

DRONESHIELD LIMITED
ACN 608 915 859

PROSPECTUS

For an offer of 25,000,000 Shares at an issue price of \$0.20 per Share to raise \$5,000,000 together with 1 free attaching Option for every 1 Share subscribed for and issued (**Offer**). Oversubscriptions of up to a further 10,000,000 Shares at an issue price of \$0.20 per Share to raise up to a further \$2,000,000 (together with 1 free attaching Option for every 1 Share subscribed for and issued) may be accepted under the Offer,

and

for the offer of 10,000,000 Options to the Lead Manager (or its nominee) (**Lead Manager Offer**).

Lead Manager: Patersons Securities Limited

IMPORTANT INFORMATION

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay. **The Securities offered by this Prospectus should be considered highly speculative.**

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1. CORPORATE DIRECTORY

Directors

Peter James, *Non-Executive Chairman*
James Walker, *Managing Director*
Winton Willesee, *Non-Executive Director*
Dr. Samantha Ravich, *Non-Executive Director*

Management

James Walker, *Chief Executive Officer*
Oleg Vornik, *Chief Financial Officer*
Erlyn Dale, *Company Secretary*

Proposed ASX Codes

DRO – Shares
DROO - Options

Solicitors in Australia

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Patent Attorney and Solicitors in the USA

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Share Registry

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Surry Hills, NSW 2010

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Investigating Accountant and Auditor of the Company

HLB Mann Judd
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Sydney NSW 2000

Auditor of DroneShield, LLC

Cohen & Schaeffer P.C.*
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New York, NY 10170

Lead Manager

Patersons Securities Limited
Level 23, Exchange Tower
2 The Esplanade
Perth WA 6000

* This entity is included for information purposes only. It has not been involved in the preparation of this Prospectus.

2. IMPORTANT NOTICE

This Prospectus is dated 27 April 2016 and was lodged with the ASIC on that date. The ASIC and its officers take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

No Securities may be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

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

It is important that you read this Prospectus in its entirety and seek professional advice where necessary. The Securities the subject of this Prospectus should be considered highly speculative.

2.1 Exposure Period

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. You should be aware that this examination may result in the identification of deficiencies in this Prospectus and, in those circumstances, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act. Applications for Securities under this Prospectus will not be processed by the Company until after the expiry of the Exposure Period. No preference will be conferred on applications lodged prior to the expiry of the Exposure Period.

2.2 Web Site – On-line Prospectus

A copy of this Prospectus can be downloaded from the website of the Company at www.droneshield.com. If you are accessing the on-line version of this Prospectus, you must be an Australian resident and must only access this Prospectus from within Australia. In particular, the on-line version of this Prospectus may not be accessed within the United States.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. You may obtain a hard copy of this Prospectus free of charge by contacting the Company.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the on-line Application Form, it was not provided together with the on-line Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

2.3 Website

No document or information included on the Company's website is incorporated by reference into this Prospectus.

2.4 Forwarding-looking statements

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and management.

The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this prospectus, except where required by law.

These forward looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 7 of this Prospectus.

2.5 Photographs and Diagrams

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person shown endorses the Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

3. INVESTMENT OVERVIEW

This section is a summary only and not intended to provide full information for investors intending to apply for Securities offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety.

3.1 The Company

DroneShield Limited (the **Company**) was incorporated on 4 November 2015 for the primary purpose of acquiring DroneShield, LLC (**DroneShield**) and engaging in the business of offering products manufactured by DroneShield globally, as well as managing and operating DroneShield's business. DroneShield is a United States (Delaware) limited liability company that was formed on 10 January 2014 for the primary purpose of developing and selling proprietary hardware and software for acoustic detection of small unmanned aerial vehicles (also known as "**drones**").

Governments and owners of infrastructure and other real assets are acutely aware of the threat posed by commercially available and affordable consumer drones. Until recently, there had been no cost-effective commercial detection and defence solution available to governments and real asset owners. DroneShield provides such a solution.

DroneShield owns the intellectual property rights to, and has commenced selling, cost-effective proprietary hardware (enterprise-grade sensors), which is coupled with software (a proprietary database of audio signatures). The system detects acoustic signatures of drones, which are then analysed by a signature database, and alerts the user to approaching drones. Development of the system commenced in 2013. Since DroneShield first commenced delivery of its products in February 2014, it has sold, or pilot or trial-installed, approximately 214 sensor units (with 198 sensor units having been sold), and its products have been installed or trialled at a range of third party sites, including the Boston Marathon in 2015 and 2016, the current head of state of a G7 nation, a major US airport, and the Office of Homeland Security of a Mid-Atlantic US state.

On 1 April 2016, the Company entered into an exchange agreement (**Exchange Agreement**) with the current members (equivalent of shareholders in Delaware) of DroneShield to acquire 100% of the equity interests in DroneShield in consideration for the issue of an aggregate of 100,000,000 Shares and 45,000,000 Performance Shares in the Company to the current members of DroneShield, such issue to be conditional upon, and to occur concurrently with, the Company obtaining the Listing Approval, raising the minimum subscription and issuing the Shares under the Offer (the **Exchange**). The terms and conditions of the Performance Shares to be issued pursuant to the Exchange are set out in Section 12.6.

The effect of the Exchange Agreement is that, upon the Company obtaining the Listing Approval, raising the minimum subscription and issuing the Shares under the Offer, the current members of DroneShield will own approximately 80% of the Shares of the Company (or, in the event full oversubscriptions are raised under the Offer, the current members of DroneShield will own approximately 74.07% of the Shares of the Company) and DroneShield will be a wholly owned subsidiary of the Company. Please refer to Section 11.1 for a summary of the key terms of the Exchange Agreement.

The Board considers that the quantum of the Shares and Performance Shares to be issued by the Company for the acquisition of DroneShield reflects reasonable

fair value of DroneShield in view of the key investment highlights set out in Section 3.4 of the Prospectus and the Company having conducted arm's length negotiations with the members of DroneShield to arrive at the commercial terms of the acquisition.

In determining the quantum of Shares and Performance Shares to be issued for the DroneShield acquisition, the Company also took into account the following considerations:

- (a) internal revenue and profit forecasts of DroneShield. However, those forecasts cannot be stated publically as they do not comply with ASIC guidelines (in particular, ASIC Regulatory Guide 170 which requires directors to have a reasonable basis for disclosing forecast financial information);
- (b) third party transactions in the drone defence or detection space;
- (c) the fact that the drone industry is a relatively new industry experiencing rapid growth, which raises the need for drone detection;
- (d) the Board's assessment of the future prospects of DroneShield based on the status of its technology and products and interest from third parties;
- (e) the fact that DroneShield has an existing granted US patent and a further four patent applications pending, which potentially provides DroneShield's intellectual property with a defensible position in relation to third party infringement; and
- (f) representations from the DroneShield manager (equivalent of director) as to the price at which a takeover offer for the company would be likely to succeed.

As with the acquisition of any business or asset that does not have a meaningful track record of revenue and profitability, there is not always an appropriate formal valuation methodology (e.g. discounted cash flow) available when determining the purchase price and the Company was required to take into account qualitative factors such as those set out above in coming to a decision on price.

3.2 Business Model

DroneShield sells its acoustic detection sensor systems supported by its proprietary software to customers. DroneShield's business model is aimed at generating a recurring licence revenue stream for the life of the installation, prepaid annually in advance by the users, for the life of the installation. Following the initial installation, DroneShield provides the customer with software updates, as well as ongoing technical support.

DroneShield's distribution channels focus on third party security providers and hardware distributors. The ultimate actual and prospective end-users of its products are based around the world, range widely in nature, and include, among others:

- power plants, electricity grids, gas pipelines, ports and other critical infrastructure asset owners;
- defence agencies;

- intelligence and national security agencies;
- airports and other civil defence users;
- prisons;
- stadiums and other public event venues and organisers;
- media production sets;
- real estate owners including hotels, commercial offices and manufacturing plants; and
- VIPs, including ultra-high net worth individuals, executives and government officials.

Drone detection is a nascent industry, and DroneShield is one of the early movers in it. There is a limited number of drone detection solutions that are readily commercially-available to end-users in the market and are credible, effective and cost-effective. Because of the lack of solutions to the pervasive threat of commercially-available drones around the world, DroneShield is experiencing substantial inbound demand for its products.

This assessment of DroneShield's position in the market is borne out by the authoritative July 2015 Frost & Sullivan report "Counter UAS Technologies", which analyses the state of the drone detection industry. While the report analyses a number of drone detection companies, DroneShield is the only company referred to in the Key Findings section of the report, which states "Systems for detecting and negating small, commercial drones are being developed globally, but a few companies, like DroneShield, have a head start."

The Company views its niche as segmented into three broad layers. At the top end are the meaningfully more expensive military-grade solutions that, as a practical matter, are likely to be available largely to governments and defence agencies (the "**top end of the market**"). In the middle layer, are solutions for commercial users such as airports, power plants, ports, factories and other assets referenced in the discussion above, inclusive of prison facilities (the "**commercial market**"). The bottom layer consists of consumer-grade products largely unsuitable for commercial installations (the "**consumer market**"). DroneShield focuses on the commercial market, where there exists a wide end-user market (estimated by DroneShield to currently consist of at least 300,000 installations) with the capacity to purchase a system that in the aggregate costs tens of thousands or hundreds of thousands of dollars and the capacity to purchase post-sale support on an ongoing basis.

Despite the limited resources available to it historically, DroneShield has established 43 distributorships in 31 countries to date. It is experiencing substantial demand for distributorships and the Company's sales will depend, in part, on its ability to expand and maintain DroneShield's distributor network. Please refer to Section 11.2 for a summary of the key terms of the reseller distribution agreements.

DroneShield's products are the subject of continuous research and development and necessarily need to be developed further in order to enable the Company to be able to sell and subsequently support DroneShield's products in large numbers, and in order to meaningfully improve the products' usability, scalability and accuracy on an ongoing basis. Further, the Company seeks to go beyond acoustic detection only and roll out an effective multi-

faceted commercial market detection product incorporating multiple detection technologies (including both audio and radio frequency technologies, as well as potentially other detection technologies). The Company's ability to maintain its distributor relationships, scale up its sales volumes, establish and maintain credibility, and remain competitive, will necessarily depend on its ability to conduct such research and development successfully.

Further, the Company's ability to generate product sales and support its distributor and customer network, as well as to generate recurring income after the initial sale of its products, will further depend on its ability to provide both pre-sale and post-sale support and training to its distributors.

For the "top end of the market," as well as in niches in which the Company is unable to easily establish a presence, following the completion of the Offer the Company will seek to generate revenue through partnerships with third party defence, national security, civil defence and other solution providers, defence contractors and other companies in the aerospace and electronics sectors, whereby DroneShield will seek to license its intellectual property to third parties for inclusion in their multi-faceted proprietary systems and receive a combination of one-off payments and royalties in relation to such licenses.

Many of the concepts marketed by DroneShield's existing competitors could reasonably be described as "vapourware" (i.e. concepts that have not come out of research and development or have not been commercially proven, or are not currently being sold as a readily-available product). The majority of DroneShield's competition is limited and differs technically from DroneShield for the following reasons:

Nature of technology	Key differentiating factors
Laser and LIDAR ¹	<ul style="list-style-type: none"> • The active defeat capability of laser is very expensive. • Legal issues (generally unlawful to shoot down drones in the US and many other countries, even above private property). • In any event, to defeat, one needs first to detect (hence the need for DroneShield). • Limited range, especially in bad weather. • Potential for false alarms and inaccuracies.
Radar	<ul style="list-style-type: none"> • Expensive. • High false alarm rate renders impractical for small drones. • Does not detect many small drones. • In the US, an active system needs Federal Communication Commission (FCC) approval and must not interfere with other radio

¹ Light Detection and Ranging

Nature of technology	Key differentiating factors
	frequency systems (e.g. radio).
Optical and Infrared Cameras	<ul style="list-style-type: none"> • Potential to be blocked by trees, bushes or buildings. • Potential for false alarms and inaccuracies. • Very short range. • Expensive.
Certain audio-based technologies	<ul style="list-style-type: none"> • Substantially more expensive. • Other technical issues.
Radio frequency	<ul style="list-style-type: none"> • Legal issues (unlawful to interfere with drones in the US and many other countries). • Ineffective on certain types of drones (e.g. those on autopilot). • Potential for false alarms and inaccuracies.

The Company will therefore seek to capitalise on the existing and expected demand through applying the funds raised under the Offer areas as follows:

- expanding its executive team;
- expanding its sales and marketing capability;
- building its operations team;
- investing in research and development;
- providing responsive post-sale support;
- meeting intellectual property, legal, insurance and administration costs; and
- meeting the costs of the Offer.

Each of these areas is critical to the Company's ability to execute its strategy.

It is also part of the Company's business model that it will consider expanding through acquisitions (either outright or through licensing) of other complementary and enhancing technologies and businesses in appropriate geographies.

3.3 The Objectives

The Company's main objectives on completion of the Offer are to:

- expand the executive, sales, operations, research and development and support teams;
- expand partnerships with international distributors (currently 43 distributors in 31 countries);
- undertake additional research and development, including both:

- substantially improving the existing products; and
- expanding the products to a unique multi-faceted solution that goes beyond reliance on audio detection only; and
- establish a multi-faceted publicly-traded global security company with sufficient resources for quick development and response to market requirements.

3.4 Key Investment Highlights

- Commercially-available low cost drones are a pervasive problem worldwide. DroneShield is one of the few practical solutions available and one of even fewer cost-effective solutions available.
- DroneShield is a well positioned US manufacturer of drone-defence systems.
- The Company and DroneShield are backed by a U.S. institutional investor and high profile defence industry insiders.
- DroneShield is managed by John Franklin M.Sc., a scientist who was formerly with the Institute for Defense Analyses and Johns Hopkins Applied Physics Laboratory.
- The Company's Board, management and advisory board are experienced in the defence industry and successful ASX and AIM small-caps, including:
 - Peter James (Non-Executive Chairman), a senior executive and board member with over 30 years' experience in the Technology, Telecommunications and Media Industries, including an extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies, with current positions including being a Chair of ASX-listed Macquarie Telecom and nearmap;
 - James Walker (Managing Director), an experienced leader in commercialising technology in new markets whose experience includes that of the Chief Executive Officer or Chief Financial Officer at the AIM-listed Seeing Machines and other growth companies, such as Hotel Dynamics, Fluorotechnics and Optalert;
 - Dr. Samantha Ravich (Non-Executive Director), the former US Deputy National Security Advisor to Vice-President Dick Cheney;
 - Rear Admiral Jay M. Cohen (ret) (Advisory Board Member), a former Chief of Naval Research (the Office of Naval Research), United States Navy; Department of the Navy Chief Technology Officer; and Under Secretary for Science & Technology at the Department of Homeland Security (responsible for DHS Research, Development, Test and Evaluation);
 - Robert Hill (Advisory Board Member), a former Australian Minister for Defence;

- General Robin Brims (ret) (Advisory Board Member), a former Commander of the UK Field Army;
- Carol Haave (Advisory Board Member), a former Assistant Secretary for International Affairs at the U.S. Department of Homeland Security and U.S. Deputy Undersecretary of Defense for Counterintelligence and Security; and
- Joanna Riley (Advisory Board Member), the founder and CEO of 1-Page (ASX:1PG).
- DroneShield's products:
 - are proprietary hardware backed by proprietary intellectual property and software;
 - are differentiated from the limited competition: unique audio-signature based detection;
 - detect drones that are invisible to radar and to radio-frequency based systems;
 - are suitable to protect infrastructure, airports, utilities, prisons, stadiums, defence installations, borders, secured sites, manufacturing plants, real estate assets, and public events.
- DroneShield is an early-mover in a nascent industry.
- There is an existing addressable market of over US\$12 billion (based on 300,000+ potential customer sites).
- DroneShield has approximately 214 units shipped since January 2014 when sales and trial and pilot installations commenced (with 198 sensor units having been sold) and has 43 distributors in 31 countries.
- DroneShield is on the August 2015 *Business Insider* list of "25 Hottest Under the Radar Startups in America" and one of the Winners of *Popular Science* 2015 "Best of What's New" in the Security category.
- Most installations/clients have been confidential due to the sensitive nature of their sites. Examples of deployment include Boston Marathon (2015, with a repeated engagement in 2016), protection of a G7 Head of State, a national border patrol force, and a national airport.

3.5 Key Risks

The business, assets and operations of the Company are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can impact on the value of an investment in the securities of the Company.

The Board aims to manage these risks by carefully planning its activities and implementing risk control measures. Some of the risks are, however, highly unpredictable and the extent to which they can effectively manage them is limited.

Set out below are specific risks that the Company is exposed to. Further risks associated with an investment in the Company are outlined in Section 7.

(a) **Limited history**

The Company was only recently incorporated and has limited operating history and limited historical financial performance. Further, DroneShield has operated at a loss for the previous two financial years (being a combined loss of approximately \$177,773 for the period). Please refer to the financial information in Section 9 for further details.

No assurance can be given that the Company will achieve commercial viability through DroneShield's existing technology or otherwise. Until the Company is able to realise value from the technology, it is likely to incur ongoing operating losses. Achievement of the Company's objectives will depend on the Board's and the executive team's ability to successfully implement its development and growth strategy. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised under the Offer – refer to the risk factor in Section 7.2(a) for further details.

(b) **Research and Development and Technical Risk**

DroneShield's products are the subject of continuous research and development and necessarily need to be substantially developed further in order to enable the Company to be able to sell and subsequently support DroneShield's products in large numbers, and in order to meaningfully improve the products' usability, scalability and accuracy. There are no guarantees that the Company will be able to undertake such research and development successfully. Failure to successfully undertake such research and development, anticipate technical problems, or estimate research and development costs or timeframes accurately will adversely affect the Company's results and viability.

Further, even if the Company undertakes such research and development successfully, there is no product on the market that provides 100% guaranteed detection, and DroneShield's products are complex and not foolproof. They are not "plug and play", and require installation, maintenance and operation by personnel with a meaningful level of technical ability. Consequently, the products may be more complex to install, maintain and operate than desired by their end users and may perform below their end users' desired level of effectiveness. This may result in returns of products and have a negative effect on the Company's revenues.

(c) **Technology Risk**

DroneShield's market involves rapidly evolving products and technological change. To succeed, the Company will need to research, develop, design, develop, manufacture, assemble, test, market and support (i) substantial enhancements to its existing products and (ii) new products, on a timely and cost-effective basis. Among other things, the Company recognises the need for it to go beyond acoustic detection and roll out an effective multi-faceted commercial market detection product incorporating multiple detection technologies (including both audio and radio frequency). The Company cannot guarantee that it will be able to engage in research and development at the requisite levels. The Company cannot assure investors that it will successfully identify new technological opportunities and continue to have the needed

financial resources to develop new products in a timely or cost-effective manner. At the same time, products and technologies developed by others may render the Company's products and systems obsolete or non-competitive.

(d) **Intellectual Property Rights**

A substantial part of the Company's commercial success will depend on its ability to establish and protect DroneShield's intellectual property to maintain trade secret protection and operate without infringing the proprietary rights of third parties.

DroneShield currently has one existing granted patent and four patent applications pending with the United States Patent and Trademark Office (**USPTO**). There is a risk that each pending application will not be granted. There is a further risk that the claims of each patent application, as filed, may change in scope during examination by the USPTO. Further, if and where a patent is granted, there can be no guarantee that such patent is valid or enforceable or that the patent will be granted in countries other than the United States. Please refer to the Intellectual Property Report in Section 8 for further details.

The commercial value of these intellectual property assets is dependent on any relevant legal protections. These legal mechanisms, however, do not guarantee that the intellectual property will be protected or that the Company's competitive position will be maintained. No assurance can be given that employees or third parties will not breach confidentiality agreements, infringe or misappropriate the Company's intellectual property or commercially sensitive information, or that competitors will not be able to produce non-infringing competitive products. Competition in retaining and sustaining protection of technologies and the complex nature of technologies can lead to expensive and lengthy disputes for which there can be no guaranteed outcome. There can be no assurance that any intellectual property which the Company (or entities it deals with) may have an interest in now or in the future will afford the Company commercially significant protection of technologies, or that any of the projects that may arise from technologies will have commercial applications.

It is possible that third parties may assert intellectual property infringement, unfair competition or like claims against DroneShield or the Company under copyright, trade secret, patent, or other laws. While the Company is not aware of any claims of this nature in relation to any of the intellectual property rights in which it has or will acquire an interest, such claims, if made, may harm, directly or indirectly, the Company's business. If the Company is forced to defend claims of intellectual property infringement, whether they are with or without merit or are determined in the Company's favour, the costs of such litigation will be potentially significant and may divert management's attention from normal commercial operations. Please refer to the Intellectual Property Report in Section 8 for further details.

Additionally, securing rights to (or developing) technologies complementing DroneShield's existing intellectual property will also play an important part in the commercial success of the Company. There is no guarantee that such rights can be secured or such technologies can be developed.

(e) **Risk of Reliance on Distributors**

The Company will be adversely affected if DroneShield fails to renew contracts with its distributors or enter into additional distributor arrangements or if distributors fail to comply with existing contracts. Contracts with distributors are expected to account for a substantial portion of the Company's revenues.

(f) **Third Party Relationship Risk**

The Company is dependent in part upon its relationships and alliances with industry participants. Some of DroneShield's partners do or may in the future assist DroneShield in the development of its products through testing, research and development or teaming arrangements. If any of DroneShield's existing relationships with partners were impaired or terminated, or if the Company was unable to implement additional partnering arrangements it may require from time to time, the Company could experience significant delays in the development of products, and would incur additional costs. Further, some of the Company's likely partners are also potential competitors, which may impair the viability of new strategic relationships.

Additionally, the Company may take a credit risk with regard to parties to whom it supplies products. In the event of such parties failing to meet its obligations to the Company on time or at all, the Company may be adversely affected.

(g) **Reputational Risk**

Any negative publicity regarding the Company, DroneShield or their respective Boards, officers or employees, or the performance of its products, will adversely affect the Company's ability to generate revenue.

(h) **Competition Risk**

The market in which DroneShield participates is competitive and characterized by rapid technological change. The Company's potential inability to improve existing product lines and develop new products and technologies could have a material adverse effect on the Company's business. In addition, the Company's competitors could introduce new products with greater capabilities or better pricing which could have a material adverse effect on the Company's business. The Company competes with larger companies with greater resources on the basis of performance, cost, overall value, delivery and reputation.

(i) **Concentration of Ownership and Dilution Risk**

The Company currently has 1 Share on issue and will issue 100,000,000 Shares and 45,000,000 Performance Shares in the Exchange, meaning that the maximum number of Shares issued under this Offer will represent up to approximately 25.93% of the issued Share capital of the Company on completion of the Offer (assuming the full oversubscription is raised). Further, assuming only the minimum subscription is raised under the Offer, the number of Shares issued will represent approximately only 20% of the issued Share capital of the Company on completion of the Offer.

Assuming only the minimum subscription is raised, the Performance Shares convert into Shares and no other Shares are issued in the Company, the number of Shares issued under this Offer will represent approximately only 14.7% of the issued capital of the Company. There will therefore be a concentration of ownership within the existing members of DroneShield on completion of the Offer (and on any conversion of the Performance Shares). Some investors may consider that this increases the risk of participating in the Offer.

Conversion of the Performance Shares into ordinary shares (should the relevant milestones be achieved in the future) will also dilute the holdings of Shares held by existing Shareholders at the time.

(j) **Liquidity**

As noted above, 100,000,000 Shares and 45,000,000 Performance Shares in the Company will be issued to the existing owners of DroneShield in the Exchange. All of these Shares and Performance Shares are likely to be classified by the ASX as restricted securities and be placed into escrow. Please refer to Section 3.12 for further details. Some investors may consider that there is an increased liquidity risk as a large portion of issued capital may not be able to be traded freely for a period of time.

There is currently no public market through which Shares may be sold. On completion of the Offer, there can be no guarantee that an active market in the Shares will develop or that the price of the Shares will increase or not decrease. There may be relatively few or many potential buyers or sellers of the Shares on ASX at any time. This may increase the volatility of the market price of the Shares and may prevent investors from acquiring more Shares or disposing of Shares they acquire under the Offer. It may also affect the prevailing market price at which the Shareholders are able to sell their Shares. This may result in Shareholders who acquire Shares under the Offer receiving a market price for their Shares that is less or more than the Offer price.

(k) **Government Regulation Risk**

The Company and DroneShield are subject to government regulation which may require them to obtain additional licenses and could limit their ability to sell their products outside the United States. The sale of certain products outside the United States is subject to compliance with the United States Export Administration Regulations and the International Traffic in Arms Regulations. Failure to obtain the requisite licenses (if such licenses are required), meet registration standards or comply with other government export regulations, may affect the Company's or DroneShield's ability to export such products or to generate revenues from the sale of products outside the United States, which could have a material adverse effect on the Company's business, financial condition and results of operations. Compliance with government regulations may also subject the Company to additional fees and costs. The absence of comparable restrictions on competitors in other countries may adversely affect the Company's competitive position.

(l) **Reliance on Key Personnel Risk**

A failure to attract and retain executive, business development, technical and other key personnel could reduce the Company's revenues and operational effectiveness. There is a continuing demand

For relevant qualified personnel, and the Company believes that its future growth and success will depend upon its ability to attract, train and retain such personnel. Competition for personnel in the Company's industry is intense, and there is a limited number of persons with knowledge of, and experience in, this industry. An inability to attract or maintain a sufficient number of requisite personnel could have a material adverse effect on the Company's performance or on the Company's ability to capitalize on market opportunities.

(m) **Legislative Risk**

Drones have increasingly become and are expected to continue to become subject to restrictive local, state, national and international regulation. While that regulation will likely apply to drones and may not apply to drone detection and defence industry, it may reduce the number of drones that are legally able to operate in certain areas or countries. While the Company expects that such a reduction will not eliminate demand for drone detection and defence (since rogue drones are likely to continue operating in airspace regardless of the legislative framework), such a reduction may adversely affect demand for DroneShield's products.

(n) **US Taxation Risk**

The acquisition and disposal of Shares will have tax consequences for investors, which will vary depending on the individual financial affairs of each investor. Further, due to the circumstances of the Company's formation, the Company is treated as a U.S. corporation for U.S. tax purposes, and is therefore subject to U.S. tax laws. All potential investors in the Company are urged to obtain independent professional taxation and financial advice about the consequences of acquiring and disposing of Shares from a taxation viewpoint and generally. Please refer to Section 3.14 for a general summary of potential taxation consequences facing investors based on the applicable taxation law as at the date of this Prospectus.

The above list of risk factors should not to be taken as exhaustive of the risks faced by the Company and you should refer to the additional risk factors in Section 7 of this Prospectus before deciding whether to apply for Securities pursuant to this Prospectus.

3.6 The Offer

The Company invites applications for 25,000,000 Shares at an issue price of \$0.20 per Share to raise \$5,000,000 together with one free attaching Option for every one Share subscribed for and issued. Oversubscriptions of up to a further 10,000,000 Shares at an issue price of \$0.20 per Share to raise up to a further \$2,000,000 together with 1 free attaching Option for every 1 Share subscribed for and issued may be accepted. As such, the maximum amount that can be raised under the Offer is \$7,000,000. The Options offered under the Offer will be issued on the terms and conditions set out in Section 12.3.

Further, the Lead Manager (or its nominee) may subscribe for 10,000,000 Options subject to the terms of the Lead Manager Mandate summarised in Section 11.4. The Options offered under the Lead Manager Offer will be issued on the terms and conditions set out in Section 12.4 of this Prospectus.

All Shares issued on conversion of the Options will rank equally with the Shares on issue at the date of this Prospectus. The key information relating to the Offer and references to further details are set out below.

3.7 Indicative timetable*

Lodgement of Prospectus with the ASIC	27 April 2016
Opening Date	5 May 2016
Closing Date	2 June 2016
Despatch of holding statements	7 June 2016
Expected date for quotation on ASX	13 June 2016

* The above dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offer early without notice.

3.8 Purpose of the Offer

The purpose of the Offer is to facilitate an application by the Company for admission of the Company to the official list of ASX and position the Company to seek to achieve the objectives set out above in Section 3.3.

3.9 Use of Funds

The Company intends to apply funds raised from the Offer, together with existing cash reserves, over the first two years following admission of the Company to the official list of ASX as follows:

Funds available	Minimum Subscription (\$) (\$5,000,000)	Percentage of Funds (%)	Full Oversubscriptions (\$) (\$7,000,000)	Percentage of Funds (%)
Existing cash reserves ¹	\$600,000	11%	\$600,000	8%
Funds raised from the Offer	\$5,000,000	89%	\$7,000,000	92%
Total	\$5,600,000	100%	\$7,600,000	100%
Allocation of funds				
Expenses of the Offer ²	\$400,000	7%	\$500,000	7%
Executive, Sales & Marketing	\$2,800,000	50%	\$3,200,000	42%
Engineering and R&D	\$1,300,000	24%	\$2,500,000	33%
Ongoing intellectual property, legal, insurance and administration costs	\$650,000	12%	\$900,000	12%
Working capital	\$450,000	8%	\$500,000	7%
Total	\$5,600,000	100%	\$7,600,000	100%

¹ As at 31 March 2016. Refer to the Financial Information and Investigating Accountant's Report set out in Section 9 of this Prospectus for further details.

² Refer to Section 12.11 of this Prospectus for further details.

As noted above, the Company intends to use approximately \$2,800,000 of the capital raised under the Offer (assuming minimum subscription), or

approximately \$3,200,000 (assuming full oversubscription), to assist DroneShield's existing global distributor network and develop their local markets. These funds will also be used to establish selected direct relationships within key segments of local markets identified by DroneShield and to expand the manufacturing capability of DroneShield's products.

The Company intends to use approximately \$1,300,000 of the capital raised under the Offer (assuming minimum subscription), or approximately \$2,500,000 (assuming full oversubscription) to further scale DroneShield's existing technology, adapt DroneShield's products to meet unique customer demands as they arise and implement strategies to add complementary detection and certain countermeasure methods in permitted locations.

It is anticipated that the funds raised under the Offer will enable 2 years of full operations (if the minimum subscription is raised).

It should be noted that the Company may not be fully self-funding through its own operational cash flow at the end of this period. Accordingly, the Company may require additional capital beyond this point, which will likely involve the use of additional debt or equity funding.

Future capital needs may also depend on development opportunities on new applications that may arise from the Company's technologies as they are developed over time and which may have significant value if further developed for the market.

In the event the Company raises more than the minimum subscription of \$5,000,000, the additional funds raised will be first applied towards the additional expenses of the Offer, then towards expanding the Company's engineering and research and development programmes in conjunction with expanding the Company's executive, sales and marketing programmes and paying any ongoing intellectual property, legal, insurance and administration costs. On completion of the Offer, the Board believes the Company will have sufficient working capital to achieve these objectives.

The above table is a statement of current intentions as of the date of this Prospectus. As with any budget, intervening events and new circumstances (including the need to adapt to a changing competitive environment, and the level of demand for the Company's products) have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

The use of further debt or equity funding will be considered by the Board where it is appropriate to expand sales, research and development and operations efforts, accelerate product development or capitalise on further opportunities.

3.10 Capital Structure

The capital structure of the Company following completion of the Offer (assuming minimum subscription and full oversubscriptions) is summarised below¹:

Shares²

	Minimum Subscription	Full Oversubscription
	Number	Number
Shares currently on issue ³	1	1
Shares to be issued pursuant to the Exchange Agreement ⁴	100,000,000	100,000,000
Shares to be issued pursuant to the Offer	25,000,000	35,000,000
Total Shares on completion of the Offer	125,000,001	135,000,001

Options

	Minimum Subscription	Full Oversubscription
	Number	Number
Options currently on issue	nil	nil
Options to be issued under the Offer ⁵	25,000,000	35,000,000
Options to be issued to Directors, Management and Advisory Board Members ⁶	22,450,000	22,450,000
Options to be issued pursuant to the Lead Manager Offer ⁷	10,000,000	10,000,000
Total Options on completion of the Offer	57,450,000	67,450,000

Performance Shares

	Minimum Subscription	Full Oversubscription
	Number	Number
Performance Shares currently on issue	nil	nil
Performance Shares to be issued under the Offer	nil	nil
Performance Shares to be issued pursuant to the Exchange Agreement ⁸	45,000,000	45,000,000
Total Performance Shares on completion of the Offer	45,000,000	45,000,000

¹ Refer to the Investigating Accountant's Report set out in Section 9 of this Prospectus for further details.

² The rights attaching to the Shares are summarised in Section 12.2 of this Prospectus.

³ The Share currently on issue was issued on the date of incorporation of the Company to Long Hill Capital, LLC.

⁴ Refer to Section 11.1 for a summary of the terms of the Exchange Agreement pursuant to which these Shares are to be issued.

⁵ Each Option will be quoted and is exercisable at 22 cents on or before the second anniversary of their issue. Refer to Section 12.3 for the full terms and conditions of these Options.

⁶ Each Option without vesting conditions will be unquoted and is exercisable at 30 cents on or before the third anniversary of their issue. Each Option with vesting conditions will be unquoted

and is exercisable at 30 cents on or before the third anniversary of the date of its vesting. Refer to Section 12.5 for the full terms and conditions of these Options.

⁷ Each Option will be unquoted and is exercisable at 22 cents on or before the third anniversary of their issue. Refer to Section 12.4 for the full terms and conditions of the Options. Refer to Section 11.4 for a summary of the Lead Manager Mandate.

⁸ Consisting of 15,000,000 Class A Performance Shares, 15,000,000 Class B Performance Shares and 15,000,000 Class C Performance Shares. Each Performance Share is convertible into one Share in the Company on the achievement of certain milestones in respect of the DroneShield Technology. Refer to Section 12.6 for the full terms and conditions of these Performance Shares.

3.11 Substantial Shareholders

Those Shareholders holding 5% or more of the Shares on issue as at the date of this Prospectus assuming completion under the Exchange Agreement has occurred and on completion of the Offer (assuming minimum subscription) are set out in the respective tables below.

As at the date of the Prospectus

Shareholder	Shares	Options	% (undiluted)	% (fully diluted)
Long Hill Capital, LLC	1	-	100	100

As at the date of the Prospectus and assuming the Shares under the Exchange Agreement are issued to the DroneShield equity holders

Shareholder	Shares	Options	% (undiluted)	% (fully diluted)
Long Hill Capital, LLC	55,000,001	-	55.00	55.00
Dr. Brian Hearing	17,550,000	-	17.55	17.55
John Franklin	14,850,000	-	14.85	14.85

On completion of the Offer (assuming no existing substantial Shareholder subscribes and receives additional Shares pursuant to the Offer)

	A	B	C	D	E=C+D	F=A/C	G=A/E
Shareholder	Shares	Options	Total Shares	Total Options	Diluted Shares	% undiluted	% diluted
Long Hill Capital, LLC ¹	55,000,001	-	125,000,000	57,450,000	182,450,000	44.00	30.15
Dr. Brian Hearing	17,550,000	-	125,000,000	57,450,000	182,450,000	14.04	9.62
John Franklin	14,850,000	-	125,000,000	57,450,000	182,450,000	11.88	8.14

On completion of the Offer (assuming no existing substantial Shareholder subscribes and receives additional Shares pursuant to the Offer, all of the Performance Shares convert into Shares and no other Shares are issued in the Company)

	A	A1	B	C	D	E=C+D	F=(A+A1)/C	G=(A+A1)/E
Shareholder	Shares	Performance Shares	Options	Total Shares	Total Options	Diluted Shares	% undiluted	% diluted
Long Hill Capital, LLC ¹	55,000,001	24,750,000	-	170,000,000	57,450,000	227,450,000	46.91	35.06
Dr. Brian Hearing	17,550,000	7,897,500	-	170,000,000	57,450,000	227,450,000	14.97	11.18
John Franklin	14,850,000	6,682,500	-	170,000,000	57,450,000	227,450,000	12.66	9.47

¹ Long Hill Capital LLC and/or its related parties may participate in the Offer.

The Company will announce to the ASX details of its top-20 Shareholders (following completion of the Offer) prior to the Shares commencing trading on ASX.

3.12 Restricted Securities

Subject to the Company being admitted to the Official List, certain Shares, Performance Shares and Options on issue prior to the Offer and to be issued pursuant to the Exchange will be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from the date of Official Quotation. During the period in which these securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of his or her Shares in a timely manner.

It is estimated that 100,000,001 Shares, 45,000,000 Performance Shares and 32,450,000 Options will be subject to escrow as follows:

- (a) 88,750,000 Shares and 39,937,500 Performance Shares for 24 months from the date of official quotation (held by directors and substantial holders of the Company including the founding members of DroneShield, LLC);
- (b) 11,250,000 Shares and 5,062,500 Performance Shares for 12 months from the date of issue (held by seed investors in DroneShield, LLC);
- (c) 16,500,000 Options for 24 months from the date of official quotation (held by directors);
- (d) 5,950,000 Options for 12 months from the date of official quotation (held by management and advisory board members); and
- (e) 10,000,000 Options for 24 months from the date of official quotation (held by the Lead Manager).

The Company will announce to the ASX full details (quantity and duration) of the Shares and Options required to be held in escrow prior to the Shares commencing trading on ASX.

3.13 Financial Information

The Company was only recently incorporated (4 November 2015) and has no operating history and limited historical financial performance.

Contained in the financial information in Section 9 is the pro forma historical balance sheet for the 12 months ended 30 September 2015 to provide investors with a summary of the Company's historical financial information assuming the Company had existed as at 30 September 2015, and DroneShield had been owned by the Company for that financial period. Also included in the financial information in Section 9 is DroneShield's reviewed balance sheet at 30 September 2015.

This Prospectus is taken to include information contained in the audited annual financial statements of DroneShield for the financial periods ended 31 December 2014 and 30 September 2015 (together, the **Included Documents**).

The Included Documents were lodged with ASIC on the date of this Prospectus. The Company will give a copy of the Included Documents free of charge to any investor who asks for a copy before the Closing Date. Any such request should be made by contacting the Company at its registered office during normal business hours. The Company will also announce the Included Documents to the ASX prior to the Shares commencing trading on ASX.

DroneShield has operated at a loss for the previous two financial years (being a combined loss of approximately \$177,773 for the period). Please refer to the financial information in Section 9 of this Prospectus for further details.

3.14 Taxation

The acquisition and disposal of Shares will have tax consequences, which will vary depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent professional taxation and financial advice about the consequences of acquiring and disposing of Shares from a taxation viewpoint and generally.

The information contained in this Section 3.14 is a general summary only of potential taxation consequences facing investors based on the applicable taxation law as at the date of this Prospectus. To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus or the reliance of any Shareholder on any part of the summary contained in this Section 3.14 or Section 5.7.

Due to the circumstances of the Company's formation, the Company is treated as a U.S. corporation for U.S. tax purposes, and is therefore subject to U.S. tax laws. Please refer to Section 5.7 for further details.

3.15 Dividend Policy

The Company anticipates that significant expenditure will be incurred in the furtherance of the Company's development. These activities are expected to dominate the two year period following the date of this Prospectus. Accordingly, the Company does not expect to declare any dividends during that period.

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the availability of

distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.

3.16 Directors and Key Personnel

Set out below are short descriptions of the Directors and key personnel of the Company. Please refer to Section 10.1 for the full biographies of the Directors and key personnel.

Peter James Non-Executive Chairman

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 and nearmap.

Mr. James has recently 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 has recently been acquired by TPG Telecom for AUD \$1,560,000,000.

James Walker Managing Director and Chief Executive Officer

Mr. Walker is an experienced leader in commercialising technology in new markets whose experience includes that of Chief Executive or Chief Financial Officer at the AIM-listed Seeing Machines and other growth companies, such as Hotel Dynamics, Fluorotechnics and Optalert.

Mr. Walker was most recently the CFO of Seeing Machines Ltd (AIM:SEE), an AIM-listed company that utilises advanced algorithms for detection of driver fatigue and distraction. He is an entrepreneurial and passionate business executive who thrives on commercialising technology and building new global markets, with extensive experience across a wide range of international high growth businesses, including sensor systems, mining technology services, automotive, aviation, biotechnology, hotel telemarketing and security sectors. Through his roles Mr. Walker has completed M&A transactions, IPO listings, follow-on share placements and other capital raisings for private companies as well as ASX and London (AIM) listed companies.

Winton Willesee Non-Executive Director

Mr. Willesee is an experienced company director. Mr. Willesee brings a broad range of skills and experience in strategy, company development, corporate governance, company public listings, merger and acquisition transactions and corporate finance. Mr. Willesee has considerable experience with ASX listed and other companies over a broad range of industries in a number of jurisdictions having been involved with many successful ventures from early stage through to large capital development projects. Mr. Willesee holds formal qualifications in economics, finance, accounting, education and governance. He is a Fellow of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors, a Member of CPA Australia and a Chartered Secretary.

Investors should be aware that Mr. Willesee was previously a director of the public company, Cove Resources Limited. In July 2014, Cove Resources Limited was suspended from ASX and subsequently in January 2014, the board of Cove Resources Limited appointed an administrator due to its inability to source sufficient capital to fund its continued minerals exploration operations. The non-associated Directors have considered the above circumstances surrounding Mr. Willesee's involvement in Cove Resources Limited and are of the view that Mr. Willesee's involvement in no way impacts on his appointment and contribution as a Director of the Company.

Dr. Samantha Ravich
Non-executive Director

Dr. Samantha Ravich is the former Deputy National Security Advisor for Vice President Cheney and served in the White House for 5½ years where she was the Vice President's representative on Asian and Middle East Affairs as well as on Counter-Terrorism and Counter-Proliferation. Dr. Ravich was an early angel investor in DroneShield. Dr. Ravich is now the CEO of A2P, a social data analytics firm, as well as the Principal Investigator on the recently released monograph, "Cyber-Enabled Economic Warfare: An Evolving Challenge." She also serves as an advisor to The Chertoff Group and Freedom Capital Investment Management. She received her Ph.D. in Policy Analysis from the RAND Graduate School and her MCP/BSE from the University of Pennsylvania/Wharton School.

Oleg Vornik
Chief Financial Officer

Mr. Vornik is an experienced infrastructure, energy and real estate bulge bracket investment banker, previously with the Royal Bank of Canada, Brookfield Asset Management, Deutsche Bank and ABN Amro in Australia and New Zealand, and a Treasurer at Leighton Contractors. He holds a Bachelor of Science (Mathematics) and a Bachelor of Commerce (Honours) and has completed a business programme at Columbia Business School in New York. In 1998, he was a New Zealand National Team member at the International Mathematics Olympiad.

Erlyn Dale
Company Secretary

Miss Dale has a broad range of experience in company administration and corporate governance having held positions as non-executive director and/or company secretary for a number of ASX listed public companies across a range of industries. Miss Dale holds a Bachelor of Commerce (Accounting and Finance) and a Graduate Diploma of Applied Corporate Governance and is an Associate Member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia.

John Franklin
Chief Scientific Officer

Mr. Franklin holds an M.Sc. in Applied and Computational Math from Johns Hopkins University. Previously, he was a member of the research staff at the Air and Missile Defense Sector at Johns Hopkins University Applied Physics Laboratory, and Adjunct Research Associate (Science and Technology Division) at the Institute for Defense Analyses.

3.17 Corporate Governance

To the extent applicable, in light of the Company's size and nature, the Company has adopted *The Corporate Governance Principles and Recommendations (3rd Edition)* as published by ASX Corporate Governance Council (**Recommendations**).

The Company's main corporate governance policies and practices as at the date of this Prospectus are outlined in Section 10.3 of this Prospectus and the Company's compliance and departures from the Recommendations are set out in Section 10.4 of this Prospectus.

In addition, the Company's full Corporate Governance Plan is available from the Company's website www.droneshield.com.

3.18 Disclosure of Interests

The Company has paid remuneration totalling \$23,585 to its Board since incorporation to the date of this Prospectus.

For each of the Directors, officers and the members of the Advisory Board, the proposed annual remuneration for the financial year following the Company being admitted to the Official List together with the relevant interest of each of the Directors, officers and Advisory Board members in the securities of the Company as at the date of this Prospectus is set out in the table below.

Director/Officer/Advisory Board Member	Remuneration	Shares ⁵	Options ¹
Peter James	\$60,000	nil	4,500,000 ²
James Walker	\$280,000	nil	10,000,000 ²
Oleg Vornik	\$250,000	nil	3,200,000 ²
Winton Willesee	\$60,000	nil	1,000,000
Dr. Samantha Ravich	\$30,000	nil ³	1,000,000
Carol Haave ⁴	\$13,333	nil	350,000
Jay Cohen ⁴	\$13,333	nil	350,000
Robin Brims ⁴	\$13,333	nil	350,000
Robert Hill ⁴	\$13,333	nil	350,000
Joanna Riley ⁴	\$13,333	nil	350,000

¹ Each Option without vesting conditions will be unquoted and exercisable at 30 cents on or before the third anniversary of the date of its issuance. Each Option with vesting conditions will be unquoted and exercisable at 30 cents on or before the third anniversary of the date of its vesting.

² The Options to be granted to Mr. Walker will vest as follows: 2,500,000 Options on the date the Company is admitted to the Official List (**Listing Date**), 2,500,000 Options on 29 March 2017, 2,500,000 Options on 29 March 2018 and 2,500,000 Options on 29 March 2019. The Options to be granted to Mr. Vornik will vest as follows: 800,000 Options on the Listing Date, 800,000 Options 12 months after the Listing Date; 800,000 Options 24 months after the Listing Date and 800,000 Options 36 months after the Listing Date. The Options to be granted to Mr. James will vest as follows: 2,000,000 on the Listing Date and 2,500,000 Options 12 months after the Listing Date (all subject to the relevant director or officer being employed by the Company at relevant vesting point).

³ Dr. Ravich holds a controlling interest in West Meadow, LLC, a company which currently owns 1.35% of the membership interests of DroneShield, LLC. Pursuant to the Exchange, West Meadow, LLC will be issued 1,350,000 Shares and 607,500 Performance Shares in the

Company in consideration for the Company's acquisition of its membership interests in DroneShield.

⁴ The Company has agreed to pay each of the members of the Advisory Board US\$10,000 per annum (being approximately \$13,333 per annum assuming an exchange rate of AU\$1.00:USD\$0.75).

⁵ The Directors and officers of the Company may participate in the Offer.

3.19 Agreements with Directors or Related Parties

The Company's policy in respect of related party arrangements is:

- (a) a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- (b) for the Board to consider such a matter, the Director who has a material personal interest is, unless otherwise agreed by the Board (excluding the relevant Director), not present while the matter is being considered at the meeting and does not vote on the matter.

Executive Employment Agreement – James Walker

James Walker has a contract of employment with the Company to act in the capacity of Chief Executive Officer and Managing Director. Mr. Walker is receiving an annual salary of \$280,000 from 29 March 2016. Please refer to Section 11.6 for full details.

Executive Employment Agreement – Oleg Vornik

Oleg Vornik has a contract of employment with the Company to act in the capacity of Chief Financial Officer. Mr. Vornik will receive an annual salary of \$250,000 per annum from 30 April 2016. Please refer to Section 11.6 for full details.

Appointment Letters – Peter James, Winton Willesee, and Dr. Samantha Ravich

Peter James, Winton Willesee and Dr. Samantha Ravich have entered into appointment letters with the Company to act in the capacity of Non-Executive Chairman and Non-Executive Directors respectively. These Directors will receive the remuneration set out in Section 3.18 above upon the Company being admitted to the Official List.

Advisory Board Members – Carol Haave, Jay Cohen, Robin Brims, Robert Hill and Joanna Riley

The Company has agreed to pay each member of the Advisory Board US\$10,000 per annum (being approximately \$13,333 per annum assuming an exchange rate of AU\$1.00:USD\$0.75), from the date of the Company being admitted to the Official List.

Deeds of indemnity, insurance and access

The Company has entered into a deed of indemnity, insurance and access with each of its Directors. Under these deeds, the Company agrees to indemnify each officer to the extent permitted by the Corporations Act against any liability arising as a result of the officer acting as an officer of the Company. The Company is also required to maintain insurance policies for the benefit of the relevant officer and must also allow the officers to inspect board papers in certain circumstances.

Exchange Agreement – DroneShield, LLC

As set out above, the Company is party to the Exchange Agreement with the current members of DroneShield to acquire 100% of the equity interests in DroneShield. Dr. Ravich, a Director of the Company, also holds a controlling interest in West Meadow, LLC, a company which currently owns 1.35% of the membership interests of DroneShield, LLC. Pursuant to the Exchange, West Meadow, LLC will be issued 1,350,000 Shares and 607,500 Performance Shares in the Company in consideration for the Company's acquisition of its membership interests in DroneShield. As such, the Exchange Agreement is a related party arrangement.

The sole shareholder of the Company, Long Hill Capital, LLC (who is unrelated to West Meadow, LLC or Dr. Ravich) approved the entry by the Company into the Exchange Agreement (which is deemed under the Corporations Act to be the giving of a financial benefit to West Meadow, LLC). The Board (other than Dr. Ravich) also note that the Exchange Agreement is on arm's length terms given the issue of Shares to West Meadow, LLC is on the same terms as the Shares to be issued to all non-related party DroneShield, LLC members under the Exchange. Full details of the material terms and conditions of the Exchange Agreement are set out at Section 11.1 of this Prospectus.

Company Secretarial Agreement – Azalea

The Company has entered into a company secretarial agreement with Azalea Consulting Pty Ltd (**Azalea**) for the provision of company secretarial services and front and registered office services. The Company will pay Azalea a monthly fee of \$5,000 for the secretarial services and a monthly fee of \$1,000 for the front and registered office services. Full details of the material terms and conditions of the Company's secretarial agreement are set out at Section 11.7 of this Prospectus.

The sole shareholder of Azalea is a discretionary family trust of which Mr. Winton Willesee, a Director, is a beneficiary and, as such, the company secretarial agreement is a related party arrangement. The sole shareholder of the Company, Long Hill Capital, LLC (who is unrelated to Azalea or Mr. Willesee) approved the entry by the Company into the agreement (which is deemed under the Corporations Act to be the giving of a financial benefit to Azalea).

4. CHAIRMAN'S LETTER

Dear Investor,

On behalf of the directors of DroneShield Limited (**Company**), I am delighted to invite you to become a shareholder of the Company.

The Company is seeking to raise a minimum \$5,000,000 through an issue of 25,000,000 Shares at a price of \$0.20 per Share together with 1 free attaching Option for every 1 Share subscribed for and issued (**Offer**). Oversubscriptions of up to a further 10,000,000 Shares at an issue price of \$0.20 per Share (together with 1 free attaching Option for every 1 Share subscribed for and issued) to raise up to a further \$2,000,000 may be accepted under the Offer. The maximum amount which can be raised under the Offer is therefore \$7,000,000.

The Company was incorporated on 4 November 2015 for the primary purpose of acquiring DroneShield, LLC (**DroneShield**) and engaging in the business of offering products manufactured by DroneShield globally, as well as managing and operating DroneShield's business.

DroneShield owns the intellectual property rights to, and has commenced selling, cost-effective proprietary hardware, which is coupled with unique software – a proprietary database of audio signatures. The system detects acoustic signatures of drones, which are then analysed by a signature database, and alerts the user to approaching drones. Development of this intellectual property commenced in 2013. Since DroneShield commenced deliveries of its products in February 2014, it has sold or pilot or trial-installed approximately 214 sensor units (with 198 sensor units having been sold), which have been installed at a range of sensitive customer installations.

DroneShield's system is one of the few commercially available and affordable solutions to the worldwide threat caused by consumer-grade drones to privacy, physical security, and public safety in a wide variety of environments, including industrial and critical infrastructure, prisons, government facilities, airports, outdoor events and venues, military, homeland security, real assets and executive protection. It is estimated that 12 million commercial drones will be operating by 2020 and the drone market will exponentially grow to approximately US\$12 billion by 2023. By detecting and addressing the threats, DroneShield has received widespread press coverage including Business Insider list of "25 Hottest Under the Radar Startups in America" and one of the Winners in the Security category of Popular Science 2015 "Best of What's New".

The Company seeks to capitalise on the existing and expected demand through applying the funds raised under the Offer to expand its executive, sales, research and development and operational/post sale support teams, invest in research and development, fund ongoing intellectual property, legal, insurance and administration costs and provide working capital.

Before making your decision to invest, I ask that you carefully read this Prospectus, consider the extensive risks of investing in the Company (which include the risk factors set out in Sections 3.5 and 7) and seek professional advice if required.

On behalf of the Board, I commend the Offer to you and look forward to welcoming you as a Shareholder.

Yours sincerely

Peter James
Non-Executive Chairman

5. DETAILS OF THE OFFER

5.1 The Offer

Pursuant to this Prospectus, the Company invites applications for 25,000,000 Shares at an issue price of \$0.20 per Share to raise \$5,000,000 together with one free attaching Option for every one Share subscribed for and issued.

The Company may accept oversubscriptions of up to a further \$2,000,000 through the issue of up to a further 10,000,000 Shares at an issue price of \$0.20 each under the Offer together with one free attaching Option for every one Share subscribed for and issued. The maximum amount which may be raised under this Prospectus is therefore \$7,000,000.

Further, the Lead Manager (or its nominee) may subscribe for up to 10,000,000 Options for nil cash consideration subject to the terms of the Lead Manager Mandate summarised in Section 11.4.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue. The Options offered under the Offer will be issued on the terms and conditions set out in Section 12.3 and the Options offered under the Lead Manager Offer will be issued on the terms and conditions set out in Section 12.4.

5.2 Minimum subscription

If the minimum subscription to the Offer of \$5,000,000 has not been raised within four months after the date of this Prospectus, or such period as varied by the ASIC, the Company will not issue any Shares and will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

5.3 Applications

Applications for Shares under the Offer must be made using the Application Form or through electronic payment facility described on the Application Form. If you wish to make your payment electronically, please refer to the instructions on the Application Form.

Applications for Shares must be for a minimum of 10,000 Shares and thereafter in multiples of 500 Shares and payment for the Shares must be made in full at the issue price of \$0.20 per Share.

Completed Application Forms and accompanying cheques, made payable to "DroneShield Limited – Share Issue Account" and crossed "Not Negotiable", must be mailed or delivered to the address set out on the Application Form by no later than the Closing Date.

Please refer to the Application form for instructions on how to apply for securities by electronic payment. The Company reserves the right to close the Offer early.

5.4 ASX listing

Application for Official Quotation by ASX of the Securities offered pursuant to this Prospectus will be made within 7 days after the date of this Prospectus. The Company will not seek ASX listing for the Options offered under this Prospectus under the Lead Manager Offer.

If the Securities are not admitted to Official Quotation by ASX before the expiration of 3 months after the date of issue of this Prospectus, or such period as varied by the ASIC, the Company will not issue any Securities and will repay all application monies for the Securities within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant Official Quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or the Securities now offered for subscription.

5.5 Issue

Subject to the minimum subscription to the Offer being reached (See Section 5.2 above) and ASX granting conditional approval for the Company to be admitted to the Official List, the issue of the Securities offered by this Prospectus will take place as soon as practicable after the Closing Date.

Pending the issue of the Securities or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest. To the extent application monies (or subscription proceeds in United States nomenclature) are raised through a concurrent Regulation D offering in the United States (see Section 5.6.2 below) or an equivalent concurrent offering in Singapore (see Section 5.6.1 below) or the United Kingdom (see Section 5.6.3 below), any subscription proceeds furnished by investors in such a concurrent offering will be included for calculating whether the minimum subscription has been reached, and such subscription proceeds will be held in a bank account in the jurisdiction in which the concurrent offering is made, in accordance with the securities laws of the applicable jurisdiction, pending the issue of the Securities or payment of any refunds as set out in Section 5.2.

The Directors will determine the recipients of the issued Securities in their sole discretion. The Directors reserve the right to reject any application or to allocate any applicant fewer Securities than the number applied for. Where the number of Securities issued is less than the number applied for, or where no issue is made, surplus application monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

5.6 Applicants outside Australia

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the Shares or otherwise permit a public offering of the Shares the subject of this Prospectus in any jurisdiction outside Australia. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

If you are outside Australia it is your responsibility to obtain all necessary approvals for the issue of the Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by you that all relevant approvals have been obtained.

5.6.1 Singapore

This Prospectus and any other materials relating to the Securities have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Securities, may not be issued, circulated or distributed, nor may the Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

The following applies to persons in Singapore. This Prospectus has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this Prospectus immediately. You may not forward or circulate this Prospectus to any other person in Singapore. Any offer is not made to you with a view to the Securities being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Securities. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

5.6.2 United States securities law matters

The offering of Securities under this Prospectus is being effected outside the United States of America ("United States") pursuant to Regulation S ("Regulation S"), a "safe harbor" from registration under the United States Securities Act of 1933, as amended (the "Securities Act"). The Securities offered by this Prospectus are being offered and sold outside the United States in an "offshore transaction" without "directed selling efforts" in the United States, as both these terms are used in Regulation S.

Each Applicant purchasing securities outside the United States will be taken to have represented, warranted and agreed as follows:

- the offer under this Prospectus was not made to the Applicant while in the United States, and the Applicant is not in the United States at the time of lodging its Application;
- it will be purchasing the Securities in an "offshore transaction" meeting the requirements of Regulation S; and
- its purchase of Securities is not as a result of "directed selling efforts" in the United States.

The Securities have not been, and will not be, registered under the Securities Act or the securities laws of any state of the United States, and the Securities may not be offered or sold, directly or indirectly, in the United States, except in a

transaction exempt from the registration requirements of the Securities Act (as further specified below) and the qualification requirements of applicable state laws.

The Securities may be offered and sold in the United States pursuant to the exemption from registration under the Securities Act provided under Rule 506(b) of Regulation D ("Regulation D"). Accordingly, this document can be distributed in the United States, and the Securities may be sold in the United States, only to persons who are, or who the Company reasonably believes are, "accredited investors" as defined in Regulation D, and any purchaser of Securities within the United States must acknowledge that it is acquiring "restricted securities" (as defined under the Securities Act), acknowledge that it did not acquire the Securities as a result of "general solicitation" (as that term is used in Regulation D) or "directed selling efforts" (as that term is used in Regulation S) and acknowledge and agree that it is purchasing the Securities for investment and not for resale except in accordance with Regulation S or another exemption from the Securities Act.

The Company will be the sole judge of whether an investor possesses such qualifications as may be required to purchase Securities. Notwithstanding the delivery of this Prospectus or other materials, the Company does not intend to extend an offer to sell or to solicit an offer to buy its Securities until it determines that the investor is qualified and expressly communicates such determination to the investor by accepting that investor's subscription.

5.6.3 United Kingdom

Neither the information in this Prospectus nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the Securities offered pursuant to this Prospectus. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and the Securities offered pursuant to this Prospectus may not be offered or sold in the United Kingdom by means of this Prospectus, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This Prospectus should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the Securities offered pursuant to this Prospectus has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this Prospectus is being distributed only to, and is directed at, persons:

- (a) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**);

(b) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO; or

(c) to whom it may otherwise be lawfully communicated,

(together, **relevant persons**).

The investments to which this Prospectus relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

5.7 Taxation – U.S.

(a) Tax Residence of the Company

Due to the circumstances of the Company's formation, the Company is treated as a U.S. corporation for U.S. tax purposes, and is therefore subject to U.S. tax laws. U.S. tax law imposes U.S. federal income tax on the Company's worldwide income and withholding taxes on certain distributions with respect to, and on certain dispositions of, Shares in the Company, as further described below. Each investor should consult its own tax advisor for more information regarding the potential effects of U.S. tax law (including under the Foreign Account Tax Compliance Act, described below) on holders of Shares.

Despite being treated as a U.S. corporation for U.S. tax purposes, the Company will still be treated as an Australian resident for Australian tax purposes and therefore subject to Australian income tax as well as United States income tax. As a dual resident, the Company will not be entitled to any of the benefits available under the Australia/United States Double Tax Agreement to U.S. corporations which are not residents of Australia or to Australian resident companies which are not U.S. corporations. Despite this, the Company understands that under current Australian tax law, the income from its conduct of business in the United States (or other countries outside Australia) through one or more fixed places of business in the United States (or that other country) would generally not be subject to Australian income tax. Australian income taxes payable on income from the Company's conduct of business in Australia may be creditable against the Company's U.S. income tax liabilities under the United States foreign tax credit regime. However, the rules governing utilization of United States foreign tax credits are complex, and the limitations imposed thereunder could prevent the Company from crediting some or all of its Australian income taxes against its U.S. tax liabilities.

The payment of Australian income tax would give rise to franking credits which, to that extent, would enable the company to frank, or partially frank, any dividends which it distributes to shareholders. The extent to which those franking credits arise would depend upon the extent to which the Company's income is subject to Australian, as opposed to US, income tax; the payment of U.S. income tax does not give rise to franking credits or any comparable benefits.

(b) Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders of Shares

The following discussion summarises certain U.S. federal income tax consequences to Non-U.S. Holders (as defined below) of an investment in the Company. This discussion assumes that Non-U.S. Holders hold Shares as a capital asset (generally, property held for investment) and does not address all of the

U.S. federal income tax considerations that may be relevant to Non-U.S. Holders in light of their particular circumstances or to Non-U.S. Holders subject to special treatment under U.S. federal income tax law.

As used in this discussion, the term "Non-U.S. Holder" means a beneficial owner of Shares that, for U.S. federal income tax purposes, is not (i) an individual who is a citizen or resident of the United States, (ii) an entity created or organized under the law of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source, (iv) a trust (x) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions or (y) that has in effect a valid election under applicable Treasury Regulations to be treated as a United States person, or (v) an entity treated as a partnership.

(i) Distributions with Respect to Shares

Subject to the discussion under the sub-section 5.7(b)(iii) below entitled "Foreign Account Tax Compliance Act", distributions made by the Company with respect to its Shares will be treated as U.S.-source dividends generally subject to U.S. federal withholding tax at a 30% rate to the extent of the Company's current and accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent the amount of a distribution exceeds the Company's current and accumulated earnings and profits, the distribution will be treated first as a non-taxable return of capital to the extent of a Non-U.S. Holder's adjusted tax basis in the Shares and thereafter as gain from the sale of such Shares which is only subject to U.S. federal income tax as described under the sub-section 5.7(b)(ii) below entitled "Gain on Sale or Other Disposition of Shares".

Australian residents may qualify for a reduced rate of dividend withholding tax, of 15%, under the tax treaty between Australia and the United States. To obtain a reduced rate of U.S. federal withholding tax on dividends under an applicable income tax treaty, a Non-U.S. Holder will be required to certify its entitlement to benefits under the treaty, generally on a properly completed IRS Form W-8BEN, W-8BEN-E, or other form, as appropriate. U.S. backup withholding tax (currently at a rate of 28%) may generally be imposed on distributions to certain Non-U.S. Holders that fail to provide a properly executed IRS Form W-8BEN, W-8BEN-E, or other form, as appropriate.

However, dividends that are effectively connected with a Non-U.S. Holder's conduct of a trade or business within the United States and, where required by an income tax treaty, that are attributable to a permanent establishment or fixed base of the Non-U.S. Holder, are not subject to the withholding tax described in the previous paragraph, but instead are subject to U.S. federal net income tax at graduated rates, provided the Non-U.S. Holder complies with applicable certification and disclosure requirements, generally by providing a properly completed IRS Form W-8ECI. Non-U.S. Holders that are corporations conducting a trade or business in the United States may also be subject to an additional branch profits tax at a 30% rate, except as may be provided by an applicable income tax treaty.

In addition, certain information reporting requirements may apply to the Company with respect to any distributions paid to Non-U.S. Holders.

(ii) *Gain on Sale or Other Disposition of Shares*

Subject to the discussion under the sub-section 5.7(b)(iii) below entitled "Foreign Account Tax Compliance Act", a Non-U.S. Holder will not be subject to U.S. federal income tax in respect of any gain on a sale or other disposition of Shares unless:

- the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States and, where required by an income tax treaty, is attributable to a permanent establishment or fixed base of the Non-U.S. Holder;
- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale or other disposition and certain other conditions are met; or
- the Company is or has been a "U.S. real property holding corporation" during the shorter of the five-year period preceding the disposition and the Non-U.S. Holder's holding period for the Shares.

Non-U.S. Holders described in any of the bullet points above should consult their tax advisors regarding the U.S. federal income tax consequences to them of a sale or other disposition of the Shares. The Company does not expect to be a U.S. real property holding corporation at the completion of the Offer and intends to inform Shareholders, by posting a notice on its website, if it becomes aware that it is a U.S. real property holding corporation.

(iii) *Foreign Account Tax Compliance Act*

Pursuant to the Foreign Account Tax Compliance Act (FATCA), withholding taxes may apply to certain types of payments made to "foreign financial institutions" (as defined under those rules) and certain other non-U.S. entities. The failure to comply with additional certification, information reporting and other specified requirements could result in a withholding tax being imposed on payments of dividends and sales proceeds to foreign intermediaries and certain Non-U.S. Holders. A 30% withholding tax may be imposed on dividends on, or gross proceeds from the sale or other disposition of, Shares in the Company paid to a foreign financial institution or to a non-financial foreign entity, unless (I) the foreign financial institution undertakes certain diligence and reporting obligations, (II) the non-financial foreign entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner, or (III) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. If the payee is a foreign financial institution and is subject to the diligence and reporting requirements in clause (I) above, it generally must enter into an agreement with the U.S. Treasury requiring, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts and withhold 30% on payments to non-compliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States concerning FATCA may be subject to different rules.

Under the applicable United States Treasury regulations and administrative guidance, the FATCA provisions described above generally apply to payments of dividends on the Company's Shares and will apply to payments of gross proceeds from a sale or other disposition of Shares on or after 1 January 2019. Prospective investors are encouraged to consult their tax advisors regarding the

potential application of withholding under FATCA to an investment in Shares in the Company.

THE PRECEDING SUMMARY IS NOT A COMPLETE DESCRIPTION OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP AND DISPOSITION OF SHARES IN THE COMPANY AND IS NOT TAX ADVICE. PROSPECTIVE HOLDERS OF SHARES IN THE COMPANY SHOULD CONSULT WITH THEIR TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF SHARES.

5.8 Not Underwritten

The Offer is not underwritten.

5.9 Lead Manager

Patersons Securities Limited has been appointed by the Company to manage the Offer. In consideration for its role as Lead Manager, Patersons Securities Limited will be entitled to a Lead Manager fee of \$100,000, a 6% sales commission and the issue of 10,000,000 Options. For further details relating to the appointment of the Lead Manager, please refer to section 11.4. Any broker fees payable to other brokers or intermediaries (including those overseas) will be paid from the 6% sales commission payable to the Lead Manager.

5.10 Enquiries

Any questions concerning the Company or the Offer should be directed to the Company at investors@droneshield.com.

6. COMPANY OVERVIEW

6.1 Background

DroneShield Limited (the **Company**) was incorporated on 4 November 2015 for the primary purpose of acquiring DroneShield, LLC (**DroneShield**) and engaging in the business of offering products manufactured by DroneShield globally, as well as managing and operating DroneShield's business. DroneShield is a United States (Delaware) limited liability company that was formed on 10 January 2014 for the primary purpose of developing and selling proprietary hardware and software for acoustic detection of small unmanned aerial vehicles (also known as "**drones**").

Governments and owners of infrastructure and other real assets are acutely aware of the threat posed by commercially-available and affordable consumer drones. Until recently there had been no cost-effective commercial detection and defence solution available to governments and real asset owners. DroneShield provides such a solution.

DroneShield owns the intellectual property rights to, and has commenced selling, cost-effective proprietary hardware (enterprise-grade sensors), which is coupled with software (a proprietary database of audio signatures). The system detects acoustic signatures of drones, which are then analysed by signature database, and alerts the user to approaching drones. Development of the system commenced in 2013. Since DroneShield commenced deliveries of its products in February 2014, it has sold or pilot or trial-installed approximately 214 sensor units (with 198 sensor units having been sold), which have been installed at a range of sensitive customer installations.

On 1 April 2016, the Company entered into the Exchange Agreement with the current members (equivalent of shareholders in Delaware) of DroneShield to acquire 100% of the equity interests in DroneShield in consideration of an issue of an aggregate of 100,000,000 Shares and 45,000,000 Performance Shares in the Company to the current members of DroneShield, such issue to be conditional upon, and to occur concurrently with, the Company obtaining the Listing Approval, raising the minimum subscription and issuing the Shares under the Offer (the **Exchange**). The terms and conditions of the Performance Shares to be issued pursuant to the Exchange are set out in Section 12.6.

The effect of the Exchange Agreement is that upon the Company obtaining the Listing Approval, raising the minimum subscription and issuing the Shares under the Offer, the current members of DroneShield will own approximately 80% of the Shares of the Company (or, in the event of full oversubscriptions are raised under the Offer, the current members of DroneShield will own approximately 74.07% of the Shares of the Company) and DroneShield will be a wholly owned subsidiary of the Company. Please refer to Section 11.1 for a summary of the key terms of the Exchange Agreement.

The Company has attracted an expert board, advisory board and management team, experienced in the U.S. defence industry and successful ASX small-caps, including:

- Peter James (Non-Executive Chairman), a senior executive and board member with over 30 years' experience in the Technology, Telecommunications and Media Industries, including an extensive experience as Chair, Non-Executive Director and Chief Executive Officer across a range of publicly listed and private companies, with current

positions including being a Chair of ASX-listed Macquarie Telecom and nearmap,

- James Walker (Managing Director), an experienced leader in commercialising technology in new markets whose experience includes that of Chief Executive Officer or Chief Financial Officer at the AIM-listed Seeing Machines and other growth companies, such as Hotel Dynamics, Fluorotechnics and Optalert,
- Dr. Samantha Ravich (Non-Executive Director), a former U.S. Deputy National Security Advisor to Vice-President Dick Cheney,
- Mr. Winton Willesee (Non-Executive Director), an experienced ASX Non-Executive Company Director,
- Mr. Vornik (CFO), an experienced financier with investment banking and treasury experience at the Royal Bank of Canada, Leighton Contractors, Brookfield, Deutsche Bank and ABN AMRO,
- Rear Admiral Jay M. Cohen (ret) (Advisory Board Member), a former Chief of Naval Research (the Office of Naval Research), United States Navy; Department of the Navy Chief Technology Officer; and Under Secretary for Science & Technology at the Department of Homeland Security (DHS) (responsible for DHS Research, Development, Test and Evaluation),
- Robert Hill, a former Australian Minister for Defence,
- General Robin Brims (ret) (Advisory Board Member), a former Commander of the UK Field Army,
- Carol Haave (Advisory Board Member), a former Assistant Secretary for International Affairs at the U.S. Department of Homeland Security and U.S. Deputy Undersecretary of Defense for Counterintelligence and Security, and
- Joanna Riley (Advisory Board Member), the founder and CEO of 1-Page (ASX:1PG), a poster child of U.S. technology listings on the ASX, with market capitalisation of over AU\$100m as at the date of this Prospectus.

6.2 Business Model

6.2.1 An Urgent Worldwide Problem

Affordable consumer-grade drones have become popular around the world but they present unique and frequent threats to privacy, physical security, and public safety in a wide variety of environments, including industrial and critical infrastructure, prisons, government facilities, airports, outdoor events and venues, military, homeland security, real assets and executive protection.

Commercially-available drones can cost between US\$30 and US\$30,000, are legally available at conventional retailers and online, and can be lawfully flown in the US, Australia and many major countries.

1 million commercial drones are estimated to be sold in 2015, and 12 million to be operating by 2020. The global drone market is estimated at US\$7 billion in 2015 and projected to grow to US\$12 billion by 2023. Defence and security drone

market is estimated at US\$5.9 billion in 2015 and projected to grow to US\$11.1 billion by 2024.

Therein lies a problem in urgent need of a solution - commercially-available drones have:

- threatened commercial aircraft;
- breached security at airports, outdoor sporting facilities, national borders, public events, etc.;
- breached security of VIPs/executives/political figures;
- conducted surveillance of government facilities and private figures;
- been repurposed for terrorism;
- been used for industrial espionage;
- smuggled drugs into prisons; and
- conducted warfare in conflict zones.

Australia is reported to have the second highest incidence of drone ownership in the world.

Recent drone incidents and threats that have occurred around the world included the following:

Terrorism

- Terrorists could use drones to bomb nuclear power stations (UK, 2016).
- ISIS is reportedly packing drones with explosives now (Iraq, December 2015).
- Terrorists may use drones to stage attacks in India: Govt (India, December 2015).
- Italy says Islamic State could attack Rome with drones during holy year (Italy, November 2015).
- A drone crashed on the Ellipse, near White House (Washington, October 2015).
- Military exercise Black Dart to tackle nightmare drone scenario (California, July 2015).
- Counter-terrorism chiefs reported to fear ISIS planning attacks on the West using explosive packed drones to target crowds at major events such as football matches or music festivals (UK, July 2015).
- US-led coalition forces shot down an ISIS controlled drone (Iraq, March 2015).
- A drone with radioactive material crashed at Japanese Prime Minister's residence (Japan, April 2015).
- A drone crashed at the White House (Washington, January 2015).
- A drone crashed within feet of German Chancellor Angela Merkel (Germany, September 2013).

Critical infrastructure

- Drone hit West Hollywood power lines and caused power outage (California, October 2015).

- Activists sent a drone to drop leaflets over NSA complex in protest of the agency (Germany, October 2015).
- Southern Electric warned drones can crash into cables and cause power cuts (UK, January 2015).
- Drones spotted over several French nuclear sites (France, November 2014).
- A drone crashed near British nuclear shipyard (UK, April 2014).
- A drone crashed into Bridgeport Harbor power plant (Connecticut, May 2013).

Airports

- Drone within seven yards of jet landing at Heathrow Airport (UK, March 2016).
- Report shows there have been at least 241 near mid-air collisions between drones and airplanes (New York, December 2015).
- Drone danger: near miss with airplane at Waterloo airport (Canada, November 2015).
- FAA reported on hundreds of near-misses (US, August 2015).
- FAA reported that an airliner nearly collided with a drone (Florida, March 2014).
- Air Canada reported near miss with quadcopter (Vancouver, March 2014).
- A mystery drone was spotted near JFK airport, and FBI sought public's help (New York, March 2013).

Stadium and outdoor events

- Drone injures two people in Andover (Massachusetts, December 2015).
- A drone crashed into the Sydney Opera House (Sydney, October 2015).
- A drone crashed at U.S. Open tennis tournament (New York, September 2015).
- A drone at soccer match ignited a brawl (Serbia, October 2014).
- Drones flew over Star Wars film set (UK, September 2014).
- A drone overflowed PNC Park Pirates MLB game (Pittsburgh, June 2014).
- A drone spotted at Redskins Park (Maryland, May 2014).
- A triathlete was injured in a drone incident (Australia, April 2014).
- A drone spotted at NFL Packers Vikings game (Minnesota, December 2012).
- A drone spotted at Watkins Glen NASCAR event (New York, August 2012).

Executive protection

- California banned paparazzi use of drones to spy on celeb homes (California, October 2015).
- Hollywood celebrities were reported to be besieged by paparazzi spies in the sky (California, September 2014).
- A paparazzi agency admitted use of drones publicly (California, August 2014).
- A drone was caught at Nelson Mandela's Hospital (South Africa, June 2013).
- Code Pink drone outside the house window of U.S. Senator Dianne Feinstein (California, June 2013).

Prisons

- A drone was used to smuggle drugs in Melbourne prison (Melbourne, March 2014).
- Drones tried to sneak contraband into Georgia (US) prison (Georgia, December 2013).
- A drone drug drops were reported as being common at Quebec jails (Canada, November 2013).
- An attempted smuggling of cell phones by hexacopter into Brazilian prison reported (Brazil, June 2012).

A vast majority of real asset perimeters at installations around the world are currently unprotected (the land perimeter is a fraction of the overall three-dimensional exposure to threats, and threats are increasingly coming from the air). Governments and owners of infrastructure and other real assets are acutely aware of the threat posed by commercially-available and affordable consumer drones. Until recently there has been no cost-effective commercial detection and defence solution available to governments and real asset owners.

6.2.2 DroneShield's Unique Solution

DroneShield's founders have developed, and DroneShield owns, the intellectual property rights to, and has commenced selling, cost-effective proprietary hardware (enterprise-grade sensors), which is coupled with unique software (a proprietary database of audio signatures). This patented system (with additional patents pending) detects acoustic signatures of drones, which are then analysed by signature database, and alerts the user to approaching drones. The system thus enables threat reaction, and accelerates the apprehension and prosecution of violators through real-time alerts and digital evidence collection.

Unlike many of its competitors' products, DroneShield's product is not a concept that has not yet come out of the research and development stage. Rather, while DroneShield's products do require ongoing additional research and development (which are necessarily needed in order to enable the Company to be able to sell and subsequently support DroneShield's products in large numbers, and in order to meaningfully improve the products usability, scalability and accuracy), it is currently readily-available and cost-effective products that DroneShield has been selling and pilot or trial-installing since 2014, with approximately 214 units shipped (with 198 sensor units having been sold).

DroneShield's products warn installations to the presence of drones through an enterprise-grade sensor network (hardware) and alerting architecture (software) that integrates easily with existing security systems. It provides high detection rates with low false alarms. The system listens for the sounds made by drones by comparing sounds to a signature database. The signatures are collected at a US Department of Defense-approved anechoic chamber, and updated regularly. The database excludes false positives (e.g. insects, lawn mowers, industrial noises, etc) and identifies single and counter-rotating helicopters, quadcopters, hexacopters, octocopters, etc of varying sizes. Importantly, it is able to detect drones that are invisible to radio frequency (RF) sensors (i.e. drones on auto-pilot without control or telemetry links) and invisible to radar (e.g. small and plastic). DroneShield's hardware is suitable for both low profile and long range threat installations. End-users are alerted immediately through a browser-based interface, SMS/email/radio, dry contact relays, or XML and JSON messages.

DroneShield's business model is aimed at generating a recurring licence revenue stream for the life of the installation, prepaid annually in advance by the users.

Following the initial installation, DroneShield provides the customer with software updates, as well as ongoing technical support.

The DroneShield software is delivered via a “software as a service” (SaaS) (also known as “the cloud”) solution. Users who select the option of an on-site processor which does not require an internet connection, have an option to receive software updates either through periodic synching to DroneShield’s cloud network, currently hosted by Amazon Web Services, Inc., or through a USB stick. The Company focuses on third party security providers and hardware distributors as its key distribution channels.

Additional potential revenue streams being currently considered by DroneShield include charging clients for the onsite technical support provided by dedicated DroneShield personnel. This is considered a more appropriate option for larger installations.

DroneShield’s solution has received widespread press coverage. DroneShield was on the August 2015 *Business Insider* list of “25 Hottest Under the Radar Startups in America” and one of the Winners of *Popular Science* 2015 “Best of What’s New” in the ‘Security’ category. Below is a non-exhaustive list of press articles on DroneShield from around the world:

DRONESHIELD – MEDIA REFERENCES:

DATE	Article	Source
APRIL 1, 2016	<u>They're 400,000 strong and the Pentagon sees them as an emerging threat</u>	<u>LA Times</u>
JANUARY 18, 2016	<u>When good drones go bad</u>	<u>Wired.com</u>
DECEMBER 1, 2015	<u>DroneShield vous avertira lorsque des drones approcheront</u> (DroneShield alert you when drones are close – France) ¹	<u>Journal Du Net</u>
NOVEMBER 26, 2015	<u>通过声音辨别无人机·手机发警示可用网枪捕获</u> (UAV through sound recognition: sends warning to mobile phone – China) ¹	<u>Nikkei Technology, China</u>
NOVEMBER 24, 2015	<u>ドローンの音を“聞き分け”て検知する「DroneShield」</u> (DroneShield to detect the drone sound – Japan) ¹	<u>Nikkei Business Publications</u>
NOVEMBER 19, 2015	<u>Best of what’s new 2015</u>	<u>Popular Science</u>
NOVEMBER 12, 2015	<u>美国公司推出无人机接近预警服务</u> (US-made drones proximity warning service – China) ¹	<u>Huanqiu Online</u>
NOVEMBER 10, 2015	<u>The start-up shielding companies and citizens from drones</u>	<u>CNBC</u>
OCTOBER 23, 2015	<u>เทคโนโลยีหนุน ‘เซฟซิตี’</u> (Technology Supports ‘Safe City’ – Thailand) ¹	<u>BangkokBizNews</u>
OCTOBER 14, 2015	<u>Playing defense against the drones</u>	<u>The Atlantic</u>
AUGUST 28, 2015	<u>DroneShield on the list of “25 hottest under-the-radar startups in America”</u>	<u>Business Insider</u>
JUNE 30, 2015	<u>DroneShield : 前方无人机出没, 请小心</u> (DroneShield: fronting the UAV invasion – China) ¹	<u>36Kr</u>
JUNE 29, 2015	<u>ドローンの侵入を見逃さない DroneShield</u> (DroneShield does not miss drone intrusion – Japan) ¹	<u>Gizmodo</u>

APRIL 22, 2015	Boston Police Set Up 'Drone Shields' Along the 2015 Marathon Route	Vice
APRIL 20, 2015	MIT grad's anti-drone tech being used at the Boston Marathon	Boston Business Journal
FEBRUARY 26, 2015	'DroneShield' helps prisons know what's coming	Corrections One
FEBRUARY 14, 2014	DroneShield warns of low-flying UAVs with 18 nations demanding the device – inventor	Voice of Russia
FEBRUARY 10, 2014	Drone Shield – uprzedzi przed nadlatującym bezzałogowcem (<i>DroneShield - to warn of an incoming drone – Poland</i>) ¹	Technowinki
JANUARY 29, 2014	Drone Shield: un sistema que te avisa si hay drones cerca de tu hogar (<i>DroneShield: a system that alerts you if drones are close to home – Spain</i>) ¹	GCom
JANUARY 28, 2014	Drone Shield Alerts You Of Nearby Drones	UberGizmo
JUNE 6, 2013	DroneShield aims to protect citizens from unmanned devices	NWWatchdog

Notes:

1. The titles of these press articles were translated to English using Google Translate.

Refer to the Intellectual Property Report in Section 8 of this Prospectus for more detailed information on DroneShield's technology.

6.2.3 Market

DroneShield's distribution channels focus on third party security providers and hardware distributors. The ultimate actual and prospective end-users of its products are based around the world and range widely in nature and include, among others:

- power plants, electricity grids, gas pipelines, ports and other critical infrastructure asset owners;
- defence agencies (e.g. DroneShield's system has been trialled by several NATO militaries at their testing facilities);
- intelligence and national security agencies;
- airports and other civil defence users (e.g. a DroneShield system has been piloted at a key U.S. airport);
- prisons;
- stadiums and other public event venues and organizers (e.g. DroneShield protected the Boston Marathon in 2015 and 2016);
- media production sets;
- real estate owners including hotels, commercial offices and manufacturing plants; and
- VIPs including ultra-high net worth individuals, executives and government officials (e.g. DroneShield has protected the current head of state of a G7 nation).

Drone detection is a nascent industry, and DroneShield is one of the early movers in it. There is a limited number of drone detection solutions that are readily commercially-available to end-users in the market and are credible, effective and cost-effective. Because of the lack of solutions to the pervasive threat of commercially-available drones around the world, DroneShield is experiencing substantial inbound demand for its products.

This assessment of DroneShield's position in the market is borne out by the authoritative July 2015 Frost & Sullivan report "Counter UAS Technologies", which set out the state of the drone detection industry. While the report analyses a number of drone detection companies, DroneShield is the only company referred to in the Key Findings section of the report, which states "Systems for detecting and negating small, commercial drones are being developed globally, but a few companies, like DroneShield, have a head start."

The Company views its niche as segmented into three broad layers. At the top end are the meaningfully more expensive military-grade solutions that, as a practical matter, are likely to be available largely to governments and defence agencies (the "**top end of the market**"). In the middle layer, are solutions for commercial users such as airports, power plants, ports, factories and other assets referenced in the discussion above inclusive of prison facilities (the "**commercial market**"). The bottom layer consists of consumer-grade products largely unsuitable for commercial installations (the "**consumer market**").

DroneShield focuses on the commercial market, where there exists a wide end-user market (estimated by DroneShield to currently consist of at least 300,000 installations), including, among others:

- 65,000 power plants;
- 42,000 airports;
- 20,000 prisons;
- 11,000 stadia;
- manufacturing plants;
- executive facilities;
- commercial real estate buildings;
- non-critical governmental facilities;
- ports;
- other critical infrastructure facilities;
- other civil defence locations; and
- ultra high net worth individuals,

each with the capacity to purchase a system that in the aggregate costs tens of thousands or hundreds of thousands of dollars and the capacity to purchase post-sale support on an ongoing basis. The Company estimates the addressable drone detection and defence market to be in excess of US\$12 billion.

Despite the limited resources available to it historically, DroneShield has established 43 distributorships in 31 countries to date. It is experiencing substantial demand for distributorships, and the Company's sales will depend on its ability to expand and maintain DroneShield's distributor network. Please refer to Section 11.2 for a summary of the key terms of the reseller distribution agreements.

DroneShield's products are the subject of continuous research and development and necessarily need to be developed further in order to enable the Company to be able to sell and subsequently support DroneShield's products in large numbers, and in order to meaningfully improve the products usability, scalability and accuracy. Further, the Company seeks to go beyond acoustic detection only and roll out an effective multi-faceted commercial market detection product incorporating multiple detection technologies (including both audio and radio frequency technologies, as well as potentially other detection technologies). The Company's ability to maintain its distributor relationships, scale up its sales volumes, establish and maintain credibility, and remain competitive, will necessarily depend on its ability to conduct such research and development successfully.

Further, the Company's ability to generate product sales and support its distributor and customer network, as well as to generate recurring income after the initial sale of its products will further depend on its ability to provide both pre-sale and post-sale support and training to its distributors.

At the "top end of the market," as well as in niches in which the Company is unable to easily establish presence, following the completion of the Offer, the Company will seek to generate revenue through partnerships with third party defence, national security, civil defence and other solution providers, defence contractors and other companies in the aerospace and electronics sectors, whereby DroneShield will seek to license its intellectual property to third parties for inclusion in their multi-faceted proprietary systems and receive a combination of one-off payments and royalties in relation to such licenses.

6.2.4 Progress to Date and Business Plan Execution

Below are the key milestones achieved by DroneShield to date:

Designed V1.0, a drone detection system that uses highly specialized proprietary technology.	September 2013
DroneShield LLC founded by John Franklin, who holds a Master of Science from Johns Hopkins University and a Bachelor of Science in physics and math from the University of Maryland, and is a former physicist at the Applied Physics Laboratory (Johns Hopkins University) and at the Institute for Defense Analyses, and Dr. Brian Hearing, who holds a Ph.D. and Master of Science from the Massachusetts Institute of Technology and a Bachelor of Science from Rensselaer Polytechnic Institute, who was formerly part of the management teams at a U.S. defence agency and DARPA, and a former researcher at Raytheon.	January 2014
System installations commenced.	January 2014
Designed V1.2 DroneShield detection system.	March 2014

Lodged patent application with USPTO.	April 2014
Pilot system trialled at a major U.S. airport.	July 2014
System trialled at U.S. National Park Police Heliport.	July 2014
Designed V1.3 DroneShield detection system.	January 2015
System installed for the police force of a major European capital city.	January 2015
System installed at a U.S. defence installation.	March 2015
System installed at Boston Marathon.	April 2015
Initial round of funding from high-net worth individuals.	April 2015
System installed at a U.S. government organisation.	June 2015
System installed at a NATO military university.	June 2015
Designed V1.4 DroneShield detection system.	August 2015
System installed at a U.S. governmental organisation.	August 2015
Institutional round of funding (total funding of approx. US\$1 million).	September 2015
Lodged four patent applications with USPTO.	November 2015
System sold to a North American police department.	November 2015
US patent issued by USPTO – “Drone detection and Classification Methods and Apparatus”.	February 2016
DroneShield engaged to protect Boston Marathon for second consecutive year.	April 2016

It is also part of the Company’s business model that it will consider expanding its business through the acquisitions (either outright or through licensing) of other complementary and enhancing technologies and businesses in appropriate geographies. The Company notes however that it is not in negotiations for any such acquisitions as at the date of this Prospectus.

6.2.5 Competition

Many of the concepts marketed by DroneShield’s competitors could reasonably be described as “vapourware” (i.e. concepts that have not come out of research and development or have not been commercially proven, or are not currently being sold as a readily-available product). The majority of DroneShield’s competition is limited and technically differs from DroneShield for the following reasons:

Nature of technology	Key differentiating factors
Laser and LIDAR ²	<ul style="list-style-type: none"> The active defeat capability of laser is very expensive. Legal issues (generally unlawful to shoot down drones in the U.S. and many other countries, even above private property). In any event, to defeat, one needs first to detect (hence the need for DroneShield). Limited range, especially in bad weather. Potential for false alarms and inaccuracies.
Radar	<ul style="list-style-type: none"> Expensive. High false alarm rate renders impractical for small drones. Does not detect many small drones. In the US, an active system needs Federal Communication Commission (FCC) approval and must not interfere with other radio frequency systems (e.g. radio).
Optical and Infrared Cameras	<ul style="list-style-type: none"> Potential to be blocked by trees, bushes or buildings. Potential for false alarms and inaccuracies. Very short range. Expensive.
Certain audio-based technologies	<ul style="list-style-type: none"> Substantially more expensive.
Radio frequency	<ul style="list-style-type: none"> Legal issues (unlawful to interfere with drones in the US and many other countries). Ineffective on certain types of drones (e.g. those on autopilot). Potential for false alarms and inaccuracies.

The Company will therefore seek to capitalise on the existing and expected demand through applying the funds raised under the Offer areas as follows:

- expanding its executive team;
- expanding its sales and marketing capability;
- building its operations team;

² Light Detection and Ranging

- investing in research and development;
- providing responsive post-sale support;
- meeting intellectual property, legal, insurance and administration costs, and
- meeting the costs of the Offer.

Each of these areas is critical to the Company's ability to execute on its strategy.

7. RISK FACTORS

7.1 Introduction

The Shares offered under this Prospectus are considered highly speculative. An investment in the Company is not risk free, and the Directors strongly recommend potential investors to consider the risk factors described in Section 3.5 of this Prospectus in addition to those listed below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for Shares and to consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

There are specific risks which relate directly to our business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors. The risks identified in this Section, or other risk factors, may have a material impact on the financial performance of the Company and the market price of the Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

7.2 Company-Specific Risks

(a) Additional requirements for capital

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised under the Offer. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its development and research programmes as the case may be. There is however no guarantee that the Company will be able to secure any additional funding or be able to secure funding on terms favourable to the Company.

(b) Shareholder dilution

In the future, the Company may elect to issue Shares or other securities. While the Company will be subject to the constraints of the ASX Listing Rules regarding the issue of Shares or other securities, Shareholders may be diluted as a result of issues of Shares or other securities. Further, on the conversion of Performance Shares (issued under the Exchange Agreement) into Shares, Shareholders will be further diluted - please refer to Section 3.5(i) for further details.

(c) Limited operations

The Company has limited operations and may be dependent on equity and debt fund-raising and/or dividends and distributions from its subsidiaries, including DroneShield.

(d) Acquisitions

The Company's growth strategy may involve finding and consummating acquisitions in areas complimentary to DroneShield's business. The

Company may not be successful in identifying and acquiring suitable acquisition targets at acceptable cost. Further, acquisitions may require additional funding on acceptable terms, which may or may not be available at the relevant time. Further, the Company will experience competition in making acquisitions from larger companies with significantly greater resources.

(e) **Integration**

Integration of the Company's and DroneShield's operations (and the operations of the Company and any of its further potential acquisitions) will be complex, time-consuming and expensive and may adversely affect the results of the Company's operations.

(f) **International operations**

DroneShield has 43 distributor relationships in 31 countries, and expects to continue to do business around the world. The Company's operations will therefore be subject to a number of risks inherent in global operations, including political and economic instability in foreign markets, inconsistent product regulation by foreign agencies or governments, imposition of product tariffs and burdens, cost of complying with a wide variety of international and U.S. export laws and regulatory requirements (including the U.S. Foreign Corrupt Practices Act, the U.S. Export Administration Act and the U.S. Arms Export Control Act (and the regulations promulgated thereunder)), risks stemming from the Company's lack of local business experience in specific foreign countries, foreign currency fluctuations, difficulty in enforcing intellectual property rights, foreign taxes, and language and other cultural barriers. Additionally, operating an international business with a sales force managed from Australia and with distributorships and sales in a number of legal jurisdictions will necessarily require substantial input from a variety of legal counsel and expose the Company to legal costs that may be disproportionately high relative to its revenues, and will be incurred regardless of whether the Company derives revenues from a given jurisdiction or at all.

(g) **Disputes**

The activities of the Company may result in disputes with third parties, including, without limitation, the Company's investors, competitors, regulators, partners, distributors, customers, directors, officers and employees, and service providers. The Partnership may incur substantial costs in connection with such disputes.

(h) **Strategies**

There are no limits on strategies that the Company may pursue. The strategy discussed in this Prospectus may evolve over time due to, among other things, market developments and trends, technical challenges, the emergence of new or enhanced technology, changing regulation and/or industry practice, and otherwise in the Company's sole discretion. As a result, the strategy, approaches, markets and products described in this Prospectus may not reflect the strategies, approaches, markets and products relevant to, or pursued by, the Company at a later date.

Further, a change in strategy may involve material and as yet unanticipated risks, as well as a high degree of risk, including a higher degree of risk than the Company's strategy in place as of the date hereof.

(i) **Governmental contracts**

A portion of the Company's revenues may depend on the Company's ability to do business with the U.S. as well as foreign governments and their various agencies, whether directly or indirectly. Such customers may:

- (i) award or terminate contracts at their convenience;
- (ii) terminate, reduce or modify contracts or subcontracts if its requirements or budgetary constraints change;
- (iii) cancel multi-year contracts and related orders if funds become unavailable;
- (iv) shift their spending priorities;
- (v) adjust contract costs and fees on the basis of audits done by its agencies;
- (vi) use and practice intellectual property developed in the performance of a government contract or subcontract;
- (vii) claim rights to intellectual property not properly protected pursuant applicable contract terms;
- (viii) seek penalties and fines exceeding the value of a contract for contract activity that results in the submission of a false claim to the government;
- (ix) debar the Company or its subsidiaries because of legal and other actions undertaken by or against the Company or its subsidiaries, the Company's officers, directors, shareholders, employees and affiliates, or convictions of the Company's officers, directors, shareholders, employees or affiliates; and
- (x) inquire about and investigate business practices and audit compliance with applicable rules and regulations.

Investors should note that Dr. Brian Hearing (a co-founder of DroneShield who does not have any executive authority or responsibilities at DroneShield or the Company) has been proposed for debarment by the U.S. Department of the Navy, in connection with his tenure at a U.S. Department of Defense agency, Dr. Hearing's former employer. The effect of debarment, generally, is to prohibit the debarred person from entering into contracts with (or provide subcontracting services in relation to contracts with) the U.S. federal government and its departments. The notice of proposed debarment is limited to Dr. Hearing in his personal capacity. The U.S. Department of the Navy did not name the Company or DroneShield in the notice of proposed debarment and has not issued a separate notice of proposed debarment for the Company or DroneShield. The Company considers that it is unlikely that it or DroneShield will be debarred. Debarment of

DroneShield or the Company generally would not limit their ability to contract with non-U.S. customers or non-governmental organisations. While DroneShield does not derive (or expect to derive) meaningful revenues from products sold to the U.S. federal government or its departments, and while DroneShield's or the Company's debarment is not expected, as set out above, debarment of the Company and/or DroneShield (if effected) would have a negative effect on the Company's revenues and reputation.

(j) **Contracts in general**

There are a number of risks associated with contracts entered into by the Company or DroneShield, including the risk that those contracts may contain unfavourable provisions, or be terminated, lost or impaired, or renewed on less favourable terms.

(k) **Supply**

The Company may experience delivery delays if its contract manufacturer fails to deliver products. DroneShield's products are manufactured solely by one contract manufacturer. Any operational issues that the manufacturer incurs may affect the delivery of the products. DroneShield depends on the manufacturer to adjust operations accordingly with demand of the products to ensure no back log in production. There is also a risk with working with only one manufacturer, in that termination of the agreement to produce will temporary halt all deliveries until resolved or a new agreement is made with another manufacture.

(l) **Product liability**

As with all new products, even after the granting of regulatory approval, there is no assurance that unforeseen adverse events or manufacturing defects will not arise in the Company's products. Adverse events could expose the Company to product liability claims or litigation, resulting in the removal of regulatory approval for the relevant products and/or monetary damages being awarded against the Company. In such event, the Company's liability may exceed the Company's insurance coverage, if any.

(m) **Litigation**

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

(n) **Environmental**

The Company's and DroneShield's operations are subject to government environmental legislation. While environmental issues are continually monitored to minimise the likelihood of risk there is no assurance that the Company's or DroneShield's respective operations will not be affected by an environmental incident or subject to

environmental liabilities. The introduction of new environmental legislation and regulations may result in additional cost to the Company arising from additional compliance, further capital expenditure and monitoring which may have a material adverse impact on the financial position and performance of the Company.

(o) **Data loss, theft or corruption**

Each of the Company and DroneShield stores data in its own systems and networks and also with a variety of third party service providers. Exploitation or hacking of any of these systems or networks could lead to corruption, theft or loss of the data which could have a material adverse effect on the Company's business, financial condition and results. Further, if the Company's or DroneShield's systems, networks or technology are subject to any type of 'cyber' crime, its technology may be perceived as unsecure which may lead to a decrease in the number of customers.

(p) **Foreign exchange**

The Company will be operating in a variety of jurisdictions, including the United States of America and Australia, and as such, expects to generate revenue and incur costs and expenses in more than one currency. Consequently, movements in currency exchange rates may adversely or beneficially affect the Company's results or operations and cash flows. For example, the appreciation or depreciation of the US dollar relative to the Australian dollar would result in a foreign currency loss or gain. Any depreciation of currencies in foreign jurisdictions in which the Company operates may result in lower than anticipated revenue, profit and earnings of the Company.

(q) **Insurance coverage**

The Company faces various risks in conducting its business and may lack adequate insurance coverage or may not have the relevant insurance coverage. The Company proposes to arrange and maintain insurance coverage for its employees, as well as professional indemnity, product liability and third party liability insurance, however it does not currently propose to arrange and maintain business interruption insurance or insurance against claims for certain property damage. The Company will need to review its insurance requirements periodically. If the Company incurs substantial losses or liabilities and its insurance coverage is unavailable or inadequate to cover such losses or liabilities, the Company's financial position and financial performance may be adversely affected. Investors should note that the Company currently has no insurance policies in place in respect of its business or assets. The Company intends to insure its operations in accordance with industry practice once the Company's operations are of a sufficient magnitude. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

7.3 General Risks

(a) **Economic conditions and other global or national issues**

General economic conditions, laws relating to taxation, new legislation, trade barriers, movements in interest and inflation rates, currency

exchange controls and rates, national and international political circumstances (including wars, terrorist acts, sabotage, subversive activities, security operations, labour unrest, civil disorder, and states of emergency), natural disasters (including fires, earthquakes and floods), and quarantine restrictions, epidemics and pandemics, may have an adverse effect on the Company's operations.

(b) **Market conditions**

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

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

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

Further, the value of the Shares may fluctuate more sharply than that of other securities, given the low per Share pricing of the Shares under the Prospectus, and the fact that investment in the Company is highly speculative.

(c) **Price of Shares**

As a publicly-listed company on ASX, the Company will be subject to general market risk that is inherent in all securities listed on a stock exchange. This may result in fluctuations in its Share price. The price at which Shares are quoted on ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade at prices below the Offer price. There is no assurance that the price of the Shares will increase or not decrease following the commencement of quotation on ASX, even if the Company's earnings increase.

Further, after the end of the relevant escrow periods affecting Shares in the Company, a significant sale of then tradeable Shares (or the market perception that such a sale might occur) could have an adverse effect on the Company's Share price. Please refer to Sections 3.5(j) and 3.12 for further details on the Shares likely to be classified by the ASX as restricted securities.

(d) **Investment speculative**

The risk factors set out in this Prospectus ought not to be taken as exhaustive of the risks faced by the Company or by investors in the

Company. These factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Prospectus.

Therefore, the Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares.

Potential investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

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April 1, 2016

The Board of Directors
DroneShield Limited
Suite 25, 145 Stirling Highway
Nedlands WA 6009
Australia

Intellectual Property Report: DroneShield

I. REPORT SUMMARY

This intellectual property report (“Report”) has been prepared at the request of the Directors of DroneShield Limited, a public company registered in Australia which has agreed to acquire the entire membership interests in DroneShield, LLC (“DroneShield”). The Report summarizes the current status of the U.S. patents owned by DroneShield and U.S. patent applications currently being prosecuted by K&L Gates LLP on behalf of DroneShield. The Report is for inclusion in an IPO Prospectus to be lodged by DroneShield Limited at the Australian Securities & Investments Commission for the purpose of raising funds through the issue of securities and listing on the Australian Securities Exchange Limited.

Section II below provides general information regarding aspects of the patent system including risks in the patent system and limitations of patent protection.

Section III provides an overview of DroneShield’s patent portfolio.

Section IV provides limitations and qualifications regarding patents in general and DroneShield’s patent portfolio.

II. GENERAL INFORMATION REGARDING PATENTS

Generally, “intellectual property” refers to a group of registrable and non-registrable rights, including rights in patents, designs, trade marks, plant varieties, copyright, confidential information and trade secrets. Intellectual property has many of the characteristics possessed by real and personal property. In particular, intellectual property is an asset, which may be bought, sold, licensed, exchanged, or otherwise transferred as other forms of property. Accordingly, an

The Board of Directors
DroneShield Limited
April 1, 2016

intellectual property owner has the right to prevent the unauthorized use, manufacture, import, or sale of its property.

This Report is only directed to intellectual property which is in the form of patents and patent applications. This section is meant to provide only a high level summary of the patent system and should not be interpreted as providing an exhaustive description of patent law or of related risks regarding patents.

A. Patents in General

Patent rights constitute one component of intellectual property. Patents cover inventions and enable an owner from excluding others from practicing the claims of the patent in exchange for an inventor's full disclosure of the invention to the public. Typically, a patent for an invention may only be granted to inventor(s), or to a person who has entitlement to the invention by way of an assignment or other means.

A patent may provide protection for novel (new), inventive (non-obvious), and useful inventions for a fixed period, which is typically up to 20 years. In addition, to maintain a pending application or patent in force, it may be necessary to pay renewal or maintenance fees, on a periodic basis. Patents may be granted in relation to a wide range of subject matter, such as new or improved products. Such subject matter typically should have an industrial application or be useful in connection with a product or a service.

A patent cannot be granted on a worldwide basis. Rather, patents must be obtained in every country where protection is required. Although there is a certain amount of harmonization between the patent granting procedures and standards throughout the world, there are differences regarding the test for patentability. Accordingly, the scope of a patent may vary from country to country and indeed a patent may not be granted in a particular country for failure to comply with the relevant standards.

B. Process for Obtaining a Patent

In most countries of the world, the process of protecting patent rights begins with the submission of a patent application comprising (i) a patent specification describing the invention, (ii) drawings illustrating the invention, and (iii) claims specifying the scope of the invention. Filing a patent application (provisional or non-provisional) in the United States, Australia, or other countries that permit such a filing satisfies this requirement. In some countries, such as the United States, a provisional patent application may be filed.

A provisional patent application is oftentimes informal and includes a description of the invention. However, a provisional application does not include claims and is not examined. The provisional patent application functions as a placeholder until a non-provisional patent application can be filed. In contrast, a non-provisional patent application includes a formal description of the invention and a complete claim set that is examined. Generally, countries that

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allow provisional patent applications require that a non-provisional be filed within a year of the filing of the provisional.

A fundamental requirement of all patent systems is that an invention be novel and inventive at the time of filing, relative to what was publicly known or used at the date of the application. It is important that the specification (including the drawings) of the patent application contains a full disclosure of the invention. A patent specification generally consists of a description of the invention and claims, which define the scope of the invention. The description of the invention includes references to drawings that illustrate the invention and different examples of the invention. The description also typically provides background information, such as a description of existing products, manufacturing or testing methods, or processes and related problems, which enable an examiner and others to assess the application for inventiveness.

Pursuant to an International Treaty called the Paris Convention, once the initial application has been filed, further applications in foreign countries must be filed within twelve (12) months, otherwise rights to the invention may be lost in those countries. The filing of an initial patent application establishes a priority date for the invention in all other countries which are party to the Paris Convention, including countries such as the United States, Japan, Australia, China, Canada, Mexico, and countries within the European Union.

The filing of further patent applications in foreign countries may be pursued individually or in some instances by filing an application with a regional patent office that does the work for a number of countries, such as the European Patent Office and the African Regional Industrial Property Organization. Under such regional systems, an applicant requests protection for the invention in one or more countries, and each country decides as to whether to offer patent protection within its borders. The WIPO-administered Patent Cooperation Treaty (“PCT”) provides for the filing of a single international patent application, which serves as a placeholder, for up to 31 months from the earliest filing date, until the applicant files national applications in the designated countries. An applicant seeking protection may file one application and request protection in as many signatory states as needed.

It should be noted that at present there are only 148 countries that are party to the PCT and if patent protection is required in a country that is not party to the PCT then individual applications must be filed in these countries by the twelve (12) month anniversary of the initially filed application. An example of a country that is not a party to the PCT is Argentina.

Patent applications filed individually in countries rather than via the PCT are examined under the national laws of those countries. However, a PCT application is considered under the terms of the PCT. Once the PCT application has been filed, it is subjected to what is called an “international search,” carried out by one of the major patent offices. The search results are then communicated to the patent applicant in an “international search report,” which is a listing of published documents that might affect the patentability of the invention claimed in the international application. On the basis of the international search report the applicant may decide to withdraw the application. However, if the PCT application is not withdrawn, it is, together with the international search report, published by the International Bureau.

If the applicant decides to continue with the international application, then within thirty (30) months of the provisional patent application filing date, national patent applications need to be filed. In some countries such as Australia and regions such as Europe, the deadline is thirty-one (31) months. The applicant can also request preliminary examination, which is a report, prepared by one of the major patent offices that gives a preliminary and non-binding opinion on the patentability of the claimed invention.

Once the PCT process has been completed, the applicant nationalizes the PCT application in certain regions or individual countries, as the PCT application itself does not mature into a patent. The applicant may choose to enter one or more of the countries designated in the original PCT application. Entry into the national phase is essentially the same as filing an application in the first instance. Thus, the standard documentation and fee requirements will need to be satisfied in each country. Many non-English speaking countries require a translation of the PCT specification into the language of the relevant country. Failure to enter the national phase within the thirty (30) (or thirty-one (31)) month period will result in abandonment of the ability to secure patent protection in most PCT countries.

The national or regional applications progress under the jurisprudence and legislation of each country or region. In most jurisdictions, such as Australia, Europe, United States and Japan, examination by the relevant patent office comprises an examination of the art to which the invention pertains as it existed at the priority date of the application. This examination establishes what is referred to as the “state of the art”. The patent application is measured against the state of the art and an assessment is made regarding whether the invention described in the application is novel, inventive and useful. The patent application is also examined to ensure the invention is directed to something more than an abstract idea. Once the patent application is deemed to be novel, inventive, useful, and non-abstract, the patent office will indicate the patent application is allowable. At this point, the applicant has to pay a grant or issue fee and address any minor issues raised by the patent office. After the fee has been paid and those issues have been resolved, the patent office will grant a patent from the patent application. The time required to complete the process of examination differs from country-to-country and the scope or protection may differ depending upon the law of each country. In general, it will take several years from the date of application until the patent is actually granted.

With respect to regional applications, such as a European patent application, the applicant files a single application designating specific countries within the relevant region that are signatories to the Paris Convention. The single application is subjected to examination, and assuming that the application is allowed, it will proceed to the grant phase. The applicant can then elect to have patents granted in all or some of the designated countries. The individual patents function as though they were patents granted by the patent office of the designated country.

C. Patent Grant Information

After a patent has been granted, renewal or maintenance fees may need to be paid, otherwise the patent will cease or expire. Once a patent has been granted and subject to possible challenges as

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discussed in Section IV(B) below, the owner has the exclusive rights to exclude others from using the patented technology throughout the lifetime of a patent. This means that the owner can prevent others from using or selling the method or product covered by the claims of the granted patent. Alternatively, the owner can allow others to make or sell products or services covered by at least one claim of the patent under the terms of a license agreement. The terms of the license agreement generally define the limited scope of the use of the patent and the consideration to be paid for the use of the patent.

Enforcement of patent rights varies from country-to-country. The remedies for unauthorized use (patent infringement) available to the patent owner may include an injunction, which effectively stops further infringement of the patent, damages or account of profits, and costs. The cost of patent enforcement varies significantly from country-to-country in addition to the calculation for damages and the basis for determining whether to grant an injunction. Infringement proceedings cannot be initiated on the basis of a pending application.

III. DRONESHIELD PATENT PORTFOLIO AS OF APRIL 1, 2016

A. Patents and Patent Applications

DroneShield owns the following U.S. patents and U.S. patent applications. The claims in each of the patents and applications referenced in (i) through (iv) below are generally directed to detecting the presence of a drone using broad spectrum matching to determine whether a detected sound signal corresponds to a drone sound signature. The application referenced in (v) below is a provisional application and, accordingly, does not include a set of claims.

(i) U.S. Patent No. 9,275,645.

U.S. Patent No. 9,275,645 is titled “Drone Detection and Classification Methods and Apparatus”. It was filed April 22, 2014 and lists Brian Hearing and John Franklin as co-inventors. U.S. Patent No. 9,275,645 does not claim priority to any other patent application. The patent issued February 10, 2016. The claims are generally directed to detecting the presence of a drone using broad spectrum matching to determine whether a detected sound signal corresponds to a drone sound signature.

(ii) U.S. Patent Application No. 14/950,606.

U.S. Patent Application No. 14/950,606 is titled “Drone Detection and Classification Methods and Apparatus”. It was filed November 24, 2015 and lists Brian Hearing and John Franklin as co-inventors. U.S. Patent Application No. 14/950,606 claims priority to and is a continuation application of U.S. Patent No. 9,275,645. This application has not yet been published or examined.

(iii) U.S. Patent Application No. 14/950,593.

U.S. Patent Application No. 14/950,593 is titled “Drone Detection and Classification Methods and Apparatus”. It was filed November 24, 2015 and lists Brian Hearing and John Franklin as

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co-inventors. U.S. Patent Application No. 14/950,593 claims priority to and is a continuation application of U.S. Patent No. 9,275,645. This application has not yet been published or examined.

(iv) U.S. Patent Application No. 14/950,864.

U.S. Patent Application No. 14/950,864 is titled “Drone Detection and Classification Methods and Apparatus”. It was filed November 24, 2015 and lists Brian Hearing and John Franklin as co-inventors. U.S. Patent Application No. 14/950,864 claims priority to and is a continuation application of U.S. Patent No. 9,275,645. The application was published on March 24, 2016 as U.S. Publication No. 2016/0086621 but has not yet been examined.

(v) U.S. Patent Application No. 62/259,209.

U.S. Patent Application No. 62/259,209 is titled “Drone Detection and Classification with Compensation for Background Clutter Sources”. It was filed November 24, 2015 and lists Brian Hearing and John Franklin as co-inventors. U.S. Patent Application No. 62/259,209 is a provisional patent application and does not claim priority to any other patent application. The provisional application is directed towards using a library of background noises to filter certain sounds to improve drone detection.

B. Ownership

An assignment was executed on May 26, 2015 by the inventors of record, Brian Hearing and John Franklin, conveying their rights of U.S. Patent No. 9,275,645 to DroneShield, LLC. The assignment was recorded at Reel 35729, Frame 774 at the United State Patent and Trademark Office.

Assignments were executed on November 25, 2015 by the inventors of record, Brian Hearing and John Franklin, conveying their rights of U.S. Patent Application Nos. 14/950,593, 14/950,606, 14/950,864, and 62/259,209 to DroneShield, LLC. U.S. Patent Application No. 14/950,593 was recorded at Reel 37259, Frame 616, U.S. Patent Application No. 14/950,864 was recorded at Reel 37258, Frame 291, U.S. Patent Application No. 14/950,606 was recorded at Reel 37258, Frame 146, and U.S. Patent Application No. 62/259,209 was recorded at Reel 37259, Frame 525.

C. Renewal Fees

Renewal or maintenance fees may need to be paid to maintain granted or issued patents. For example, maintenance fees in the United States are due at three-and-a-half (3.5), seven-and-a-half (7.5), and eleven-and-a-half (11.5) years from the time a patent is granted. At the time of this Report, there are no overdue renewal or maintenance fees with respect to the patents or patent applications described in Section III(A).

D. Third-Party Patent Litigation

K&L Gates LLP is not representing DroneShield in any pending litigation in which it is named as a defendant, or in any litigation that is overtly threatened in writing against DroneShield by a potential claimant, that asserts that DroneShield has infringed any patent owned by a third-party.

IV. LIMITATIONS AND QUALIFICATIONS

A. Third-Party Rights

Filing a patent application, or receiving a patent, does not give the patent owner the right to freely commercially practice the patent. It is possible that intellectual property rights of another party may be infringed by a product or service of the patent owner. For example, any given smartphone is generally covered by thousands of patents owned by different third-party entities. Typically, third-party rights are identified by conducting a Freedom to Operate (FTO) search in the country or counties it is proposed to commercialize an invention. K&L Gates LLP has not conducted any FTO on behalf of DroneShield or DroneShield Limited.

B. Validity of Patents

The grant of a patent does not guarantee that the patent is valid or enforceable. Various legal mechanisms exist to challenge the validity of patents and patent applications, including challenges (i) during examination, (ii) in an opposition or post-grant proceeding once the application has been found allowable, (iii) in a court during a revocation or invalidity proceeding brought by a third-party, or (iv) in an infringement proceeding initiated against an alleged infringer. Successful challenges to a patent application may result in some or all of the claims of an application being refused. Successful opposition proceedings to a granted patent may result in some or all of the claims being held invalid or restricted in scope.

As DroneShield's patent applications are still pending and awaiting examination, it cannot be assumed that they (or any applications stemming from them) will proceed to grant or, if grant is achieved, that the claims will remain in their present form. It is possible, for example, that the scope of the claims of the patent applications may be restricted during examination of the application. K&L Gates LLP provides no assurance that DroneShield's pending patent applications will be granted or that they will be held valid and enforceable if they are granted. Further, K&L Gates LLP provides no assurance that DroneShield's U.S. Patent No. 9,275,645 will be held valid and enforceable.

C. Information Sources

In preparing this report, in addition to reviewing our internal databases, we have relied upon information contained in relevant publicly available databases. We have not independently verified the information in such databases, and we are not responsible for the accuracy of that information.

D. Jurisdictional Requirements

Each jurisdiction has its own laws and particular requirements that need to be met for the grant and maintenance of a patent. Accordingly, the assessment of patentability varies from jurisdiction-to-jurisdiction, and inventions, which may be granted and registrable in one jurisdiction, may be excluded from grant and registration in another.

Moreover, the different jurisdictional requirements may result in variation of the scope of patent protection obtained for the same patent in different jurisdictions. The outcome of examination of the patent application by the office of one jurisdiction is not binding on the office of any other jurisdiction. Similarly, international PCT searches and examination reports are not binding on national patent applications during examination in the national phase. Examination of patent applications often occurs at different times in different jurisdictions. This means there is also a risk that a patent may be granted on an application in one jurisdiction, and that a third-party patent may subsequently be cited during examination of another patent application that has been filed elsewhere.

In some jurisdictions there is a duty to disclose certain information to the relevant patent office. This information can include relevant prior art information known to the applicant or its agents or search results issued in respect of corresponding foreign applications. Failure to disclose such information may adversely affect the validity and/or enforceability of the patent.

We further note that there may be changes to patent law in a particular jurisdiction from time-to-time, which may have an impact on patents in the relevant country. For example, the Australian Government recently enacted the Intellectual Property Law Amendments (Raising the Bar) Act 2012 (Cth), which represents a significant amendment to Australian patent law. In particular, the Act raises the requirement for patentability and the description requirements for patent specifications. It applies to all Australian patent applications for which a request for examination was filed on or after 15 April 2013. In another example, in 2014 the United States Supreme Court in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l et al.*, clarified the definition of what constitutes an abstract idea.

E. Patentability Search Limitations

A patentability search, such as international searches carried out by various patent offices under the PCT procedure, cannot be guaranteed to locate all prior art that may exist which is potentially relevant to the assessment of novelty and inventive step of a claimed invention. Such searches are generally computer-based searches and are dependent on the database search strategy and the coverage provided by the databases used. For example, the databases may not cover older published documents and/or certain jurisdictions. Further, all patentability searches are subject to the accuracy of records, as well as the indexing and classification of the subject matter comprising the records. The scope of each search is also dependent on the search strategy utilized and, for example, the keyword(s) selected for the search.

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Accordingly, although patentability searches provide a reasonable indication of patentability, it is not possible to guarantee that every relevant prior art record has been located and considered. As a result, any conclusions regarding the validity of the claims of a particular patent based on patent office searches should be regarded as indicative rather than conclusive.

Further, non-provisional patent applications are not normally published until at least eighteen (18) months from the earliest acceptable priority date. Accordingly, a patentability search would not normally identify any third party patent application that is potentially relevant to the assessment of patent ability that have a priority date which is less than eighteen (18) months prior to the date of the patentability search. Delays between official publication and the incorporation of information into the relevant database can also occur, which means that some documents may not be located in a patentability search.

F. Patentability of an Invention Limitations

Besides published prior art, public use of an invention and non-confidential oral disclosures before the priority date of a patent application may also be relevant to the assessment of patentability of invention to which the patent application relates. As patentability searches are conducted on published documents, they may not locate such other forms of prior art disclosures.

Commercialization or secret use of an invention in a jurisdiction by, or with the authority of, a patent applicant (or their predecessor in title) before the priority date of a patent application that has been filed in the jurisdiction by the applicant in respect of the invention, can also be relevant to the patentability of intervention and the validity of any patents that may ultimately be granted on the application. Such commercial exploitation or secret use would not normally be identified by documentary patentability searches of publicly accessible databases.

G. Entitlement to Claimed Priority Data Limitations

In Australia and the United States, for subject matter contained in a non-provisional patent application to be entitled to the priority date established by a corresponding priority patent application or provisional patent application there must be a real and reasonably clear disclosure of the subject matter in the priority application. Similar provisions apply in other jurisdictions. Subject matter disclosed in a non-provisional patent application that is not contained in a corresponding priority application is generally only entitled to the filing date of the non-provisional application as a priority date.

H. Qualifications and Independence

K&L Gates LLP is a global law firm with fully integrated offices located on five continents. With approximately 200 intellectual property attorneys worldwide and over 95 United States Patent and Trademark Office registered professionals, K&L Gates LLP provides comprehensive intellectual property services including intellectual property procurement, litigation, counseling, and management. The firm is one of the top filers of patent and trademark applications in the United States and Australia.

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K&L Gates LLP has no interest in DroneShield or DroneShield Limited, other than fees for professional work done. K&L Gates LLP expects to receive a fee of approximately US\$6,500.00 based on time spent at normal professional rates for the preparation of this Report.

Except as otherwise expressly stated, all information contained in this Report is as of the date hereof, and K&L Gates LLP assumes no obligation to update this Report based on future developments of law or fact or information that may come to the attention of K&L Gates LLP at a future date.

K&L Gates LLP has no involvement in the preparation of the DroneShield Limited Prospectus, other than the preparation of this Report. K&L Gates LLP gives its consent for inclusion of this Report in the Prospectus.

9. FINANCIAL INFORMATION AND INVESTIGATING ACCOUNTANT'S REPORT

9.1 Introduction

The Company was incorporated on 4 November 2015 for the primary purpose of acquiring DroneShield and engaging in the business of offering products manufactured by DroneShield globally as well as managing and operating DroneShield's business. Simultaneous with completion of the Offer, the Company will acquire the entire membership interests in DroneShield.

The financial information in this Section 9 includes:

- **Statutory Historical Financial Information**, being the:
 - statutory historical income statements for the financial year ending 31 December 2014 and the period ending 30 September 2015;
 - statutory historical balance sheet as at 30 September 2015;
- **Pro Forma Historical Financial Information**, being the pro forma historical balance sheet as at 30 September 2015;

The Statutory Historical Financial Information and the Pro Forma Historical Financial Information are collectively the **Financial Information**.

DroneShield has a 31 December financial year end. As such, any references in this Section to "FY" refer to a 31 December financial year end.

Also summarised in this Section 9 are:

- The basis of preparation and presentation of the Financial Information (see Section 9.2); and
- the Company's proposed dividend policy (see Section 9.8).

The Financial Information has been reviewed and reported on by HLB Mann Judd Corporate (NSW) Pty Ltd whose Investigating Accountant's Report is contained in this Section 9. Investors should note the scope and limitations of the report.

The information in this Section 9 should also be read in conjunction with the risk factors set out in Section 7 and other information contained in this Prospectus.

All amounts disclosed in the tables are presented in Australian dollars unless otherwise stated.

9.2 Basis of preparation and presentation of the Financial Information

9.2.1 Overview

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of the US GAAP due to DroneShield being incorporated in the United States of America.

DroneShield originates from and is based in the United States of America, resulting in the use of US Generally Accepted Accounting Principles (US GAAP) in the preparation of their financial information, including the financial information presented in this Prospectus. US GAAP accounting standards have some

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differences to the International Financial Reporting Standards (IFRS), which are required to be used for the preparation of financial information used in a Prospectus by the ASX (Listing Rule 1.3.5). To comply with the ASX Listing rules, a reconciliation has been prepared between the financial information prepared under US GAAP and the financial information prepared under IFRS. This reconciliation is included in Section 9.5.7 and highlights the material differences that occur when presenting the information under US GAAP and IFRS.

The Financial Information is presented in an abbreviated form insofar as it does not include all the presentation and disclosures required by US GAAP or IFRS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

DroneShield's key accounting policies have been consistently applied throughout the periods and are set out in Section 9.5.

9.2.2 Preparation of Historical Financial Information

The Statutory Historical Financial Information has been prepared for the purposes of inclusion in this Prospectus and is a summarised version of the audited statutory financial statements of DroneShield for the periods ending 31 December 2014 and 30 September 2015. The statutory financial statements were audited by Cohen & Schaeffer, P.C.

The Pro Forma Historical Financial Information has been prepared for the purposes of inclusion in this Prospectus. The Pro Forma Historical Financial Information is based on the audited statutory financial statements of DroneShield for the period ending 30 September 2015 after adjusting for certain pro forma transactions and/or other adjustments.

The Pro Forma Historical Financial Information has been derived from the Statutory Historical Financial Information with adjustments made to reflect the full period impact of the operating and capital structure that will be in place following completion of the DroneShield Acquisition and the Offer as if they had occurred at the beginning of the historical period. In addition, certain other adjustments to eliminate non-recurring items have been made in the year in which they occurred such as the estimated standalone public company costs over the full period.

Refer to Section 9.4 for a reconciliation between the audited statutory historical balance sheet of DroneShield, and the pro forma historical balance sheet, as at 30 September 2015.

9.2.3 Foreign currency conversion

DroneShield's functional currency is US dollars due to the current operations being located in the United States of America. Consequently the financial information has been presented in US dollars in line with the audited financial statements. For each table within the financial section of this Prospectus the relevant information has been restated in Australian dollars in line with ASX Listing Rule 1.3.5. To translate the financial information into AU\$ we have used the following conversion rates based on the Reserve Bank of Australia's (RBA) published foreign exchange rate tables:

Foreign Currency Conversion Rates		
US\$ to AU\$ exchange rate	30 September 2015	31 December 2014
Average rate used in translating the statutory historical income statement	1.3105	1.1076
Spot exchange rate used in translating the statutory (and pro forma historical) statement of financial position	1.4265	1.2192

9.3 Statutory Historical Income Statements

9.3.1 Overview

The table below sets out the statutory historical income statements for the financial year ending 31 December 2014 and the 9 months ending 30 September 2015. The statutory historical income statements are in US dollars (US\$), with a translation of the figures for the 9 months ending 30 September 2015 to Australian dollars (AU\$) as illustrated in the table below.

	Statutory Historical Income Statement					
<i>DroneShield</i>	Period ending 31 Decemb er 2014	Forex Adjustme nts	Period ending 31 Decemb er 2014	Period ending 30 Septemb er 2015	Forex Adjustme nts	Period ending 30 Septemb er 2015
	US\$	AU\$	AU\$	US\$	AU\$	AU\$
Revenue from continuing operations	4,590	494	5,084	94,515	29,347	123,862
Cost of sales	1,593	171	1,764	62,644	19,451	82,095
Gross profit	2,997	323	3,320	31,871	9,896	41,767
Operating expenses						
General and administrative	45,712	4,919	50,631	53,007	16,459	69,466
Selling and marketing	5,741	618	6,359	61,213	19,007	80,220
Research and development	3,206	345	3,551	8,904	2,765	11,669
EBITDA	-51,662	-5,559	-57,221	-91,253	-28,335	119,588
Depreciation	0	0	0	737	229	966
Profit/(Loss) before tax	-51,662	-5,559	-57,221	-91,990	-28,564	120,554
Income Tax Expense	0	0	0	0	0	0
Statutory Profit/(Loss)	-51,662	-5,559	-57,221	-91,990	-28,564	120,554

9.4 Statutory and Pro Forma Historical Statement of Financial Position

9.4.1 Overview

The tables below sets out the audited statutory historical statement of financial position, and the pro forma historical statement of financial position, as at 30 September 2015.

<i>DroneShield</i>	<i>Statutory Historical Statement of Financial Position</i>		
	As at 30 September 2015	Forex Adjustments	As at 30 September 2015
	US\$	AU\$	AU\$
Current Assets			
Cash and cash equivalents	277,155	118,207	395,362
Accounts receivable	31,029	13,234	44,263
Other current assets	20,963	8,941	29,904
Total Current Assets	329,147	140,381	469,528
Non-Current Assets			
Property, plant and equipment	9,992	4,262	14,254
Total Non-Current Assets	9,992	4,262	14,254
TOTAL ASSETS	339,139	144,644	483,783
Current Liabilities			
Accounts payable	63,218	26,962	90,180
Accrued expenses	13,006	5,547	18,553
Notes payable - short term	26,000	11,089	37,089
Total Current Liabilities	102,224	43,598	145,822
Non-Current Liabilities			
Convertible notes	221,270	94,372	315,642
Notes payable - net of current portion	70,200	29,940	100,140
Total Non-Current Liabilities	291,470	124,312	415,782
TOTAL LIABILITIES	393,694	167,910	561,604
NET ASSETS	-54,555	-23,266	-77,821
Equity			
Members' contributions	89,097	38,000	127,097
Accumulated loss	-143,652	-61,266	-204,918
TOTAL EQUITY	-54,555	-23,266	-77,821

The pro forma historical statement of financial position is provided for illustrative purposes only and is not represented as being necessarily indicative of the Company's view of its future financial position.

<i>The Company</i>		<i>Pro forma Historical Statement of Financial Position (Minimum Subscription)</i>		<i>Pro forma Historical Statement of Financial Position (Full Oversubscription)</i>	
	As at 30 September 2015	Pro forma Adjustments	As at 30 September 2015	Pro forma Adjustments	As at 30 September 2015
	AU\$	AU\$	AU\$	AU\$	AU\$
Current Assets					
Cash and cash equivalents	395,362	5,170,600	5,565,962	7,050,600	7,445,962
Accounts receivable	44,263		44,263		44,263
Other current assets	29,904		29,904		29,904
Total Current Assets	469,529	5,170,600	5,640,129	7,050,600	7,520,129
Non-Current Assets					
Property, plant and equipment	14,254		14,254		14,254
Total Non-Current Assets	14,254	-	14,254	-	14,254
TOTAL ASSETS	483,783	5,170,600	5,654,383	7,050,600	7,534,383
Current Liabilities					
Accounts payable	90,180		90,180		90,180
Accrued expenses	18,553		18,553		18,553
Notes payable - short term	37,089		37,089		37,089
Total Current Liabilities	145,822	-	145,822	-	145,822
Non-Current Liabilities					
Convertible notes	315,642	-315,642	-	-315,642	0
Notes payable - net of current portion	100,140		100,140		100,140
Total Non-Current Liabilities	415,782	-315,642	100,140	-315,642	100,140
TOTAL LIABILITIES	561,604	-315,642	245,962	-315,642	245,962
NET ASSETS	-77,821	5,486,242	5,408,421	7,366,242	7,288,421
TOTAL EQUITY	-77,821	5,486,242	5,408,421	7,366,242	7,288,421

9.4.2 Commentary on major items included in the Historical Statement of Financial Position for DroneShield:

The key items included in the consolidated statement of financial position of DroneShield as at 30 September 2015 are:

- Cash and cash equivalents – these funds are held by local financial institutions in interest bearing accounts and are readily available for use by DroneShield.
- Accounts Payable – relates to amounts payable to third parties in relation to goods and services provided to DroneShield.
- Convertible Note (the “Convertible Note”) - A US\$250,000 interest-free Senior Secured Convertible Promissory Note was issued on 29 September 2015 to Long Hill Capital, LLC. The Convertible Note is recorded in the Financial Statements at the fair value of US\$221,270 as of 30 September 2015 due to the issuance of a warrant (see “Warrant” below). The

Convertible Note was converted into equity in DroneShield by Long Hill Capital, LLC on 1 April 2016 (see Section 9.4.3 below).

- Promissory Notes – DroneShield has entered into subscription agreements with 2 parties, who in total have provided US\$100,000 in funding and contributed their professional services, whereby DroneShield repays US\$100 from each sensor sale to each of those two parties. The current balance of each of the 2 Promissory Notes as at the date of the Prospectus is US\$45,100. For further information, refer to Section 11.6.

9.4.3 Notes on the Pro Forma Consolidated Statement of Financial Position:

The Pro forma statement of financial position as at 30 September 2015 is based on the consolidated statements of financial position of DroneShield and the Company as at 30 September 2015 after allowing for the following adjustments:

- Exchange Agreement - the acquisition of 100% of the equity interests in DroneShield by the Company in consideration of the issue of 100,000,000 Shares and 45,000,000 Performance Shares in the Company to the existing members of DroneShield. The terms of the Exchange are set out in Section 12.6.
- Conversion of the Convertible Note at face value totaling US\$250,000 into preferred units in the issued capital of DroneShield.
- Warrant – On 29 September 2015, DroneShield granted a US\$400,000 warrant to Long Hill Capital, LLC (the “Warrant”). The Warrant was converted into preferred units in the issued capital of DroneShield on 1 April 2016, with DroneShield having received proceeds of US\$400,000 from Long Hill Capital, LLC.
- Second Convertible Note – On 29 September 2015, DroneShield entered into an agreement for an interest-free Senior Secured Convertible Promissory Note with a face value of US\$300,000 (the “Second Convertible Note”), with Long Hill Capital, LLC. The advance of funds under the Second Convertible Note of US\$300,000 have been utilised for the purposes of paying expenses of the Offer as described in Section 12.11, excluding broker commissions. On 1 April 2016, the Second Convertible Note was converted into preferred units in the issued capital of DroneShield.
- The Pro forma statement of financial position reflects the net impact of the proposed capital raising under the Offer and Options and Performance Shares issued by the Company. These include the following:
 - A minimum subscription of \$5,000,000 (25,000,000 shares at \$0.20 each) under the Offer, and the full oversubscription of \$7,000,000 (35,000,000 shares at \$0.20 each) under the Offer respectively. Each Share offered under the Offer has an attaching Option exercisable at \$0.22 per Share within 24 months of the issue date (refer to Section 12.3);
 - Payment of broker commissions totaling \$400,000 (Minimum Subscription) and \$520,000 (Oversubscription) respectively (refer to Section 12.11);
 - 10,000,000 Lead Manager Options to be issued to the Lead Manager (as remuneration for services). The Lead Manager Options

have an exercise price of \$0.22 each within 36 months of the issue date (refer to Section 12.4). The Lead Manager Options have been valued at \$800,000 (\$0.08 per Option) using the Black-Scholes method utilising inputs that are relevant at the date of this Prospectus. However, in line with Australian accounting standards, an option's value can only be measured using inputs relevant at the time of the option's issue. As such, this value is purely indicative and may change at the date the Company is admitted to the Official List;

- 22,450,000 Options to be issued to Directors, Management and Advisory Board (as remuneration for services). The Options have an exercise price of \$0.30 each within 36 months of the issue (or vesting) date (refer to Section 12.5). The Options in this category have been valued at \$1,796,000 (\$0.08 per Option) using the Black-Scholes method, utilising inputs that are relevant at the date of this Prospectus. However, in line with Australian accounting standards, an option's value can only be measured using inputs relevant at the time of the option's issue. As such, this value is purely indicative and may change at the date the Company is admitted to the Official List.

9.4.4 Cash balance position post 30 September 2015:

The cash balance as at 31 March 2016 was approximately A\$600,000. This amount included the US\$400,000 Long Hill paid to DroneShield under the Warrant.

9.5 Summary of Significant Accounting Policies

Set out below are a number of significant accounting policies and other material accounting matters that have been used in the preparation of the Financial Information in this Section.

9.5.1 Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the group and the results of all subsidiaries for each applicable period then ended.

The subsidiaries are all entities over which the Company has the power to govern the financial and operating policies of those subsidiaries. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations made by the Group.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the investing entity.

9.5.2 Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Bank overdrafts are shown within current liabilities on the statement of financial position.

9.5.3 Accounts Receivable

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. This provision includes amounts that are not considered to be recoverable from debtors. Trade receivables are generally due for settlement no more than 30 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

9.5.4 Accounts Payable

Trade and other payables represent the liabilities for goods and services received by DroneShield that remain unpaid at the end of the reporting period. The balance is recognised as a current liability.

9.5.5 Revenue

Revenue comprises the fair value for the sale of goods and services, excluding, rebates and discounts. Revenue is recognised as follows:

SALES OF GOODS

Sales of goods are recognised when the entity has delivered a product to the Customer, which is defined as upon shipment. The recorded revenue is the gross amount of sale, including any fees payable for the transaction. Such fees are included in cost of goods sold.

SALES OF SERVICES

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

9.5.6 Foreign Currency Transactions and Balances

FUNCTIONAL AND PRESENTATION CURRENCY

The functional currency of DroneShield is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements of the Company are presented in Australian dollars, and the financial statements of DroneShield are presented in USD, which are the respective entities' presentation and functional currency. The Pro forma

statement of financial position has been presented in Australian Dollars using the exchange rate prevailing at the reporting date, i.e. 30 September 2015.

GROUP COMPANIES

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency is translated as follows:

- Assets and liabilities are translated at year or other period end exchange rates prevailing at that reporting date.
- Income and expenses are translated on the average exchange rate for the related period i.e. the average exchange rate from 1 January 2015 to 30 September 2015 has been used to translate the income and expenses for the 9 month period ending 30 September 2015; the average exchange rate from 1 January 2014 to 31 December 2014 has been used to translate the income and expenses for the year ending 31 December 2014.
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.
- Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position.

9.6 Reconciliation between US GAAP and IFRS

The Directors have performed an assessment of the variances between the application of US GAAP and IFRS in the preparation of DroneShield's audited financial statements for the period ended 30 September 2015, which is also the basis of the pro forma statement of financial position in Section 9.4.1. Following this review the Directors have not identified any material differences in the value or presentation of assets and liabilities recognised in the pro-forma statement of financial position, nor in the value of the net profit disclosed for the periods ended 31 December 2014 and 30 September 2015.

9.7 Forecasts

The Directors have considered the matters set out in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Group are inherently uncertain. Any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

9.8 Funding

The funding for the Company's short to medium term activities will be generated from the Offer under this Prospectus (see Section 5). As and when further funds are required, the Company may raise additional capital from issue of securities.

9.9 Dividend policy

Depending on available profits and the financial position of the Company, it is not the current intention of the Board to declare dividends in respect of the year ending 31 December 2016. The payment of a dividend by the Company is at the discretion of the Directors and will be a function of a number of factors,

including the general business environment, the operating results and financial condition of the Company, future funding requirements, capital management initiatives, tax considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by the Company, and any other factors the Directors may consider relevant.

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend in future periods. There may be periods in respect of which dividends are not paid.

Please read the risk factors set out in Section 7.

9.10 Investigating Accountants Report

27 April 2016

The Directors
DroneShield Limited
Suite 25, 145 Stirling Highway
Nedlands WA 6009

Dear Directors

INDEPENDENT LIMITED ASSURANCE REPORT ON DRONESHIELD LIMITED'S HISTORICAL AND PRO-FORMA HISTORICAL FINANCIAL INFORMATION

Introduction

HLB Mann Judd Corporate (NSW) Pty Ltd ("HLBMJC") has been engaged by DroneShield Ltd ("DroneShield") to prepare this report for inclusion in the Prospectus ("the Prospectus") to be dated 27 April 2016, and to be issued by DroneShield, in respect of the issue of new shares in DroneShield ("Proposed Offer").

Expressions defined in the Prospectus have the same meaning in this report.

Scope

You have requested HLBMJC to perform a limited assurance engagement in relation to the historical financial information described below and disclosed in the Prospectus.

The financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted outside of Australia and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Historical Financial Information

You have requested HLBMJC to review the following historical financial information of DroneShield (the responsible party) included in the Prospectus:

- Statement of Financial Position as at 30 September 2015;
- Statement of Financial Performance for the periods ended 31 December 2014 and 30 September 2015,

Referred to as the "Historical Financial Information"

HLB Mann Judd Corporate (NSW) Pty Ltd ABN 94 003 918 125 AFSL 253134

Level 19 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190

Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

The historical financial information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in the US Generally Accepted Accounting Principles (US GAAP) and the company's adopted accounting policies. The historical financial information has been extracted from the financial report of DroneShield LLC for the nine months ended 30 September 2015 and year ended 31 December 2014, which was audited by Cohen & Schaeffer P.C. in accordance with US GAAP. Cohen & Schaeffer P.C. issued an unmodified audit opinion on the financial report. The historical financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

Pro Forma Historical Financial Information

You have requested HLB MJC to review the Pro-Forma Historical Statement of Financial Position as at 30 September 2015 referred to as "the pro-forma historical financial information".

The pro-forma historical financial information has been derived from the historical financial information of DroneShield, after adjusting for the effects of pro-forma adjustments described in section 9.4.3 of the Prospectus. The historical financial information has been extracted from the financial report of DroneShield LLC for the nine months ended 30 September 2015.

The stated basis of preparation of the pro-forma historical financial information is the recognition and measurement principles applied to the historical financial information and the transaction to which the pro-forma adjustments relate, as described in section 9.5 of the Prospectus, as if those transaction had occurred as at 30 September 2015. Due to its nature, the pro-forma historical financial information does not represent the company's actual or prospective financial position.

Our responsibilities

Historical and Pro-Forma Historical Financial Information

Our responsibility is to express a limited assurance conclusion on the Historical and Pro-Forma Historical Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Financial Information.

Conclusions

Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the historical financial information, as described in section 9.4.1 of the Prospectus, and comprising:

- Statement of Financial Position as at 30 September 2015; and
- Statement of Financial Performance for the periods ended 30 September 2015 and 31 December 2014,

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 9.5 of the document.

Pro-Forma Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the pro-forma historical financial information being the statement of financial position as at 30 September 2015 is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in section 9.5 of the document.

We have assumed, and relied on representations from certain members of management of DroneShield, that all material information concerning the prospects and proposed operations of DroneShield has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Independence

HLBMJC does not have any interest in the outcome of the proposed initial public offering, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

General advice warning

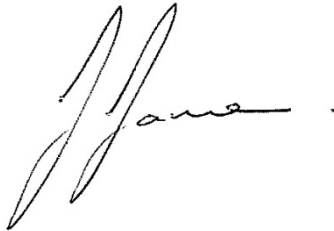
This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our conclusions, we draw attention to the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

HLBMJC has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, HLBMJC makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

Yours faithfully



Simon James

Director and Authorised Representative

Financial Services Guide

Dated 27 April 2016

1. HLB Mann Judd Corporate (NSW) Pty Ltd

HLB Mann Judd Corporate (NSW) Pty Ltd ABN 94 003 918 125 (“**HLBMJC**” or “**we**” or “**us**” or “**our**” as appropriate) has been engaged to issue general financial product advice in the form of a Report to be provided to you.

2. Financial Services Guide

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

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our **Australian Financial Services Licence, No. 253134**;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

3. Financial services we are licensed to provide

We hold an Australian Financial Services Licence which authorises us to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, securities valuations or reports and to provide general financial product advice for the following classes of financial products:

- a) debentures, stocks or bonds issued or proposed to be issued by a government;
- b) interests in managed investment schemes excluding investor directed portfolio services;
- c) securities; and
- d) superannuation;
- e) to retail and wholesale clients.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

4. General financial product advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared for the shareholder group as a whole without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product and there is no statutory exemption relating to the matter, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

5. Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

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

6. Remuneration or other benefits received by us

HLBMJC has no employees. All personnel who complete reports for HLBMJC are either partners of, or personnel employed by, HLB Mann Judd's New South Wales Partnership. None of those partners or personnel is eligible for bonuses directly in connection with any engagement for the provision of a report.

7. Referrals

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

8. Associations and relationships

HLBMJC is wholly owned by HLB Mann Judd (NSW) Pty Limited. Also, all directors of HLBMJC are partners in HLB Mann Judd's New South Wales Partnership. Ultimately the partners of HLB Mann Judd's New South Wales Partnership own and control HLBMJC.

From time to time HLBMJC, HLB Mann Judd (NSW) Pty Ltd or HLB Mann Judd's New South Wales Partnership may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of their business.

9. Complaints resolution

9.1. *Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. Complaints must be in writing, addressed to The Complaints Officer, HLB Mann Judd Corporate (NSW) Pty Ltd, Level 19, 207 Kent Street NSW 2000.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within **7 days** and investigate the issues raised. As soon as practical, and not more than **one month** after receiving the written complaint, we will advise the complainant in writing of the determination.

9.2. *Referral to external disputes resolution scheme*

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited
GPO Box 3, Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399

10. Contact details

You may contact us using the details at the foot of page 1 of this FSG.

10. BOARD, MANAGEMENT, ADVISORY BOARD, AND CORPORATE GOVERNANCE

10.1 Directors and key personnel

Peter James
Non-Executive Chairman



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 and nearmap.

Mr. James has recently 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 recently been 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, e-commerce 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.

James Walker
Managing Director and Chief Executive Officer



Mr. Walker is an experienced leader in commercialising technology in new markets whose experience includes that of Chief Executive Officer or Chief Financial Officer at the AIM-listed Seeing Machines and other growth companies, such as Hotel Dynamics, Fluorotechnics and Optalert.

Mr. Walker was most recently the CFO of Seeing Machines Ltd (AIM:SEE), an AIM-listed company that utilises advanced algorithms for detection of driver fatigue

and distraction. He is an entrepreneurial and passionate business executive who thrives on commercialising technology and building new global markets, with extensive experience across a wide range of international high growth businesses, including sensor systems, mining technology services, automotive, aviation, biotechnology, hotel telemarketing and security sectors. Through his roles Mr. Walker has completed M&A transactions, IPO listings, follow-on share placements and other capital raisings for private companies as well as ASX and London (AIM) listed companies.

With a strong focus on corporate governance, team development, driving institutional support and shareholder returns Mr. Walker has been able to successfully grow businesses. Some career highlights to date include playing a key role in recapitalizing Seeing Machines with over \$60m raised in three years and the trade sale of Hotel Dynamics in 2002, which was awarded AVCAL's MBO deal of the year.

Mr. Walker is a Fellow of the Institute of Chartered Accountants of Australia and has a Bachelor of Commerce degree from the University of New South Wales.

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

Winton Willesee
Non-Executive Director



Mr. Willesee is an experienced company director. He brings a broad range of skills and experience in strategy, company development, corporate governance, company public listings, merger and acquisition transactions and corporate finance. Mr. Willesee has considerable experience with ASX listed and other companies over a broad range of industries in a number of jurisdictions having been involved with many successful ventures from early stage through to large capital development projects. Mr. Willesee holds formal qualifications in economics, finance, accounting, education and governance. He is a Fellow of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors, a Member of CPA Australia and a Chartered Secretary.

Mr. Willesee is currently a director of Ding Sheng Xin Finance Co Limited, Cove Resources Limited, Birimian Gold Limited, MMJ PhytoTech Limited and Metallum Limited. Mr. Willesee does not expect that his other directorships will impact his ability to act as a Director of the Company.

Dr. Samantha Ravich
Non-Executive Director



Dr. Samantha Ravich is the former Deputy National Security Advisor for Vice President Cheney and served in the White House for 5½ years where she was the Vice President's representative on Asian and Middle East Affairs as well as on Counter-Terrorism and Counter-Proliferation. Dr. Ravich was an early angel investor in DroneShield. Following her time at the White House, Dr. Ravich was the Republican Co-Chair of the Congressionally-mandated National Commission for Review of Research and Development Programs in the United States Intelligence Community. Dr. Ravich is now the CEO of A2P, a social data analytics firm, as well as the Principal Investigator on the recently released monograph, "Cyber-Enabled Economic Warfare: An Evolving Challenge." She also serves as an advisor to The Chertoff Group and Freedom Capital Investment Management. She received her Ph.D. in Policy Analysis from the RAND Graduate School and her MCP/BSE from the University of Pennsylvania/Wharton School. Her book, "Marketization and Democracy: East Asian Experiences," (Cambridge University Press) is used as a basic textbook in international economics, political science, and Asian studies college courses. Ravich is member of the Council on Foreign Relations, serves as an advisor to the US Intelligence Community. Dr. Ravich is a frequent keynote speaker on international security, cyber, and the future of intelligence.

Dr. Ravich does not currently hold any other public company directorships.

Oleg Vornik
Chief Financial Officer



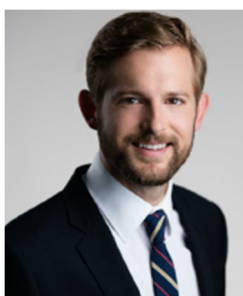
Mr. Vornik is an experienced infrastructure, energy and real estate bulge bracket investment banker, previously with the Royal Bank of Canada, Brookfield Asset Management, Deutsche Bank and ABN Amro in Australia and New Zealand, and a Treasurer at Leighton Contractors. He holds a Bachelor of Science (Mathematics) and a Bachelor of Commerce (Honours) and has completed a business programme at Columbia Business School in New York. In 1998, he was a New Zealand National Team member at the International Mathematics Olympiad.

Erlyn Dale
Company Secretary



Miss Dale has a broad range of experience in company administration and corporate governance having held positions as non-executive director and/or company secretary for a number of ASX listed public companies across a range of industries. Miss Dale holds a Bachelor of Commerce (Accounting and Finance) and a Graduate Diploma of Applied Corporate Governance and is an Associate Member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia.

John Franklin
Chief Scientific Officer



Mr. Franklin holds an M.Sc. in Applied and Computational Math from Johns Hopkins University. Previously, he was a member of the research staff at the Air and Missile Defense Sector at Johns Hopkins University Applied Physics Laboratory, and Adjunct Research Associate (Science and Technology Division) at the Institute for Defense Analyses.

10.2 Advisory Board

** None of the parties set out below have been involved in the preparation of this Prospectus.

Hon. Jay M. Cohen, Rear Admiral, United States Navy (Ret.)
Member

Jay M. Cohen is a former Chief of Naval Research (United States Navy) and has served as the Department of the Navy Chief Technology Officer. He holds a joint Ocean Engineering degree from Massachusetts Institute of Technology and Woods Hole Oceanographic Institution and Master of Science in Marine Engineering and Naval Architecture from MIT. Cohen was promoted to the rank of Rear Admiral in October 1997 and reported to the Joint Staff as Deputy Director for Operations responsible to the President and Department of Defense leaders for strategic weapons release authority. In June 2000, Cohen was promoted in rank and became the 20th Chief of Naval Research. After an unprecedented five and a half year assignment as Chief of Naval Research, Rear Admiral Cohen retired from the Navy on February 1, 2006. Unanimously

confirmed by the US Senate, Cohen was sworn in as Under Secretary for Science & Technology at the Department of Homeland Security on August 10, 2006. Since leaving Government, Rear Admiral Cohen is now a principal in The Chertoff Group, serves on corporate boards and as CEO of JayMCohen LLC is an independent consultant for science and technology in support of U.S. and international defence, homeland security and energy issues and solutions.

**Lieutenant General Robin Brims CB CBE DSO
Member**



Commissioned in 1970 Robin Brims' early service was mainly in Northern Ireland and Germany. He commanded 3rd Battalion The Light Infantry deploying to Belfast in 1991, and 24 Airmobile Brigade deploying to Bosnia as part of the Allied Rapid Reaction Force in 1995. He was Chief of Staff at Headquarters Northern Ireland and then Director Army Plans and Resources in UK MOD. In 2000 he was appointed Commander of the Multi-national Division (South West) in Bosnia and in 2001 became General Officer Commanding 1st (UK) Armoured Division which took part in the invasion of Iraq under the US Marine Corps' 1st Marine Expeditionary Force in spring 2003. For his service in Iraq he was awarded the Distinguished Service Order. On leaving Iraq he became Deputy Chief of Joint Operations at UK's Permanent Joint Headquarters, before becoming Commander of the UK Field Army in 2005 and deploying to Baghdad for most of 2005 to be the Deputy to the Coalition Commander, General George Casey US Army. On retirement in autumn 2007 he became Rector (Vice-Chancellor) of the University of Kurdistan-Hawler in Northern Iraq. He is a Director of the Royal Edinburgh Military Tattoo; mentors at the UK Defence Academy and on some Joint Force exercises.

**Carol A. Haave
Member**



Carol A. Haave is the former Assistant Secretary for International Affairs at the Department of Homeland Security and the former Deputy Undersecretary of Defense for Counterintelligence and Security. She has more than 25 years of working directly with cabinet-level officials providing defence, security, intelligence, counterintelligence and technology advice, and is noted for adapting commercial technology and innovative programs to benefit the military and security officials involved in conflict situations. As a senior Homeland Security official, Carol has significant experience with U.S. Borders, Customs and

all Homeland Security departments. As a senior official at Defense and Homeland Security, she developed and maintains significant international contacts. Carol has over a decade of DARPA experience, including technology transition and information management. She has served as a Management Analyst at NASA and an Inspector at Summa Corporation. She started her government career as a military police officer.

Robert Hill, AC
Member



Mr. Hill is a former Australian Minister for Defence. He was a member of the Australian Senate from 1981 to 2006, representing South Australia. He was educated at the University of Adelaide and the London School of Economics, where he gained a Master's degree in Law. Mr. Hill was Leader of the Government in the Australian Senate from March 1996 until his resignation in January 2006. He was Australian Minister for the Environment 1996-98, Minister for the Environment and Heritage 1998-2001 and Minister for Defence from November 2001 to January 2006. In July 2005 the Coalition parties took control of the Australian Senate and Mr. Hill became the first Government Leader in the Senate since 1981 to command a majority in the chamber. In January 2006 he announced his resignation from the Parliament. Mr. Hill was Australian Ambassador to the United Nations for Australia from 2006 - 2009. In July 2009, he was appointed by Prime Minister Kevin Rudd as Chairman of the Australian Carbon Trust. In June 2012, he was awarded a Companion of the Order of Australia.

Joanna Riley
Member



Ms. Riley is the founder and CEO of 1-Page (ASX:1PG), a poster child of U.S. technology listings on the ASX. Ms. Riley started her career in the International Training and Assistance Unit of the FBI. Prior to founding 1-Page, she was the CEO of Performance Advertising, responsible for building one of the leading outsourced sales and marketing firms for two Fortune 500 companies. Ms. Riley earned her BA degree in Foreign Affairs from the University of Virginia where she was a Full Scholarship athlete and a USA Junior National Team rower.

Management and Consultants

The Company is aware of the need to have sufficient management to properly supervise its operations, expansion and research and development, and the Board will continually monitor the management roles in the Company. As the Company's projects require an increased level of involvement the Board will look to appoint additional management and/or consultants when and where appropriate to ensure proper management of the Company's projects.

10.3 ASX Corporate Governance Council Principles and Recommendations

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, the Company has adopted *The Corporate Governance Principles and Recommendations (3rd Edition)* as published by ASX Corporate Governance Council (**Recommendations**).

In light of the Company's size and nature, the Board considers that the current board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The Company's main corporate governance policies and practices as at the date of this Prospectus are outlined below and the Company's full Corporate Governance Plan is available in a dedicated corporate governance information section on the Company's website www.dronesshield.com.

Board of directors

The Board is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance processes are to:

- (a) maintain and increase Shareholder value;
- (b) ensure a prudential and ethical basis for the Company's conduct and activities; and
- (c) ensure compliance with the Company's legal and regulatory objectives.

Consistent with these goals, the Board assumes the following responsibilities:

- (a) developing initiatives for profit and asset growth;
- (b) reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- (c) acting on behalf of, and being accountable to, the Shareholders; and
- (d) identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully-informed basis.

Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting.

Identification and management of risk

The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

Ethical standards

The Board is committed to the establishment and maintenance of appropriate ethical standards.

Independent professional advice

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

Remuneration arrangements

The remuneration of an executive Director will be decided by the Board, without the affected executive Director participating in that decision-making process.

In accordance with the Constitution, the total maximum remuneration of non-executive Directors is initially set by the Board and subsequent variation is by ordinary resolution of Shareholders in general meeting in accordance with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive Director. The current amount has been set at an amount not to exceed \$500,000 per annum.

In addition, a Director may be paid fees or other amounts (i.e. subject to any necessary Shareholder approval, non-cash performance incentives such as Options) as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Board reviews and approves the remuneration policy to enable the Company to attract and retain executives and Directors who will create value for Shareholders having consideration to the amount considered to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility. The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

Trading policy

The Board has adopted a policy that sets out the guidelines on the sale and purchase of securities in the Company by its key management personnel (i.e. Directors and, if applicable, any employees reporting directly to the managing director). The policy generally provides that the written acknowledgement of the Chair (in the case of Directors), the Managing Director (in the case of the Chairman and other key management personnel) or Board (in all cases) must be obtained prior to trading.

External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

Audit committee

The Company will not have a separate audit committee until such time as the Board is of a sufficient size and structure, and the Company's operations are of a sufficient magnitude for a separate committee to be of benefit to the Company. In the meantime, the full Board will carry out the duties that would ordinarily be assigned to that committee under the written terms of reference for that committee, including but not limited to, monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Company, the Company's internal financial control system and risk management systems and the external audit function.

Diversity policy

The Board has adopted a diversity policy which provides a framework for the Company to achieve, amongst other things, a diverse and skilled workforce, a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff, improved employment and career development opportunities for women and a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives.

10.4 Departures from Recommendations

Following admission to the Official List of ASX, the Company will be required to report any departures from the Recommendations in its annual financial report.

The Company's compliance and departures from the Recommendations as at the date of this Prospectus are set out on the following pages.

PRINCIPLES AND RECOMMENDATIONS	COMPLY (YES/NO)	EXPLANATION
Principle 1: Lay solid foundations for management and oversight		
Recommendation 1.1 A listed entity should disclose: a) the respective roles and responsibilities of its board and management; and b) those matters expressly reserved to the board and those delegated to management.	YES	<p>The Company has adopted a Board Charter.</p> <p>The Board Charter sets out the specific responsibilities of the Board, the requirements as to the Board's composition, the roles and responsibilities of the Chairman, Company Secretary and management, the establishment, operation and management of Board Committees, Directors' access to Company records and information, details of the Board's relationship with management, details of the Board's performance review and details of the Board's disclosure policy.</p> <p>A copy of the Company's Board Charter is contained in its Corporate Governance Plan which is available on the Company's website.</p>
Recommendation 1.2 A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director.	YES	<p>(a) The Company's Corporate Governance Plan requires the Board to undertake appropriate checks as to the character, experience, education, criminal record and bankruptcy history of the candidate before appointing a person, or putting forward to security holders a candidate for election, as a Director.</p> <p>(b) All material information relevant to a decision on whether or not to elect or re-elect a Director will be provided to security holders in any notice of meeting pursuant to which the resolution to elect or re-elect such Director will be voted on.</p>
Recommendation 1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	YES	<p>The Company's Corporate Governance Plan requires the Board to ensure that each Director and senior executive is a party to a written agreement with the Company which sets out the terms of that Director's or senior executive's appointment.</p> <p>The respective engagement terms of each director and senior executive is summarised within this Prospectus.</p>
Recommendation 1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	YES	<p>The Board Charter outlines the role, responsibility and accountability of the Company Secretary. The Company Secretary is accountable directly to the Board, through the Chair, on all matters relating to the proper functioning of the Board.</p>

<p>Recommendation 1.5</p> <p>A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board:</p> <ul style="list-style-type: none"> (i) to set measurable objectives for achieving gender diversity; and (ii) to assess annually both the objectives and the entity's progress in achieving them; <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period:</p> <ul style="list-style-type: none"> (i) the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them; and (ii) either: <ul style="list-style-type: none"> (A) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (B) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012. 	PARTIALLY	<p>(a) The Company has adopted a tiered approach to the implementation of ITS Diversity Policy and framework which is relative to the size of the Company and its workforce.</p> <p>Where the Company employs 20 or more employees, the Board will adopt practices in line with the Recommendations. While the Company's workforce remains below this threshold, the Board will continue to drive the Company's diversity strategies on an informal basis and will apply the initiatives contained in the Diversity Policy to the extent that the Board considers relevant and necessary.</p> <p>(b) A copy of the Company's Diversity Policy is contained in its Corporate Governance Plan which is available on the Company's website.</p> <p>(c) Should the Company's workforce grow to 20 or more employees, the Board undertakes to:</p> <ul style="list-style-type: none"> (i) Formally define its measurable objectives. The measurable objectives set by the Board will be included in the annual key performance indicators for senior executives. In addition the Board will review progress against the objectives in its annual performance assessment. (ii) Include in the Company's Annual Report each year, the measurable objectives, progress against the objectives, and the proportion of male and female employees in the whole organisation, at senior management level and at Board level. <p>While the Company's workforce remains below the 20 employee threshold, the Board undertakes to include in its annual reports, the proportion of male and female employees in the whole organisation, at senior management level and at Board level.</p>
<p>Recommendation 1.6</p> <p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose in relation to each reporting period, whether a performance</p>	YES	<p>(a) The Board (in the absence of a Nominations Committee) is responsible for evaluating the performance of the Board and individual Directors on an annual basis, with the aid of an independent advisor, if deemed required. The process for this can be found in Annexure B of the Company's Corporate Governance Plan.</p> <p>(b) The Company's Corporate Governance Plan requires the</p>

evaluation was undertaken in the reporting period in accordance with that process.		Board to disclose whether or not performance evaluations were conducted during the relevant reporting period. Details of the performance evaluations conducted will be provided in the Company's Annual Reports.
Recommendation 1.7 A listed entity should: <ul style="list-style-type: none"> (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. 	YES	<ul style="list-style-type: none"> (a) The Board (in the absence of a Remuneration Committee) is responsible for overseeing performance evaluations of senior executives on an annual basis. The process for this can be found in Annexure B of the Company's Corporate Governance Plan. (b) The Company's Corporate Governance Plan requires disclosure as to whether or not performance evaluations were conducted during the relevant reporting period and details of the performance evaluations conducted to be contained in the Company's annual reports.
Recommendation 2.1 The board of a listed entity should: <ul style="list-style-type: none"> (a) have a nomination committee which: <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, and disclose: <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively. 	YES	<p>Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company does not currently have a Nomination Committee. Pursuant to clause 5(d) of the Company's Board Charter, the full Board carries out the duties that would ordinarily be assigned to the Nomination Committee under the written terms of reference for that committee.</p> <p>The duties of the Nomination Committee are outlined in the Nomination Committee Charter contained in the Company's Corporate Governance Plan which is available on the Company's website.</p> <p>The Board devotes time on an annual basis to discuss Board succession issues. All members of the Board are involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules.</p> <p>The Board regularly updates the Company's board skills matrix (in accordance with Recommendation 2.2) to assess the appropriate balance of skills, experience, independence and knowledge of the entity.</p>
Recommendation 2.2 A listed entity should have and disclose a board skill matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve	YES	The Board has developed a skill matrix setting out the mix of skills and diversity that the Board currently has (or is looking to achieve). A summary of the skill matrix is set out in Annexure C of the

in its membership.		Company's Corporate Governance Plan. The composition of the Board is to be reviewed regularly against the Company's skill matrix to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction. This role will be performed by the full Board (in the absence of a Nomination Committee). The Company will disclose the Board skill matrix in, or in conjunction with, its Annual Reports.
Recommendation 2.3 A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director	YES	(a) The Board Charter provides for the disclosure of the names of Directors considered by the Board to be independent. The current independent Directors of the Company are: - Peter James (Non-Executive Chairman); - Winton Willesee (Non-Executive Director); and - Dr. Samantha Ravich (Non-Executive Director) James Walker, Managing Director, is not considered to be independent due to his executive role as Managing Director of the Company. The names of the Directors considered by the Board to be independent will be disclosed on the Company's website and in its Annual Reports. (b) The Board Charter requires Directors to disclose their interest, positions, associations and relationships and requires that the independence of Directors is regularly assessed by the Board in light of the interests disclosed by Directors. Details of the Directors interests, positions, associations and relationships are provided in this Prospectus. (c) The Board Charter requires the disclosure of the length of service of each Director. The Directors in office at the date of this Prospectus have served continuously since their respective dates of appointment which are as follows: - Peter James: appointed 1 April 2016; - James Walker: appointed 29 March 2016; - Winton Willesee: appointed 4 November 2015; and - Dr. Samantha Ravich: appointed 1 April 2016.
Recommendation 2.4 A majority of the board of a listed entity should be independent directors.	YES	The Board Charter requires that where practical the majority of the Board will be independent. As at the date of this Prospectus, the following three of the

		<p>Company's four directors are considered to be independent:</p> <ul style="list-style-type: none"> - Peter James (Non-Executive Chairman) - Winton Willesee (Non-Executive Director) - Dr. Samantha Ravich (Non-Executive Director) <p>Details of each Director's independence are provided in this Prospectus.</p>
Recommendation 2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	YES	<p>The Board Charter provides that where practical, the Chairman of the Board will be a non-executive director. The Chairman, Peter James is an independent non-executive director and is not the same person as the Managing Director of the Company.</p>
Recommendation 2.6 A listed entity should have a program for inducting new directors and providing appropriate professional development opportunities for continuing directors to develop and maintain the skills and knowledge needed to perform their role as a director effectively.	YES	<p>As the Company has elected not to establish a Nomination Committee at this stage, the full Board is responsible for the approval and review of induction and continuing professional development programs and procedures for Directors to ensure that they can effectively discharge their responsibilities.</p> <p>The Company's program for the induction of new directors is tailored for each new Director (depending on their personal requirements, background skills, qualifications and experience) and includes the provisions of a formal letter of appointment and an induction pack containing sufficient information to allow the new Director to gain an understanding of the business of the Company, and the roles, duties and responsibilities of Directors and the Executive Team.</p> <p>All Directors will be encouraged to undergo continual professional development and, subject to prior approval by the Chairman, all Directors may have access to various resources and professional development training to address any skills gaps.</p>
Recommendation 3.1 A listed entity should: <ul style="list-style-type: none"> (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it. 	YES	<ul style="list-style-type: none"> (a) The Corporate Code of Conduct applies to the Company's Directors, senior executives and employees. (b) The Company's Corporate Code of Conduct is contained in its Corporate Governance Plan which is available on the Company's website.

<p>Recommendation 4.1</p> <p>The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <ul style="list-style-type: none"> (i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (ii) is chaired by an independent director, who is not the chair of the board, <p>and disclose:</p> <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the relevant qualifications and experience of the members of the committee; and (v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	YES	<p>(a) Due to the size and nature of the existing Board and the magnitude of the Company's operations the Company does not currently have an Audit and Risk Committee. Pursuant to clause 7(d) of the Company's Board Charter, the full Board carries out the duties that would ordinarily be assigned to the Audit and Risk Committee under the written terms of reference for that committee.</p> <p>The role and responsibilities of the Audit and Risk Committee are contained in the Company's Corporate Governance Plan which is available on the Company's website.</p> <p>(b) The Board devotes time annually to fulfilling the roles and responsibilities associated with maintaining the Company's internal audit function and arrangements with external auditors. All members of the Board are involved in the Company's audit function to ensure the proper maintenance of the entity and the integrity of all financial reporting.</p>
<p>Recommendation 4.2</p> <p>The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	YES	<p>The Company's Corporate Governance Plan states that a duty and responsibility of the Board is to ensure that before the Board approves the entity's financial statements for a financial period, the CEO/MD and CFO have declared that in their opinion the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>
<p>Recommendation 4.3</p> <p>A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>	YES	<p>The Company's Corporate Governance Plan provides that the Board must ensure the Company's external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>

Recommendation 5.1 A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	YES	(a) The Company has adopted a Continuous Disclosure Policy which is set out within the Company's Corporate Governance Plan and details the Company's disclosure requirements as required by the ASX Listing Rules and other relevant legislation. (b) The Corporate Governance Plan is available on the Company's website.
Recommendation 6.1 A listed entity should provide information about itself and its governance to investors via its website.	YES	Information about the Company and its governance is available in the Corporate Governance Plan which is available on the Company's website.
Recommendation 6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	YES	The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors. The Strategy outlines a range of ways in which information is communicated to Shareholders. The Strategy is contained in the Company's Corporate Governance Plan which is available on the Company's website.
Recommendation 6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	YES	As per the Company's Shareholder Communications Strategy, Shareholders will be encouraged to participate at all EGMs and AGMs of the Company. Upon the despatch of any notice of meeting to Shareholders, the Company Secretary shall send out material with that notice of meeting stating that all Shareholders are encouraged to participate at the meeting.
Recommendation 6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	YES	Shareholders have the option of electing to receive all shareholder communications by e-mail and can update their communication preferences with the Company's registrar, Automatic Registry Services, at any time. Security holders can also register with the Company at info@dronesshield.com to receive email notifications whenever an announcement is made by the Company to the ASX.

<p>Recommendation 7.1</p> <p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, and disclose: (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.</p>	YES	<p>(a) Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company currently does not have an Audit and Risk Committee.</p> <p>Pursuant to clause 7(d) of the Company's Board Charter, the full Board currently carries out the duties that would ordinarily be assigned to the Audit and Risk Committee under the written terms of reference for that committee.</p> <p>The role and responsibilities of the Audit and Risk Committee are outlined in the Audit and Risk Committee Charter contained in the Company's Corporate Governance Plan which is available on the Company's website.</p> <p>(b) The Board devotes time annually to fulfilling the roles and responsibilities associated with overseeing risk and maintaining the entity's risk management framework and associated internal compliance and control procedures.</p>
<p>Recommendation 7.2</p> <p>The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the board; and</p> <p>(b) disclose in relation to each reporting period, whether such a review has taken place.</p>	YES	<p>(a) The Company's process for risk management and internal compliance includes a requirement on the Board to identify and measure risk, monitor the environment for emerging factors and trends that affect these risks, formulate risk management strategies and monitor the performance of risk management systems. The Company has adopted a Risk Management Policy which is contained within the Company's Corporate Governance Plan and details the Company's disclosure requirements with respect to the risk management review procedure and internal compliance and controls.</p> <p>(b) For each reporting period following the Company's admission to the Official List of the ASX, the Company will disclose in its annual report whether a review of the Company's risk management framework was undertaken in line with its <i>Risk Management Policy</i>.</p>
<p>Recommendation 7.3</p> <p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) if it does not have an internal audit function, that fact and the</p>	YES	<p>Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company does not currently have an internal audit function.</p> <p>The Audit and Risk Committee Charter of the Company's Corporate Governance Plan provides for a future internal audit function of the</p>

processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.		Company. The Charter outlines the monitoring, review and assessment of a range of internal audit functions and procedures.
Recommendation 7.4 A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	YES	<p>The Company's Risk Management Policy details the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (if appropriate). Review of the Company's risk management framework is conducted at least annually and reports are continually created by management on the efficiency and effectiveness of the Company's risk management framework and associated internal compliance and control procedures.</p> <p>To the extent the Company is exposed to economic, environmental and social sustainability risks, the Company has disclosed such risks in this Prospectus and the Company intends to disclose such information in future annual reports.</p>
Recommendation 8.1 The board of a listed entity should: <ul style="list-style-type: none"> (a) have a remuneration committee which: <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, and disclose: <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. 	YES	<ul style="list-style-type: none"> (a) Due to the size and nature of the existing Board and the magnitude of the Company's operations, the Company does not currently have a Remuneration Committee. Pursuant to clause 5(d) of the Company's Board Charter, the full Board currently carries out the duties that would ordinarily be assigned to the Remuneration Committee under the written terms of reference for that committee. The role and responsibilities of the Remuneration Committee are outlined in the Remuneration Committee Charter which is contained within the Company's Corporate Governance Plan which is available on the Company's website. (b) The Board will devote time on an annual basis to fulfil the roles and responsibilities associated with setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.
Recommendation 8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives and ensure that the different	YES	The Company's general policies and practices regarding the remuneration of non-executive and executive directors and other senior employees are set out in the Remuneration Policy which is contained in the Company's Corporate Governance Plan.

roles and responsibilities of non-executive directors compared to executive directors and other senior executives are reflected in the level and composition of their remuneration.		
Recommendation 8.3 A listed entity which has an equity-based remuneration scheme should: <ul style="list-style-type: none"> (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it. 	YES	<ul style="list-style-type: none"> (a) The Company's Remuneration Committee Charter states that, in the absence of a Remuneration Committee, the Board is required to review, manage and disclose the policy (if any) on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme. The Remuneration Committee Charter also states that the Remuneration Committee must review and approve any equity based plans. (b) A copy of the Remuneration Committee Charter is contained in the Company's Corporate Governance Plan which is available on the Company's website.

11. MATERIAL CONTRACTS

11.1 Exchange Agreement – Acquisition of DroneShield

The Company, DroneShield, the manager of DroneShield and each person holding a membership (equity) interest in DroneShield (**DroneShield Members**) are party to an Exchange Agreement dated 1 April 2016 in respect of the acquisition by the Company of 100% of the membership interests in DroneShield (**DroneShield Acquisition**) (**Exchange Agreement**). Pursuant to the Exchange Agreement, the DroneShield Acquisition is to be effected by means of an all scrip offer by the Company of 100,000,000 Shares and 45,000,000 Performance Shares to be apportioned among the DroneShield Members pro rata to their respective membership interests in DroneShield, immediately following the Company obtaining the Listing Approval, raising the minimum subscription under the Offer and issuing the Shares the subject of the minimum subscription of the Offer and in any event no later than on 30 September 2016.

Completion of the Exchange Agreement is conditional upon the fulfilment of the following conditions precedent:

- (a) each of the representations and warranties made by each party under the Exchange Agreement being true and correct in all material respects on and as at the date of completion as though such representation or warranty was made on and as of the date of completion;
- (b) each party performing and complying with, in all material respects, each agreement, covenant and obligation required by the Exchange Agreement to be so performed or complied with by such party at or before completion; and
- (c) the Company obtaining the Listing Approval, raising the minimum subscription under the Offer and issuing the Shares the subject of the minimum subscription of the Offer.

Under the Exchange Agreement, each DroneShield Member waives any and all pre-emptive (or similar) rights with regard to the membership interests in DroneShield and agrees, upon completion, to terminate the operating agreement which governs DroneShield at present. Further, each DroneShield Member (and DroneShield) authorises the use by the Company of DroneShield's corporate name and trademarks including its logo and domain name.

The Exchange Agreement also contains other representations, warranties and conditions considered standard for an agreement of this nature.

11.2 Reseller Agreements

DroneShield has entered into 43 separate reseller agreements with various distributors (**Resellers**) that set forth the terms and conditions by which the Reseller and its affiliates may market and sublicense certain DroneShield hardware, software and related materials (**Products**) (**Reseller Agreements**). The material terms and conditions of each Reseller Agreement are as follows:

- (a) DroneShield grants to the Reseller, and the Reseller accepts, a non-exclusive and non transferable right to promote, demonstrate, licence and otherwise market the Products and related services.
- (b) The Reseller Agreement becomes effective as of the effective date specified in each separate Reseller Agreement and remains in effect for

a period of two years (**Initial Term**), unless terminated in accordance with the Reseller Agreement. Upon the expiration of the Initial Term (and each subsequent renewal term) the Reseller Agreement will be automatically renewed for an additional one (1) year term, unless terminated in accordance with the Reseller Agreement.

- (c) With certain specified exceptions and unless mutually agreed upon by the parties to the Reseller Agreement, DroneShield will offer support services (**Support Services**) to all potential end users of the Products (**Customers**).

The Reseller will pay to DroneShield the then current DroneShield list price of the Products, as provided by a designated contact from DroneShield (**Channel Director**) less a 20% discount (subject to change upon 30 days notice) (**Discount**). DroneShield may also receive a support fee from those customers who have elected to receive the Support Services for the Products after the first year maintenance and warranty period (**Support Fee**). In such instances the Reseller will obtain the then current DroneShield list price for the Support Fees from the Channel Director, less the Discount. The Reseller is solely responsible for collecting the Support Fees from the Customer, annually in advance, and submitting such to DroneShield. DroneShield may change the list prices and Support Fees, subject to any binding commitment that DroneShield has made to a Reseller for a valid quotation to a Customer. All fees are exclusive of any tax, levy or similar governmental charge that may be assessed by any jurisdiction (excluding net income, net worth or franchise taxes assessed on DroneShield) (**Taxes**). The Reseller is responsible for the payment of all Taxes.

- (d) DroneShield provides a conditional warranty that each Product will operate without material defect for 12 months from the date of shipment of the products.
- (e) DroneShield agrees to indemnify the Reseller against actions claiming that any Product infringes a patent or copyright and agrees to pay the cost of defending such a claim and, subject to certain conditions, pay the direct damages and costs finally awarded against the Reseller in such an infringement action.

- (f) Termination:

- (i) DroneShield may terminate the Reseller Agreement if:
- (A) the Reseller or any of its employees breaches any obligation under the Reseller Agreement or any other agreement with DroneShield, and the Reseller fails to cure the breach to DroneShield's satisfaction within forty five (45) days after it demands such cure;
 - (B) the Reseller ceases to conduct business in the normal course, is declared insolvent, undergoes any procedure for the suspension of payment, makes a general assignment for the benefit of creditors or a petition for bankruptcy, dissolution or liquidation is filed by or against it; or
 - (C) the direct or indirect ownership or control of Reseller that exists on the effective date of this Agreement

changes in a manner that, in DroneShield's judgment, may adversely affect DroneShield's rights.

- (ii) The Reseller may terminate the Reseller Agreement if:
 - (A) DroneShield breaches any obligation under the Reseller Agreement and fails to cure the breach within thirty (30) days after it demands such cure; or
 - (B) DroneShield ceases to conduct business in the normal course, is declared insolvent, undergoes any procedure for the suspension of payment, makes a general assignment for the benefit of creditors or a petition for bankruptcy, dissolution or liquidation is filed by or against it.
- (iii) In addition, either party may terminate the Reseller Agreement by giving the other party requisite notice as specified in the respective Reseller Agreement.

The Reseller Agreements also contain standard confidentiality, intellectual property rights, dispute resolution and other general provisions commonly included in agreements of this nature.

11.3 Referral Fee Agreements

DroneShield has entered into one referral fee agreement with a third party (**Finder**), pursuant to which the Finders are engaged by DroneShield to locate qualified potential Customers for the DroneShield Products (**Referral Fee Agreement**). The material terms and conditions of the Referral Fee Agreement are as follows:

- (a) Subject to certain specified conditions, DroneShield agrees to pay the Finder a percentage of the fees relating to the Products received by DroneShield generated from leads provided by the Finder (**Fees**). Such Fees are expressed as a percentage of revenue actually recognised by DroneShield from the sale of the Products, net of certain taxes and royalties payable by DroneShield (**Referral Fee Rate**). The Referral Fee Rate ranges from 5% to 15% depending on the role the Finder played in the sale of the Products, as determined by DroneShield in its sole discretion.

Fees include a percentage for maintenance, support, consulting and training fees received by DroneShield in connection with the Products.
- (b) The initial term of the Referral Fee Agreements are one (1) year and two (2) years from the date of the agreement respectively. Thereafter, the Referral Fee Agreements automatically renew for one (1) year periods unless a party provides the other party with the requisite written notice.
- (c) Either party may terminate the Referral Fee Agreements for:
 - (i) a material breach; or
 - (ii) in the event the other party suspends or terminates its business, becomes a debtor in a bankruptcy or insolvency proceeding, is acquired by a third party or acquires a controlling interest in a third party reasonably deemed to be a competitor.

- (d) Each party is solely accountable for any warranties, liabilities or obligations it establishes with any Customer.

The Referral Fee Agreement also contains other representations, warranties and conditions considered standard for an agreement of this nature.

11.4 Lead Manager Mandate – Patersons Securities Limited

The Company has entered into a mandate letter with Patersons Securities Limited (**Patersons**) (as amended) pursuant to which Patersons has agreed to act as Lead Manager of the Offer (**Mandate**). The Company has agreed to pay Patersons the following fees and issue Patersons the following Options under the Mandate on completion of the Offer:

- (a) pay a lead manager fee of \$100,000 (excluding GST) (**Lead Manager Fee**);
- (b) pay a selling fee equal to 6% of the total amount raised under the Offer (excluding GST). Any fees paid to third parties assisting the Offer will be paid by Patersons from the selling fee; and
- (c) issue 10,000,000 Options on the terms and conditions set out in Section 12.4.

Patersons will also be entitled to reimbursement of its reasonable expenses (including travel and legal expenses) plus GST incurred in respect of the Offer. Patersons must obtain the Company's consent prior to incurring any single expenses greater than \$2,000. Patersons will be entitled to 50% of the Lead Manager Fee in the event the Company terminates the Mandate or Patersons terminates the Mandate for cause.

Under the Mandate, the Company has also agreed to offer Patersons the lead role in any further equity capital raisings undertaken in connection with the Company within 12 months of completion of the Offer, subject to competitive terms relative to market practices at the time. The Mandate may be terminated by the Company at any time before Patersons has extended any "firm commitment" offer to any investor to participate in the Offer either:

- (d) immediately, where Patersons has failed to rectify a material breach of the Mandate within ten business days of notice of such breach; or
- (e) on a no fault basis within ten business days notice in writing by the Company.

The Mandate may be terminated by Patersons at any time prior to completion of the Offer on the occurrence of a number of standard termination events. The Mandate contains other standard indemnities, terms and conditions expected to be included in a mandate of this nature.

11.5 The Johns Hopkins University Applied Physics Laboratory LLC Licence Agreement

On 28 January 2016 (**Effective Date**), DroneShield entered into a non-exclusive licence agreement (**Licence Agreement**) with The Johns Hopkins University Applied Physics Laboratory LLC (**APL**) pursuant to which:

- (a) APL agreed to waive any rights or title in respect to certain technology, patent rights and other intellectual property rights owned by DroneShield, in relation to commercial unmanned drone detection

(including those developed by John Franklin while employed at APL or otherwise) (**Licensed Technology**); and

- (b) DroneShield granted APL a non-exclusive, non-transferable, non-assignable, licence to use the Licensed Technology, to make, use or dispose of any product, service and/or process that incorporates the Licensed Technology (**Licensed Products**) and to create further intellectual property derived from the Licensed Technology (**Derivatives**).

The Licence Agreement commenced on the Effective Date and concludes at the end of twenty (20) years from the Effective Date or on the expiration date of DroneShield's U.S Patent Application No. 14/258,304, whichever is sooner, unless otherwise terminated in accordance with the Licence Agreement.

Other material terms and conditions of the Licence Agreement include:

- (a) Rights in relation to the Licensed Technology:
 - (i) To the extent that APL may make a claim to have rights or any title to the Licensed Technology, APL expressly grants to DroneShield such rights and/or title.
 - (ii) APL agrees to grant DroneShield and affiliates of DroneShield a perpetual, royalty-free, transferable, assignable, non-exclusive licence to use any intellectual property represented by Derivatives for commercial purposes, research and development related to government projects.
 - (iii) APL acknowledges that nothing shall restrict DroneShield's ability to conduct further research and development in the area of the Licensed Technology or otherwise deal with the Licensed Technology.
- (b) Improvements and collaborations:
 - (i) Each party to the Licence Agreement will own all of the rights, title and interest in the results of any collaboration between APL and DroneShield that are developed solely by their respective employees or agents after the Effective Date.
 - (ii) DroneShield and APL will jointly hold all intellectual property (in relation to the Licensed Technology or otherwise) developed jointly by employees or agents of DroneShield and APL after the Effective Date.
- (c) Termination:
 - (i) In the event either party to the Licence Agreement defaults in the performance of any of its obligations and fails to cure or implement measures reasonably anticipated to cure such a default within thirty (30) days after written notice of such a default from the other party, the other party shall have the right to terminate the Licence Agreement within sixty (60) days.
 - (ii) APL may terminate the Licence Agreement with sixty (60) days of written notice to DroneShield.

- (iii) Upon termination of the Licence Agreement, APL will immediately discontinue any further use of the Licensed Technology and discontinue any production of any Licensed Products.

The Licence Agreement is governed by the laws of the State of Virginia, United States of America and otherwise contains terms and conditions (including reporting obligations of APL) considered standard for an agreement of this nature.

11.6 Promissory Notes – Sage Holding, LLC and Robert and Kathleen B Dinkel

DroneShield has entered into subscription agreements with each of Sage Holding, LLC (**Sage**) and Robert and Kathleen B Dinkel (**Dinkels**) dated 31 March 2015, pursuant to which Sage and the Dinkels were each issued 10,000 preferred units in DroneShield in consideration for:

- (a) each lending DroneShield the sum of US\$50,000 (**Promissory Notes**) (approximately \$66,667 assuming an exchange rate of AU\$1.00:USD\$0.75);
- (b) providing certain public relations, marketing, technical and digital and print media services to DroneShield (in the case of Sage); and
- (c) providing certain sales, bookkeeping, business development and customer relationship services to DroneShield (in the case of the Dinkels).

The Promissory Notes are each repayable solely from the revenues collected from the sale by DroneShield of sensors at the rate of US\$100 for each sensor sold. Repayments (if any) are to be made within 30 days after the end of each calendar quarter. At the date of this Prospectus, the amount repayable on each Promissory Note is US\$45,100.

In the event DroneShield fails to pay an amount due under the Promissory Notes within 15 days after a notice of default or suffers a specified insolvency event, the entire principal amount of the Promissory Notes will be payable in full upon written demand.

11.7 Executive Employment Agreements

The Company has entered into executive employment agreements (**Executive Employment Agreements**) with each of Oleg Vornik and James Walker (**Executives**), dated 11 November 2015 and 1 March 2016 respectively, pursuant to which the Company has engaged:

- (a) Mr. Vornik as Chief Financial Officer; and
- (b) Mr. Walker as Chief Executive Officer and Managing Director.

The material terms and conditions of the Executive Employment Agreements are summarised below:

(a) **Term:**

Mr. Vornik commenced his employment on 11 November 2015 (**Commencement Date**) and Mr. Walker commenced his employment on 29 March 2016. Mr. Vornik is subject to a probationary period of 6 months from the Commencement Date whereby the Company or Mr.

Vornik may terminate his employment on one week's notice for any reason.

(b) **Remuneration:**

- (i) Mr. Vornik will receive:
 - (A) up until the date which is the earlier of 5 business days after the date upon which the Company obtains the Listing Approval and 30 April 2016 (**Payment Date**), a salary of \$800 per week (less applicable tax);
 - (B) commencing on the Payment Date a gross base salary of \$250,000 per annum (plus superannuation contributions); and
 - (C) on the Payment Date, a sign-on bonus in the gross amount equal to the total amount Mr. Vornik would have been paid during the period from the Commencement Date to the Payment Date at the annual gross base salary rate of \$250,000, less the gross salary payments he receives during that period.
- (ii) Mr. Walker will receive, commencing on 29 March 2016, a gross base salary of \$280,000 per annum (plus superannuation contributions) which will be increased to \$320,000 per annum on 29 March 2017.

(c) **Incentive Programs:**

The Executives may participate in any short term incentive plan or incentive option plan that the Company may introduce from time to time. The Executives may also be entitled to be paid a short term incentive payment in the form of a cash or equity bonus at the absolute discretion of the Board, subject to regulatory approval.

(d) **Termination:**

The Company may immediately terminate the employment of Mr. Vornik by written notice if at any time Mr. Vornik:

- (i) commits a serious breach of the Executive Employment Agreement;
- (ii) breaches a material term of the Executive Employment Agreement and does not remedy the breach within two days of receiving notice from the Company; or
- (iii) has acted in a manner which, in the reasonable opinion of the Company, will detrimentally affect the Company or its reputation.

The Company may immediately terminate the employment of Mr. Walker by written notice if at any time Mr. Walker:

- (i) breaches a material term of the Executive Employment Agreement;

- (ii) engages in conduct that constitutes intentional disobedience, dishonesty or serious or persistent neglect;
- (iii) has acted in a manner which, in the reasonable opinion of the Company, will detrimentally affect the Company or its reputation; or
- (iv) ASX refuses to grant the Listing Approval to the Company or the ASIC issues a stop order in relation to this Prospectus or otherwise imposes limitations on the Company's ability to raise capital due to any actions undertaken by Mr. Walker at any time or due to Mr. Walker's involvement with the Company or any Australian or foreign governmental authority imposes any limitations on the Company (either in whole or in part) due to the same.

The Company may terminate Mr. Vornik's employment for any reason by giving four months' notice and may terminate Mr. Walker's employment for any reason by giving three months' notice. Mr. Vornik or Mr. Walker may resign at any time and for any reason by giving the Company three months' notice in writing.

The Executive Employment Agreements contain other standard terms and conditions expected to be included in contracts of this nature.

11.8 Employment Agreement – John Franklin

DroneShield has entered into an employment agreement with John Franklin, dated 29 September 2015, pursuant to which DroneShield has engaged Mr. Franklin as its Chief Scientific Officer (**Employment Agreement**). Mr. Franklin's employment commences as at the date of the Employment Agreement.

Pursuant to the Employment Agreement, DroneShield will pay Mr. Franklin a base salary of US\$60,000 per annum (**Base Salary**). The Base Salary shall be increased to US\$150,000 per annum upon completion of the DroneShield Acquisition and the Company obtaining the Listing Approval. Upon fulfilment of the applicable eligibility requirements, Mr. Franklin may also participate in all employee benefit and insurance programs offered by the Company to its employees from time to time. Either party may terminate the Employment Agreement at any time, for any reason, with or without notice. The Employment Agreement contains other standard terms and conditions expected to be included in a contract of this nature.

11.9 Company Secretarial Agreement – Azalea Consulting Pty Ltd

The Company has entered into a company secretarial agreement with Azalea Consulting Pty Ltd (**Azalea**), a company related to Winton Willesee, a Director, for the provision of company secretarial services and front and registered office services. The agreement commences on the date of admission of the Company to ASX. The Company will pay Azalea a monthly fee of \$5,000 for company secretarial services and a monthly fee of \$1,000 for front and registered office services. The Company will also pay Azalea a fee of \$280 per hour for any executive services outside the scope of the agreement.

The agreement may be terminated by the Company or Azalea as follows:

- (a) immediately upon a party failing to rectify a material breach of the agreement within ten (10) business days of being notified of such breach;
- (b) immediately upon written notice in the event that the Company does not obtain the Listing Approval on or before 31 August 2016; or
- (c) by six (6) months written notice in any other case.

12. ADDITIONAL INFORMATION

12.1 Litigation

As at the date of this Prospectus, neither the Company nor DroneShield is involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company or DroneShield.

12.2 Rights attaching to Shares

The following is a summary of the more significant rights attaching to Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights attaching to Shares are set out in the Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

(a) General meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution.

(b) Voting rights

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at general meetings of Shareholders or classes of Shareholders:

- (i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid Shares shall have such number of votes as bears the same proportion to the total of such Shares registered in the Shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited). Amounts paid in advance of a call are ignored when calculating the proportion.

(c) Dividend rights

Subject to the rights of any preference Shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividend, the Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the

dividend which shall be payable on all Shares according to the proportion that the amount paid or credited as paid is of the total amounts paid and payable in respect of such Shares.

The Directors may from time to time pay to the Shareholders any interim dividends as they believe to be justified subject to the requirements of the Corporations Act. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the Company any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

Subject to the ASX Listing Rules and the Corporations Act, the Company may, by resolution of the Directors, implement, on such terms and conditions as the Directors think fit (a) a dividend reinvestment plan which provides for any dividend which the Directors may declare from time to time payable on Shares which are participating Shares in the dividend reinvestment plan, less any amount which the Company shall either pursuant to the Constitution or any law be entitled or obliged to retain, be applied by the Company to the payment of the subscription price of Shares and (b) a dividend election plan permitting holders of Shares to the extent that the Shares are fully paid, to have the option to elect to forego the right to share in any dividends (whether interim or otherwise) payable in respect of such Shares and to receive instead an issue of Shares credited as fully paid up to the extent as determined by the Directors.

(d) **Winding-up**

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability.

(e) **Shareholder liability**

As the Shares under the Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(f) **Transfer of Shares**

Generally, Shares are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the ASX Listing Rules.

(g) **Variation of rights**

Pursuant to section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to Shares.

If at any time the share capital is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

(h) **Alteration of Constitution**

The Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

12.3 Options offered under the Offer

(a) **Entitlement**

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

(b) **Exercise Price**

Subject to paragraph (j), the amount payable upon exercise of each Option will be \$0.22 (**Exercise Price**)

(c) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on the second anniversary of the date of its issuance (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

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

(e) **Notice of Exercise**

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

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment

of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

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

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

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

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

(h) **Shares issued on exercise**

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

(i) **Quotation of Shares issued on exercise**

If admitted to the official list of ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options.

(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) **Quoted**

The Company will apply for quotation of the Options on ASX.

(n) **Transferability**

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

12.4 Options offered under the Lead Manager Offer

The Options to be issued to the Lead Manager under the Lead Manager Offer will be issued on the same terms and conditions set out in Section 12.3 above, except they will be unquoted and the expiry date will be the third anniversary of the date of their issuance.

12.5 Options to be issued to Directors, Management and Advisory Board

The Options to be issued to Directors, management and advisory board members of the Company without vesting conditions will be issued on the same terms and conditions set out in Section 12.3 above, except they will be unquoted and the exercise price of such Options will be \$0.30 each and the expiry date will be the third anniversary of the date of their issuance. The Options to be issued to Directors and management of the Company with vesting conditions will be issued on the same terms and conditions set out in Section 12.3 above, except they will be unquoted and the exercise price of such Options will be \$0.30 each and the expiry date will be the third anniversary of the date of their vesting.

12.6 Performance Shares

The terms and conditions of the Performance Shares to be issued to the current members of DroneShield pursuant to the Exchange are summarised below.

(a) **Performance Shares**

Each Class A Performance Share, Class B Performance Share and Class C Performance Share (together and each being a **Performance Share**) is a share in the capital of the Company.

(b) **General meetings**

Each Performance Share confers on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to Shareholders. Holders have the right to attend general meetings of Shareholders.

(c) **No voting rights**

A Performance Share does not entitle the Holder to vote on any resolutions proposed by the Company except as otherwise required by law.

(d) **No dividend rights**

A Performance Share does not entitle the Holder to any dividends.

(e) **No rights to return of capital**

A Performance Share does not entitle the Holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.

(f) **Rights on winding up**

A Performance Share does not entitle the Holder to participate in the surplus profits or assets of the Company upon winding up.

(g) **Not transferable**

A Performance Share is not transferable.

(h) **Reorganisation of capital**

If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.

(i) **Application to ASX**

The Performance Shares will not be quoted on ASX. However, if the Company is listed on ASX at the time of conversion of the Performance Shares into Shares, the Company must within 10 Business Days apply for the official quotation of the Shares arising from the conversion on ASX.

(j) **Participation in entitlements and bonus issues**

A Performance Share does not entitle a Holder (in their capacity as a holder of a Performance Share) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.

(k) **No other rights**

A Performance Share gives the Holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Conversion of the Performance Shares:

(l) **Conversion on achievement of milestone**

Subject to paragraph (m), a Performance Share in the relevant class will convert into one Share upon achievement of:

- (i) **Class A Performance Share:** each Class A Performance Share will vest into one Share upon the Shares achieving a 30 day volume weighted average price exceeding \$0.30 and securing

twenty (20) individual installations of the DroneShield System by paying customers within 24 months of the date the Company is admitted to the Official List (**Class A Milestone**).

(ii) **Class B Performance Share:** each Class B Performance Share will vest into one Share upon the Company achieving, in relation to the DroneShield System, \$7 million of cumulative revenue or \$2.5 million of annual revenue in any given twelve month period, within 36 months of the date the Company is admitted to the Official List (**Class B Milestone**).

(iii) **Class C Performance Share:** each Class C Performance Share will vest into one Share upon the Company achieving, in relation to the DroneShield System, \$3 million of cumulative earnings before interest and taxes (**EBIT**) or \$1 million of annual EBIT in any given financial year, within 36 months of the date the Company is admitted to the Official List (**Class C Milestone**).

(m) **(Deferral of conversion if resulting in a prohibited acquisition of Shares)** If the conversion of a Performance Share under paragraph (l) would result in any person being in contravention of section 606(1) of the Corporations Act (**General Prohibition**) then the conversion of that Performance Share shall be deferred until such later time or times that the conversion would not result in a contravention of the General Prohibition. In assessing whether a conversion of a Performance Share would result in a contravention of the General Prohibition:

(i) Holders may give written notification to the Company if they consider that the conversion of a Performance Share may result in the contravention of the General Prohibition. The absence of such written notification from the Holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.

(ii) The Company may (but is not obliged to) by written notice to a Holder request a Holder to provide the written notice referred to in paragraph (m)(i) within seven days if the Company considers that the conversion of a Performance Share may result in a contravention of the General Prohibition. The absence of such written notification from the Holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.

(n) **(Lapse of Performance Share)** each Class A Performance Share shall expire on the date that is 24 months and 1 day after the date the Company is admitted to the Official List and each Class B Performance Share and Class C Performance Share shall expire on the date that is 36 months and 1 day after the date the Company is admitted to the Official List (**Expiry Date**) if the relevant milestone attached to that Performance Share has not been achieved, at which time the Company will redeem the relevant Performance Shares in accordance with paragraph (o) below. For the avoidance of doubt, a Performance Share will not lapse in the event the relevant milestone is met before the relevant Expiry Date and the Shares the subject of a conversion are deferred in accordance with paragraph (m) above.

- (o) **(Redemption if Milestone not achieved)** If the relevant milestone is not achieved by the relevant Expiry Date, then each Performance Share in the relevant class will be automatically redeemed by the Company for the sum of \$0.00001 within 10 Business Days of that Expiry Date.
- (p) **(Conversion procedure)** The Company will issue the Holder with a new holding statement for any Share issued upon conversion of a Performance Share within 10 Business Days following the conversion.
- (q) **(Ranking upon conversion)** The Share into which a Performance Share may convert will rank pari passu in all respects with existing Shares.

12.7 Employee Share Option Plan

The Company has adopted an Incentive Option Plan to allow eligible participants to be granted Options to acquire Shares in the Company. The principle terms of the Plan are summarised below.

- (a) **Eligibility and Grant of Options:** The Board may grant Options to any Director, full or part time employee, or casual employee or contractor who falls within ASIC Class Order 14/1000, 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 Plan 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 Plan will be determined by the Board prior to the grant of the Options.
- (e) **Exercise Restrictions:** The Options granted under the Plan 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 Plan 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 to be 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 Plan;
- (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 Plan and which are held by the Participant to which the Loan relates; and
- (xi) the Board may, in its absolute discretion, agree to forgive a Loan made to a Participant.

- (i) **Disposal of Options:** Options will not be transferable except to the extent the Plan 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 Plan 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) **Rights Issues and Bonus Issues:** If the Company makes a pro rata issue of securities (except a bonus issue) to the holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the option exercise price shall be reduced according to the formula specified in ASX Listing Rule 6.22.2. In the event of a bonus issue of Shares being made pro rata to Shareholders, (other than an issue in lieu of dividends), the number of Shares issued on exercise of each Option will include the number of bonus Shares that would have been issued if the Option had been exercised prior to the record date for the bonus issue. No adjustment will be made to the exercise price per Share of the Option.
- (n) **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 re-organisation of the capital of the Company.
- (o) **Limitations 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.

12.8 Interests of Directors

Other than as set out in this Prospectus, no Director or proposed Director holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
- (i) its formation or promotion; or
 - (ii) the Offer; or

- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to a Director or proposed Director:

- (d) as an inducement to become, or to qualify as, a Director; or

- (e) for services provided in connection with:

- (i) the formation or promotion of the Company; or
- (ii) the Offer.

12.9 Interests of Experts and Advisers

Other than as set out below or elsewhere in this Prospectus, no:

- (a) person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (b) promoter of the Company ; or
- (c) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in this Prospectus as a financial services licensee involved in the issue,

holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
 - (i) its formation or promotion; or
 - (ii) the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of these persons for services provided in connection with:

- (d) the formation or promotion of the Company; or
- (e) the Offer.

K&L Gates LLP (**K&L Gates**) has acted as solicitors to the Company in the USA and as Patent Attorney and has prepared the Intellectual Property Report which is included in Section 8 of this Prospectus. The Company estimates it will pay K&L Gates a total of \$3,571 for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, K&L Gates has received fees totalling \$112,793 from the Company.

HLB Mann Judd has acted as Investigating Accountant and has prepared the Investigating Accountant's Report which is included in Section 9 of this Prospectus. The Company estimates it will pay HLB Mann Judd a total of \$24,750

(excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, HLB Mann Judd has not received any fees from the Company for any other services.

Steinepreis Paganin has acted as the solicitors to the Company in relation to the Offer. The Company estimates it will pay Steinepreis Paganin \$80,000 (excluding GST) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Steinepreis Paganin has not received fees from the Company for any other services.

Patersons Securities Limited has acted as Lead Manager in relation to the Offer. The Company estimates it will pay Patersons Securities Limited the fees set out in Section 11.4 for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, Patersons Securities Limited has not received fees from the Company for any other services.

12.10 Consents

Each of the parties referred to in this Section:

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this section; and
- (b) to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

K&L Gates has given its written consent to being named as the Patent Attorney in this Prospectus, the inclusion of the Intellectual Property Report in Section 8 of this Prospectus in the form and context in which the report is included. K&L Gates has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

HLB Mann Judd has given its written consent to being named as Investigating Accountant and Auditor of the Company in this Prospectus and to the inclusion of the Investigating Accountant's Report in Section 9 of this Prospectus in the form and context in which the information and report is included. HLB Mann Judd has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

Steinepreis Paganin has given its written consent to being named as the solicitors to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Patersons Securities Limited has given its written consent to being named as Lead Manager to the Offer. Patersons Securities Limited has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Automic Pty Ltd t/a Automic Registry Services (**Automic**) has given its written consent to being named as the share registry to the Company in this Prospectus. Automic has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Cohen & Schaeffer P.C. has given its written consent to being named in this Prospectus as the auditor of DroneShield and to the inclusion of the audited financial statements for DroneShield for the financial years ended 31 December

2014 and 30 September 2015 (which financial statements have been incorporated by reference into this Prospectus as described in Section 3.13) and has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

Frost & Sullivan has given its written consent to being named in this Prospectus and to the inclusion of statements contained in Sections 3.2 and 6.2.3 of this Prospectus in the form and context in which those statements are included. Frost & Sullivan has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

12.11 Expenses of the Offer

The total expenses of the Offer (excluding GST) are estimated to be approximately \$828,403 for minimum subscription or \$948,403 for full oversubscriptions and are expected to be applied towards the items set out in the table below:

Item of Expenditure	Minimum Subscription (\$)	Full Oversubscriptions (\$)
ASIC fees	2,320	2,320
ASX fees	40,000	65,000
Broker Commissions*	300,000	420,000
Lead Manager Fee	100,000	100,000
Legal Fees	200,000	200,000
Patent Attorney's Fees	3,333	3,333
Investigating Accountant's Fees	24,750	24,750
Miscellaneous	158,000	133,000
TOTAL	828,403**	948,403**

* Broker commissions will only be paid on applications made through a licensed securities dealers or Australian financial services licensee or overseas broker dealers or overseas intermediaries and accepted by the Company (refer to Section 5.9 of this Prospectus for further information). The amount calculated is based on 100% of applications being made in this manner. For those applications made directly to and accepted by the Company no broker commissions will be payable and the expenses of the Offer will be reduced and the additional funds will be put towards working capital.

** Consistent with the use of funds table contained in Section 3.9, the Company's largest shareholder, Long Hill Capital, LLC has paid the amount of US\$300,000 (being approximately \$400,000 assuming an exchange rate of AU\$1.00:USD\$0.75) to DroneShield to be utilised towards the expenses of the Offer (pursuant to a convertible note in DroneShield which was converted into membership interests in DroneShield on 1 April 2016, and the Company will pay the balance of the expenses of the Offer (i.e. being approximately \$400,000 assuming minimum subscription or \$520,000 assuming full oversubscriptions).

12.12 Continuous disclosure obligations

Following admission of the Company to the Official List, the Company will be a "disclosing entity" (as defined in Section 111AC of the Corporations Act) and, as such, will be subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company will be required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

Price sensitive information will be publicly released through ASX before it is disclosed to shareholders and market participants. Distribution of other information to shareholders and market participants will also be managed through disclosure to the ASX. In addition, the Company will post this information on its website after the ASX confirms an announcement has been made, with the aim of making the information readily accessible to the widest audience.

12.13 Electronic Prospectus

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company and the Company will send you, for free, either a hard copy or a further electronic copy of this Prospectus or both. Alternatively, you may obtain a copy of this Prospectus from the website of the Company at www.droneshield.com.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

12.14 Financial Forecasts

The Directors have considered the matters set out in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

12.15 Clearing House Electronic Sub-Register System (CHESS) and Issuer Sponsorship

The Company will apply to participate in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company.

Electronic sub-registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with statements (similar to a bank account statement) that set out the number of Shares issued to them under this Prospectus. The notice will also advise holders of their Holder Identification Number or Security Holder Reference Number and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Electronic sub-registers also mean ownership of securities can be transferred without having to rely upon paper documentation. Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

12.16 Privacy Statement

If you complete an Application Form, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of

takeovers, regulatory bodies including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the share registry.

You can access, correct and update the personal information that the Company holds about you. If you wish to do so, please contact the share registry at the relevant contact number set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the *Privacy Act 1988* (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your application.

13. DIRECTORS' AUTHORISATION

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with the ASIC.

James Walker
Managing Director
For and on behalf of
DroneShield Limited

14. GLOSSARY

Where the following terms are used in this Prospectus they have the following meanings:

\$ means an Australian dollar.

AEST means Australian Eastern Standard Time as observed in Sydney, New South Wales.

Application Form means the application form attached to or accompanying this Prospectus relating to the Offer or the Lead Manager Offer.

ASIC means Australian Securities & Investments Commission.

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

ASX Listing Rules means the official listing rules of ASX.

Board means the board of Directors as constituted from time to time.

Closing Date means the closing date of the Offer as set out in the indicative timetable in the Investment Overview in Section 3 of this Prospectus (subject to the Company reserving the right to extend the Closing Date or close the Offer early).

Company means DroneShield Limited (ACN 608 915 859).

Constitution means the constitution of the Company.

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

Directors means the directors of the Company at the date of this Prospectus.

DroneShield means DroneShield, LLC a company incorporated in Delaware, United States on 1 October 2014 of 1521 Concord Pike, Suite 303, Wilmington, Delaware, 19803 and having a place of business at 590 Herndon Parkway, Suite 300, Herndon, Virginia, 20170.

DroneShield Acquisition has the meaning given in section 11.1.

DroneShield Technology means the technology owned by DroneShield and subject to pending, current, and future provisional patent/s, patent/s and design protection registrations relating to a drone detection system comprising hardware (enterprise-grade sensors) and software (a proprietary database of audio signatures) designed to detect acoustic signatures of drones. These include, but are not limited to:

Country	Patent or Patent Application Number	Issue or Filing Date	Status
USA	9,275,645	10 February 2016	Issued
USA	14/950,606	24 November 2015	Pending
USA	14/950,593	24 November 2015	Pending
USA	14/950,864	24 November 2015	Pending

USA	62/259,209	24 November 2015	Provisional
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DroneShield System means the acoustic drone detection system comprising the DroneShield Technology.

Exposure Period means the period of 7 days after the date of lodgement of this Prospectus, which period may be extended by the ASIC by not more than 7 days pursuant to Section 727(3) of the Corporations Act.

Lead Manager means Patersons Securities Limited.

Lead Manager Application Form means the application form attached to or accompanying this Prospectus relating to the Lead Manager Offer.

Lead Manager Mandate means the mandate between the Company and the Lead Manager summarised in Section 11.4.

Lead Manager Offer means the offer of Options to the Lead Manager pursuant to this Prospectus as set out in Section 5.1 and 12.4 of this Prospectus.

Listing Approval means ASX granting conditional approval for the Company to be admitted to the Official List and for Official Quotation of the Shares.

Offer means the offer of Shares and Options pursuant to this Prospectus as set out in Section 5 of this Prospectus.

Official List means the official list of ASX.

Official Quotation means official quotation by ASX in accordance with the ASX Listing Rules.

Option means an option to acquire a Share.

Optionholder means a holder of an Option.

Performance Share means a performance share in the Company with the terms and conditions set out in section 12.6.

Prospectus means this prospectus.

Section means a section of this Prospectus.

Securities means Shares and Options.

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

Shareholder means a holder of Shares.