considered Mr Vornik's valued contributions and efforts in his role as CFO, his performance during that period and the additional duties he took on following the resignation of the Company's former Managing Director, James Walker. Future bonus payments will remain at the sole discretion of the Board, and in its determination, the Board will consider various factors, such as Mr Vornik's performance in his role and the performance of the Company during the period. The share-based payments in the form of options comprise of 50,000 listed DROO options, 800,000 unlisted Class B options, 800,000 unlisted Class D options, 800,000 unlisted Class F options and 800,000 unlisted Class H options. In addition, Mr Vornik currently holds 50,000 Shares in the Company. Since Mr Vornik's appointment as current Chief Executive Officer, Managing Director and Executive Director of the Company, his remuneration has not changed and has remained the same.
- (d) If and when the unlisted Class D Options proposed to be issued under this Resolution 4 are exercised, the shares will rank equally with all other fully paid ordinary shares of the Company on issue. Full terms of the unlisted Class D options are set out in Annexure A of this Notice.

Directors' recommendation and basis of financial benefit

- (e) The independent Board (which is the Board with Messrs Vornik and Clisdell removed from discussions) considered the issue of these unlisted Class D options to Mr Vornik, and formed the view that the giving of this financial benefit would be reasonable given the proposed terms of the options, and the responsibilities held by Mr Vornik in the Company. In reaching this view, the following considerations were taken into account:
- (i) The options will vest on the same date as existing unlisted Class D options (22 June 2017), which will assist in increasing the alignment of Mr Vornik's interests with the interests of the Company's Shareholders.
- (ii) Since Mr Vornik's appointment as the Company's Chief Executive Officer, Managing Director and Executive Director on 24 January 2017, Mr Vornik has not been provided an increase in his remuneration or additional incentives in the form of securities, despite the increased responsibility of Mr Vornik in the Company. The independent Board considers that the quantum and value of the options is appropriate for a person in Mr Vornik's position. The independent Board notes that as of the date of this Notice, these options are "in the money" (that is, the options can be exercised for a profit). The independent Board considers that the exercise price is appropriately structured as the options remain unvested for a period of time, and the potential profit that Mr Vornik could realise is an appropriate form of remuneration, as opposed to other forms of financial benefit, such as additional cash payments. In summary, the independent Board considers that the issue of these unlisted Class D options is a more cost effective way to reward and incentivise Mr Vornik as opposed to other forms of financial benefits, such as additional cash payments.
- (f) For the reasons noted above, the independent Board recommends that Shareholders vote in favour of Resolution 4.

Dilutionary effect to existing Shareholders' interests

- (g) Mr Vornik is not being issued any quoted fully paid ordinary shares in the Company under this Resolution 4. Accordingly, assuming that the unlisted Class D options remain unexercised, on an

undiluted basis, the issue of these options to Mr Vornik will not have any immediately dilutionary effect on existing Shareholders' interest. Mr Vornik's potential interest (assuming that the options are exercised is set out below in Table A.

Existing and potential relevant interest

- (h) Mr Vornik currently holds the following securities in the Company: 50,000 fully paid ordinary shares, 50,000 listed DROO options, 800,000 unlisted Class B options, 800,000 unlisted Class D options, 800,000 unlisted Class F options and 800,000 unlisted Class H options.
- (i) The table below sets out his potential interest in the Company.

Table A: Vornik Potential Interest

Holder	Projected holdings	% of DRO ^(a) (Undiluted)	% of DRO ^(b) (Fully diluted)
Oleg Vornik	50,000 fully paid ordinary shares 50,000 listed DROO options 800,000 unlisted Class B options 2,100,000 unlisted Class D options 800,000 unlisted Class F options 800,000 unlisted Class H options	0.04%	1.90%

Notes:

^(a) These percentages are based on a total sum of 138,006,767 fully paid ordinary shares of the Company, which have been calculated as follows: 138,006,767 (existing number of Shares on issue)

^(b) These percentages are based on a total sum of 241,950,001 fully paid ordinary shares of the Company, which have been calculated as follows: 138,006,767 (existing number of Shares on issue) + 31,993,234 (listed DROO options) + 10,000,000 (unlisted Class A options) + 9,050,000 (unlisted Class B options) + 5,100,000 (unlisted Class D options, including the Class D options proposed to be issued under this Notice) + 800,000 (unlisted Class F options) + 800,000 (unlisted Class H options) + 200,000 (unlisted Class I options) + 15,000,000 (unlisted Class A Performance Shares) + 15,000,000 (unlisted Class B Performance Shares) + 15,000,000 (unlisted Class C Performance Shares)

- (j) The fully diluted percentages are based on the assumption that all existing options have vested and are exercised. Accordingly, these fully diluted percentages in should be treated with caution as there is no certainty that any of the existing options will be exercised.

Trading history

- (k) Since the Company's admission to the official list of the ASX on 22 June 2016 and up to 24 February 2017, the Company's share price had traded between \$0.17 and \$0.52.

Valuation of the unlisted Class D options

- (l) The unlisted Class D options will not be quoted on ASX. DroneShield has valued the unlisted Class D options proposed to be issued to Mr Vornik (or his nominee) using the Black and Scholes Option Pricing model. A summary of the valuation inputs are as follows:
- (i) Underlying share price of \$0.455 as of 24 February 2017.
 - (ii) The unlisted Class D options will vest on 22 June 2017.
 - (iii) Dividend yield of nil as the Company has historically not paid any dividends.

- (iv) Risk free rate of 1.95% being the three-year Australian Government bond rate as of January 2017.
- (v) Fair volatility rate of 87.7%.
- (vi) Assuming that the options have vested, expiry date of 22 June 2020.
- (vii) Exercise price of \$0.30 per option.

Table B: Unlisted Class D options valuation

Description	Expiry Date	Exercise Price	Volatility	Value for one unlisted Class D Option
Unlisted Class D options	22 June 2020	\$0.30	87.7%	\$0.2978

- (m) Based on Table B above, the value of the unlisted Class D options to be issued to Mr Vornik are as follows:

Table C: Unlisted Class D options value (Vornik)

Holder	Number of unlisted Class D options issued	Value
Oleg Vornik	1,300,000	\$387,137.94

Section 200E Corporations Act approval

Pursuant to the ESOP, the Board may in its absolute discretion, except in instances of a change of control occurring, waive the vesting requirements of options due to special circumstances, which includes circumstances determined by the Board at any time that is deemed to fall within that category.

Under section 200B of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a managerial or executive office in the company if it is approved by shareholders under section 200E of the Corporations Act or an exemption applies. The term “benefit” may include the waiving or acceleration of vesting terms of options proposed to be issued to Mr Vornik, or permitting Mr Vornik to keep some or all of the options despite no longer being engaged by the Company, if the discretion is exercised by the Board at the time of Mr Vornik ceasing to be a Director or employee of the Company, which may amount to the giving of a termination benefit requiring Shareholder approval. Accordingly, the Company seeks Shareholder approval pursuant to section 200E of the Corporations Act under this Resolution 4.

Directors’ recommendation

For reasons previously noted above, the Directors of the Company (excluding Messrs Vornik and Clisdell) recommends that Shareholders vote in favour of Resolution 4.

RESOLUTION 5 – APPROVAL OF ISSUE OF OPTIONS TO MR ROBERT CLISDELL

Background and biography

Mr Robert Clisdell is a Non-Executive Director of the Company.

Mr. Clisdell is based in Sydney and is the Vice-President at Bergen Capital (Australia) Ltd, an affiliate of the Company’s largest shareholder. Prior to Bergen, Mr. Clisdell led the middle market corporate

advisory practice for Credit Suisse's Private Bank in Melbourne. Prior to Credit Suisse, Mr. Clisdell was an M&A banker with Caliburn Partnership (now Greenhill & Co.) in Sydney, and worked in Equity Capital Markets at Ord Minnett Corporate Finance.

Information required by ASX Listing Rule 10.15

Listing Rule 10.14 states that a listed company must not permit a director to acquire securities under an employee incentive scheme without Shareholder approval, by ordinary resolution.

Accordingly, as Mr Clisdell is a current Director of the Company, the issue of unlisted Class D options to him (or his nominee) requires Shareholder approval in accordance with Listing Rule 10.14.

The following information in relation to the Class D options is provided to Shareholders for the purposes of Listing Rule 10.15:

- (a) Mr Clisdell is a Non-Executive Director of the Company.
- (b) The maximum number of unlisted Class D options to be issued to Mr Clisdell (or his nominee) is 500,000 unlisted Class D options.
- (c) The unlisted Class D options will be issued to Mr Clisdell (or his nominee) for nil consideration. Each of the unlisted Class D options will be exercisable at 30 cents per option. Full terms of the unlisted Class D options are set out in Annexure A of this Notice.
- (d) This is the first general meeting of the Company's Shareholders since the Company listed on ASX on 22 June 2016. The following current persons referred to in Listing Rule 10.14 have previously received securities under the Company's ESOP since its adoption, each of whom were issued the securities for nil cash consideration.
 - (i) Mr Peter James, Director of the Company was issued 2,000,000 unlisted Class B options and 2,500,000 unlisted Class D options;
 - (ii) Mr Oleg Vornik, Director of the Company was issued 800,000 unlisted Class B options, 800,000 unlisted Class D options, 800,000 unlisted Class F options and 800,000 unlisted Class H options; and
 - (iii) Ms Samantha Ravich, Director of the Company was issued 1,000,000 unlisted Class B options.
- (e) It is intended that all employees, Directors and other eligible will be eligible to participate in the ESOP.
- (f) A voting exclusion statement has been included in the Notice of Meeting.
- (g) Pursuant to the ESOP, a participant who is granted options may request the Company to grant a loan up to the total amount payable in respect of the exercise price of the options granted to the participant. A summary of the terms of the loan is set out in Annexure B (as part of the summary of the ESOP) of this Notice.
- (h) The unlisted Class D options will be issued within 12 months of Shareholder approval being obtained by the Company (or other date as determined by the ASX in the exercise of their discretion).

Information Required by Chapter 2E (Section 208) of the Corporations Act

A “related party” for the purposes of the Chapter 2E of the Corporations Act is widely defined and includes a director of a public company or a spouse of a director of a public company. Given that Mr Clisdell is an existing Director of the Company, he is a “related party” of the Company.

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a related party of the Company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the provisions; or
- (b) prior Shareholder approval is obtained prior to the giving of the financial benefit.

The proposed issue of unlisted Class D options to Mr Clisdell (or his nominee) constitutes the giving a financial benefit for the purposes of Chapter 2E of the Corporations Act. Accordingly, as the Directors do not consider that any exception applies, the issue of unlisted Class D options to him (or his nominee) requires Shareholder approval in accordance with Corporations Act, and the following information is provided.

Identity of the related party

- (a) Mr Robert Clisdell is a related party of the Company to whom this Resolution 5 would permit the financial benefit to be given.

Nature of the financial benefit and other remuneration to be received by Mr Robert Clisdell

- (b) Mr Clisdell is a current Non-Executive Director of the Company. The nature of the financial benefit to be given to Mr Clisdell is the issue of 500,000 unlisted Class D options pursuant to the Company’s existing ESOP.
- (c) Mr Clisdell’s base remuneration is \$2,500 per month (which is inclusive of superannuation entitlements). In addition, other financial benefits he currently holds are as follows: 37,500 fully paid ordinary shares and 37,500 listed DROO options.
- (d) If and when the unlisted Class D Options proposed to be issued under this Resolution 5 are exercised, the shares will rank equally with all other fully paid ordinary shares of the Company on issue. Full terms of the unlisted Class D options are set out in Annexure A of this Notice.

Directors’ recommendation and basis of financial benefit

- (e) The independent Board (which is the Board with Messrs Clisdell and Vornik removed from discussions) considered the issue of these unlisted Class D options to Mr Clisdell, and formed the view that the giving of this financial benefit would be reasonable given the proposed terms of the options, and the responsibilities held by Mr Clisdell in the Company. In reaching this view, the following considerations were taken into account:
 - (i) The options will vest on the same date as existing unlisted Class D options (22 June 2017), which will assist in increasing the alignment of Mr Clisdell’s interests with the interests of the Company’s Shareholders.
 - (ii) Since Mr Clisdell’s appointment as a Non-Executive Director of the Company on 24 January 2017, Mr Clisdell has not been provided in incentives in the form of securities, despite the increased responsibility of Mr Clisdell in the Company. The independent Board considers that the quantum and value of the options is appropriate for a person in

Mr Clisdell's position. The independent Board notes that as of the date of this Notice, these options are "in the money" (that is, the options can be exercised for a profit). The independent Board considers that the exercise price is appropriately structured as the options remain unvested for a period of time, and the potential profit that Mr Clisdell could realise is an appropriate form of remuneration, as opposed to other forms of financial benefit, such as additional cash payments. In summary, the independent Board considers that the issue of these unlisted Class D options is a more cost effective way to reward and incentivise Mr Vornik as opposed to other forms of financial benefits, such as additional cash payments.

- (f) For the reasons noted above, the independent Board recommends that Shareholders vote in favour of Resolution 5.

Dilutionary effect to existing Shareholders' interests

- (g) Mr Clisdell is not being issued any quoted fully paid ordinary shares in the Company under this Resolution 5. Accordingly, assuming that the unlisted Class D options remain unexercised, on an undiluted basis, the issue of these options to Mr Clisdell will not have any immediately dilutionary effect on existing Shareholders' interest. Mr Clisdell's potential interest (assuming that the options are exercised is set out below in Table D.

Existing and potential relevant interest

- (h) Mr Clisdell currently holds the following securities in the Company: 37,500 fully paid ordinary shares and 37,500 listed DROO options.
- (i) The table below sets out his potential interest in the Company.

Table D: Clisdell Potential Interest

Holder	Projected holdings	% of DRO ^(a) (Undiluted)	% of DRO ^(b) (Fully diluted)
Robert Clisdell	37,500 fully paid ordinary shares 37,500 listed DROO options 500,000 unlisted Class D options	0.03%	0.24%

Notes:

^(a) These percentages are based on a total sum of 138,006,767 fully paid ordinary shares of the Company, which have been calculated as follows: 138,006,767 (existing number of Shares on issue)

^(b) These percentages are based on a total sum of 241,950,001 fully paid ordinary shares of the Company, which have been calculated as follows: 138,006,767 (existing number of Shares on issue) + 31,993,234 (listed DROO options) + 10,000,000 (unlisted Class A options) + 9,050,000 (unlisted Class B options) + 5,100,000 (unlisted Class D options, including the Class D options proposed to be issued under this Notice) + 800,000 (unlisted Class F options) + 800,000 (unlisted Class H options) + 200,000 (unlisted Class I options) + 15,000,000 (unlisted Class A Performance Shares) + 15,000,000 (unlisted Class B Performance Shares) + 15,000,000 (unlisted Class C Performance Shares)

- (j) The fully diluted percentages are based on the assumption that all existing options have vested and are exercised. Accordingly, these fully diluted percentages in should be treated with caution as there is no certainty that any of the existing options will be exercised.

Trading history

- (k) Since the Company's admission to the official list of the ASX on 22 June 2016 and up to 24 February 2017 the Company's share price had traded between \$0.17 and \$0.52.

Valuation of the unlisted Class D options

- (l) The unlisted Class D options will not be quoted on ASX. DroneShield has valued the unlisted Class D options proposed to be issued to Mr Clisdell (or his nominee) using the Black and Scholes Option Pricing model. A summary of the valuation inputs are as follows:
- (i) Underlying share price of \$0.455 as of 24 February 2017.
 - (ii) The unlisted Class D options will vest on 22 June 2017.
 - (iii) Dividend yield of nil as the Company has historically not paid any dividends.
 - (iv) Risk free rate of 1.95% being the three-year Australian Government bond rate as of January 2017.
 - (v) Fair volatility rate of 87.7%.
 - (vi) Assuming that the options have vested, expiry date of 22 June 2020.
 - (vii) Exercise price of \$0.30 per option.

Table E: Unlisted Class D options valuation

Description	Expiry Date	Exercise Price	Volatility	Value for one unlisted Class D Option
Unlisted Class D options	22 June 2020	\$0.30	87.7%	\$0.2978

- (m) Based on Table E above, the value of the unlisted Class D options to be issued to Mr Clisdell are as follows:

Table F: Unlisted Class D options value (Clisdell)

Holder	Number of unlisted Class D options issued	Value
Robert Clisdell	500,000	\$148,899.21

Section 200E Corporations Act approval

Pursuant to the ESOP, the Board may in its absolute discretion, except in instances of a change of control occurring, waive the vesting requirements of options due to special circumstances, which includes circumstances determined by the Board at any time that is deemed to fall within that category.

Under section 200B of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a managerial or executive office in the company if it is approved by shareholders under section 200E of the Corporations Act or an exemption applies. The term “benefit” may include the waiving or acceleration of vesting terms of options proposed to be issued to Mr Clisdell, or permitting Mr Clisdell to keep some or all of the options despite no longer being engaged by the Company, if the discretion is exercised by the Board at the time of Mr Clisdell ceasing to be a Director or employee of the Company, which may amount to the giving of a termination benefit requiring Shareholder approval. Accordingly, the Company seeks Shareholder approval pursuant to section 200E of the Corporations Act under this Resolution 5.

Directors' recommendation

For reasons previously noted above, the Directors of the Company (excluding Messrs Clisdell and Vornik) recommends that Shareholders vote in favour of Resolution 5.

ENQUIRIES

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

GLOSSARY

AEST means Australian Eastern Standard Time.

Annual Financial Report means the 2016 Annual Report to Shareholders for the period ended 31 December 2016 as lodged by the Company with ASX on 27 February 2017.

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.

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.

Company means DroneShield Limited ACN 608 915 859 of Suite 403, 18-20 Orion Road, Lane Cove West NSW 2066.

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.

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

Notice of Meeting or **Notice of Annual General Meeting** means this notice of annual general meeting dated 26 April 2017 including the Explanatory Statement.

Option means an option to acquire a Share.

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

Related Body Corporate has the meaning given in the Corporations Act 2001 (Cth).

Remuneration Report means the remuneration report as set out in the Annual Financial Report which is also available on the Company's website at www.dronesshield.com.

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 key management personnel (including the Directors) details of whose remuneration are included in the Remuneration Report and any of that person's Closely Related Parties or Associates (such as close family members and any controlled companies of those persons).

Securities mean Shares and/or Options and/or rights to a Share and/or Option (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 2017 AGM if a threshold of votes are cast against the adoption of the Remuneration Report at the Meeting and the 2017 AGM.

Spill Resolution means the resolution required to be put to Shareholders at the 2017 AGM if a threshold of votes are cast against the adoption of the Remuneration Report at the Meeting and the 2017 AGM.

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

ANNEXURE A – TERMS OF CLASS D OPTIONS

The unlisted Class D 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 Annexure A, 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 2017 (**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 2020 (**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.

ANNEXURE B – SUMMARY OF ESOP TERMS

The principal terms of the ESOP are summarised as follows:

- (a) **Eligibility and Grant of Options:** The Board may grant options under the ESOP (**Options**) to any Director, full or part time employee, or casual employee or contractor who falls within ASIC Class Order 14/1000 (**Class Order**), of the Company or an associated body corporate (**Eligible Participant**). The Board may also offer Options (**Offer**) to a prospective Eligible Participant provided the Offer can only be accepted if they become an Eligible Participant. Options may be granted by the Board at any time.
- (b) **Consideration:** Each Option granted under the ESOP will be granted for no more than nominal cash consideration.
- (c) **Conversion:** Each Option is exercisable into one Share in the Company ranking equally in all respect with the existing issued Shares in the Company.
- (d) **Exercise Price and Expiry Date:** The exercise price and expiry date for Options granted under the ESOP will be determined by the Board prior to the grant of the Options.
- (e) **Exercise Restrictions:** The Options granted under the ESOP may be subject to conditions on exercise as may be fixed by the Directors prior to grant of the Options (**Exercise Conditions**). Any restrictions imposed by the Directors must be set out in the offer for the Options.
- (f) **Lapsing of Options:** An unexercised Option will lapse:
 - (i) on its Expiry Date;
 - (ii) if any Exercise Condition is unable to be met and is not waived, as determined by the Board; or
 - (iii) subject to certain good leaver exceptions or a determination by the Board, where the Eligible Participant ceases to be an Eligible Participant.
- (g) **Cashless Exercise:** The ESOP also allows Eligible Participants to exercise vested Options by way of a 'cashless exercise'. Where an Eligible Participant makes such an election, rather than the participant being required to pay the exercise price of each Option to be exercised, the Company will issue the Participant with a smaller number of Shares on the exercise of the Options representing the difference between the value of the Shares to be issued and the exercise price of the Option. Where the Options are exercised by a 'cashless exercise', the Company will only issue such number of Shares as is equivalent to the number of Options being exercised multiplied by the excess of the average Share price over the exercise price of the Options divided by the average Share price and then rounded down to a whole number of Shares.
- (h) **Loan:** A Participant who is granted Options may request the Company to grant a loan up to the total amount payable in respect of the exercise price of the Options granted to the Participant (**Loan**), on the following terms:
 - (i) the Loan will be interest free;
 - (ii) the Loan will be deemed to have been made at the time the Company issues the Shares on exercise of the Options to the Participant;

- (iii) the Loan shall be applied by the Company directly toward payment of the exercise price of the Options on exercise of such Options by the Participant;
 - (iv) the Company will apply any cash dividends in respect of Shares issued on exercise of the Options to repayment of any outstanding Loan amount;
 - (v) the Loan repayment date and the manner for making such payments shall be determined by the Board and set out in the offer of Options;
 - (vi) a Participant must repay the Loan in full by the Loan repayment date but may elect to repay the Loan amount in respect of any or all of the exercised Options at any time prior to the Loan repayment date;
 - (vii) the Company shall have a lien over the Shares issued on exercise of the Options and in respect of which a Loan is outstanding and the Company shall be entitled to sell those Shares in the event the Participant does not repay the Loan by the repayment date;
 - (viii) the Loan is repayable in full where the Participant suffers an insolvency event or breaches any condition of the Loan or the ESOP;
 - (ix) a Participant must not transfer, assign, encumber or otherwise deal with the Shares issued on exercise of the Options until the Loan has been fully repaid;
 - (x) a Loan will be non-recourse except against the Shares issued on exercise of Options issued under the ESOP and which are held by the Participant to which the Loan relates; and
 - (xi) the Board may, in its absolute discretion, agree to give a Loan made to a Participant.
- (i) **Disposal of Options:** Options will not be transferable except to the extent the ESOP or any offer provides otherwise.
 - (j) **Quotation of Options:** Options will not be quoted on the ASX, except to the extent provided for by the ESOP or unless an offer provides otherwise.
 - (k) **Trigger Events:** The Company may permit Options to be exercised in certain circumstances where there is a change in control of the Company (including by takeover) or entry into a scheme of arrangement.
 - (l) **Participation generally:** There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.
 - (m) **Reorganisation:** The terms upon which Options will be granted will not prevent the Options being re-organised as required by the Listing Rules on the organisation of the capital of the Company.
 - (n) **Limitation on Offers:** The Company must have reasonable grounds to believe, when making an Offer, that the number of Shares to be received on exercise of Options offered under an Offer, when aggregated with the number of Shares issued or that may be issued as a result of offers made in reliance on the Class Order at any time during the previous 3 year period under an employee incentive scheme covered by the Class Order or an ASIC exempt arrangement of a similar kind to an employee incentive scheme, will not exceed 5% of the total number of Shares on issue at the date of the Offer.

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

DroneShield Limited | ACN 608 915 859

HolderNumber

Vote by Proxy

DRO:

Holder Number:

Option A – Please choose to vote online, because:

- ✓ **Save Your Money:** This company you own a part of has to spend thousands of dollars each year in print and postage costs. Online voting will reduce this unnecessary expense.
- ✓ **It's Quick and Secure:** Voting online provides you with greater privacy over your instructions, eliminates any postal delays and removes the risk of it being potentially lost in transit.
- ✓ **Receive Vote Confirmation:** Voting online is the only method which provides you with confirmation that your vote has been processed. It also allows you to amend your vote if required.



To Access online voting you can scan the barcode to the right with your tablet or mobile device or you can enter the following link into your browser. Voting online is quick and easy to do.

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

STEP 1: Please appoint a Proxy

Option B – Appoint a proxy, by paper:

I/We being a Shareholder entitled to attend and vote at the Annual General Meeting of the Company, to be held at **10.30 am (AEST) on 26 April 2017 at Whittens & McKeough, Level 29, 201 Elizabeth Street, Sydney, NSW 2000** 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.

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, 4 & 5 (except where I/we have indicated a different voting intention below) even though Resolutions 1, 4 & 5 are connected directly or indirectly with the remuneration of a member of the Key Management Personnel, which includes the Chair.

STEP 2: Voting Direction

Resolutions

- Adoption of Remuneration Report
- Re-election of Mr Robert Clisdell as a Director
- ASX Listing Rule 7.1a Approval of Future Issue of Securities
- Approval of Issue of Options to Mr Oleg Vornik
- Approval of Issue of Options to Mr Robert Clisdell

For Against Abstain

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<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

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 / / 2017

Email Address

HOW TO COMPLETE THIS PROXY VOTING FORM

LODGING YOUR PROXY VOTE

This Proxy Voting Form (and any Power of Attorney under which it is signed) must be received at an address given below by 10.30am (AEST) on 24 April 2017, being **not later than 48 hours** before the commencement of the Meeting. Any Proxy Voting Forms received after that time will not be valid for the scheduled Meeting.

Proxy Voting Forms can be lodged:



ONLINE

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



Login to the Automic website using the holding details as shown on the Proxy Voting Form. Click on 'View 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 front of the Proxy Voting form.



BY MAIL

Automic Registry Services
PO Box 2226
Strawberry Hills NSW 2012



BY HAND

Automic Registry Services
Level 3, 50 Holt Street, Surry Hills NSW 2010



ALL ENQUIRIES TO

Telephone: 1300 288 664 Overseas: + 61 2 9698 5414

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 on 1300 288 664 or you may copy this form.

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.

YOUR NAME AND ADDRESS

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

VOTING UNDER STEP 1 - APPOINTING A PROXY

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