smartpay

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
SMARTPAY LIMITED

Notice is hereby given that a Special Meeting of Shareholders of SmartPay Limited ("SmartPay" or "the Company") will be held at The Spencer on Byron Hotel, 9-17 Byron Avenue, Takapuna, Auckland on 28 April 2011 commencing at 2.00 pm.

ITEMS OF BUSINESS

A. Chairman's welcome and introduction.

B. Ordinary resolutions.

To consider and, if thought fit, to pass the following ordinary resolutions:

Issue of Options to the Non-Executive Directors

1. *That the issue by the Company:*

    (a) to the Chairman (or his nominee) of 15 million options to acquire ordinary shares in the Company, exercisable at $0.04 cents per share on or before 31 March 2014 (the "March 2014 Director Incentive Options");

    (b) to the Chairman (or his nominee) of 15 million options to acquire ordinary shares in the Company, exercisable at $0.05 cents per share on or before 31 March 2016 (the "March 2016 Director Incentive Options");

    (c) to each Non-Executive Director (other than the Chairman), or their respective nominee, of 10 million March 2014 Director Incentive Options; and

    (d) to each Non-Executive Director (other than the Chairman), being a person who is currently a Director of the Company or who subsequently becomes a Director of the Company on or before 31 March 2012, or their respective nominee, of up to 10 million March 2016 Director Incentive Options,

    be approved.
    (See Explanatory Note 1)

Issue of Options to River Horse Consulting Limited

2. *That, subject to the relevant performance criteria being met or exceeded in respect of the financial year ending 31 March 2011, the issue to River Horse Consulting Limited of up to 20 million options to acquire ordinary shares in the Company, exercisable at 4 cents per share on or before 5.00pm on 31 March 2016, be approved.*
    (See Explanatory Note 2)

Ratification of Issue of Options – TM Finance Loans

3. *That the issue of:*

(a) *12,041,264 options to acquire ordinary shares in the Company, exercisable at $0.033356 cents per share on or before 30 September 2011; and*

(b) *1,558,940 options to acquire ordinary shares in the Company, exercisable at $0.033356 cents per share on or before 31 December 2010,*

be approved and ratified.
(See Explanatory Note 3)

Ratification of Issue of Shares – December Placement

4. *That the issue of 113,750,000 ordinary shares in the Company at $0.02 per share to various private investors be approved and ratified.*
(See Explanatory Note 4)

Ratification of Issue of Convertible Notes

5. *That the issue of $1,350,000 of convertible notes convertible into ordinary shares in the Company at $0.015 cents per share be approved and ratified.*
(See Explanatory Note 5)

Approval of Issue of Convertible Notes

6. *That the issue of $650,000 of convertible notes convertible into ordinary shares in the Company at $0.015 cents per share be approved.*
(See Explanatory Note 6)

ORDINARY RESOLUTIONS

An ordinary resolution is a resolution passed by a simple majority of more than 50% of votes of shareholders who are entitled to vote on the resolution and who exercise their right to vote.

SHAREHOLDERS ENTITLED TO ATTEND AND VOTE

Pursuant to section 125 of the Companies Act 1993, the Board has determined that, for the purposes of voting at the Special Meeting, only those persons whose names are recorded in the share register of the Company on the day of the Special Meeting will be entitled to exercise the right to vote at the meeting.

VOTING RESTRICTIONS

Certain persons who will or may benefit from certain resolutions are disqualified from voting by the NZSX Listing Rules.

Resolution 1
The non-executive directors of the Company (being Wayne Johnson, Greg Barclay and John Nimmo) and any associated person of any such non-executive director may not vote on resolution 1.

Resolution 2
Neither River Horse Consulting Limited nor any director or shareholder of River Horse Consulting Limited, nor any associated person of any of the foregoing may vote on resolution 2.

Resolution 3
The recipients of the options issued, being the Trustees of the Cicero Trust, Minvest Securities (New Zealand) Limited and Galileo Investments Trustee Limited and their respective directors, shareholders and associated persons may not vote on resolution 3.

Resolution 4
The subscribers for the shares issued, being the Trustees of the AJ & MR Thorpe Family Trust, Terrence Harrison, Peter Thorpe, Wong Bei Keen & Jeffrey Hing, Alistair Thorpe, Ablelease Investment Limited and Pacific Alliance Asia Opportunity Fund L.P. and their respective directors, shareholders and associated persons may not vote on resolution 4.

Resolution 5
The subscribers for the convertible notes, being the Trustees of the Pakihi Pension Scheme and their respective directors, shareholders and associated persons may not vote on resolution 5.

Resolution 6
The subscribers for the convertible notes, being the Trustees of the Pakihi Pension Scheme and their respective directors, shareholders and associated persons may not vote on resolution 6.

PROXIES

Any person who is entitled to attend and vote at the Special Meeting may appoint another person as his or her proxy to attend and vote instead of him or her. A proxy need not be a shareholder of the Company. You may appoint the "Chairman of the Meeting" as your proxy if you wish. A proxy form accompanies this Notice of Meeting.

Proxy Forms must be lodged at the offices of the Company's share registry, Computershare Investor Services Limited, Level 2, 159 Hurstmere Road, Takapuna, Auckland (Private Bag 92-119, Auckland 1142), not less than 48 hours before the commencement of the Meeting, being no later than 2.00 pm (New Zealand time) on 26 April 2011.

EXPLANATORY NOTES

Explanatory Note 1:

Issue of Options to the Non-Executive Directors

The Company wishes to grant share options to the Non-Executive Directors. The purpose of the grant is to create an incentive for the Non-Executive Directors to continue their efforts for the benefit of the Company and its shareholders.

The Company proposes granting to the Non-Executive Directors:

(a) options to acquire ordinary shares in the Company, exercisable at $0.04 cents per share on or before 31 March 2014 (the "March 2014 Director Incentive Options"); and

(b) options to acquire ordinary shares in the Company, exercisable at $0.05 cents per share on or before 31 March 2016 (the "March 2016 Director Incentive Options").

In particular, the Company proposes granting to:

(a) Wayne Johnson, as the Chairman of the Company, or his nominee, 15 million March 2014 Director Incentive Options and 15 million March 2016 Director Incentive Options;

(b) each of Greg Barclay and John Nimmo, as the other current Non-Executive Directors of the Company, or their respective nominee, 10 million March 2014 Director Incentive Options and 10 million March 2016 Director Incentive Options; and

(c) each other Non-Executive Director subsequently appointed to the board of the Company on or before 31 March 2012, or their nominee, up to 10 million March 2016 Director Incentive Options.

Each Non-Executive Director shall be entitled to nominate an associated person to be issued the relevant options provided that such nominee must be either:

(i) a spouse of the relevant Director;

(ii) the trustee(s) of a trust in which the relevant Director is a beneficiary;

(iii) the trustee of a superannuation fund of which the relevant Director is a shareholder; or

(iv) a company in which all of the shares are owned by the Director and/or one or more of the persons referred to at (i) to (iii) above.

The terms of grant of the March 2014 Director Incentive Options and the March 2016 Director Incentive Options will, subject to the passing of Resolution 1, be recorded in Option Agreements to be entered into between the Company and each of the Non-Executive Directors (and, if applicable, their nominee). The material terms of the March 2014 Director Incentive Options and the March 2016 Director Incentive Options (together, the "Options") will be as follows:

(a) the Options will vest immediately upon issue and will be exercisable at any time on or before the relevant expiry date;

(b) the Options will be issued for nil consideration and as an incentive for the continued efforts of the Directors;

(c) the exercise price (being $0.04 cents in respect of each March 2014 Director Incentive Option and $0.05 cents in respect of each March 2016 Director Incentive Option) will (subject to (j) below)) be payable in full at the time of exercise;

(d) the Options will be non-transferrable other than to (i) a spouse of the relevant Director; (ii) the trustee(s) of a trust in which the relevant Director is a beneficiary; (iii) the trustee of a superannuation fund of which the relevant Director is a shareholder; and (iv) a company in which all of the shares are

	owned by the relevant Director and/or one or more of the persons referred to at (i) to (iii); (e) the shares issued upon exercise of the Options will rank equally with existing ordinary shares in the Company from the date of issue; (f) if the Company makes a bonus issue of shares prior to the expiry of the exercise of the Options, the number of securities over which an Option may be exercised will be increased by the number of securities which the holder of the Option would have received if that Option had been exercised before the record date for the bonus issue; (g) if there is a pro rata issue (other than a bonus issue) to the holders of shares, the exercise price of each Option will be adjusted in accordance with the formula set out in NZSX Listing Rule 8.1.7; (h) if, prior to the expiry or exercise of the relevant options, there is a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, other than a bonus issue or a pro-rata issue of the kind referred to in (f) or (g), then the number of shares over which an option is exercisable or the exercise price of those options or both shall be recalculated (as appropriate) by the board of the Company in its absolute discretion, having regard to the NZSX Listing Rules, in a manner which will not result in any benefit being conferred on the holders of the options which are not conferred on shareholders as a whole; (i) if a director ceases to be a director of the Company (for whatsoever reason) then the March 2014 Director Incentive Options will remain exercisable in accordance with their terms of issue on or before 31 March 2014 however a percentage of the March 2016 Director Incentive Options issued to such director (or, if applicable, their nominee) shall automatically lapse upon such director ceasing to hold office as a director of the Company. The percentage of March 2016 Director Incentive Options that will lapse upon a director ceasing to hold office will be calculated as follows: March 2016 Director Incentive Options to lapse = (1 – (A / 365)) % Where “A” is the number of days elapsed from (and including) the date of issue of the relevant Options (“Issue Date”) to (but excluding) the earlier of (a) the date on which the director ceases to hold office, and (b) the date falling 12 months from the Issue Date. If a director ceases to hold office on or after the date falling 12 months after the Issue Date all of the March 2016 Director Incentive Options issued to such director will remain exercisable in accordance with their terms of issue on or before 31 March 2016; (j) the holder of Options may, in its sole discretion, exercise Options held by them in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the exercise price, elect instead to receive upon such exercise the “Net Number” of ordinary shares in the Company determined according to the following formula (a “Cashless Exercise”): $\text{Net Number} = \dfrac{(A \times B) - (A \times C)}{B}$ For purposes of the foregoing formula: A = the total number of ordinary shares in the Company with respect to which the Options held by such Option holder are then being exercised.

	B = the volume weighted average trading price of the ordinary shares of the Company calculated by dividing the total value of shares traded by the total volume of shares traded on all stock exchanges trading the shares of the Company (as reported by the respective exchanges or obtained through Bloomberg) during the 5 trading days immediately preceding the date of exercise of the Options. C = the exercise price of the applicable Options. The Cashless Exercise referred to at (j) above is beneficial to the person exercising the Options in that they don't have to pay cash for the exercise of the Options. It is also beneficial to the Company and its shareholders as less shares are issued upon the exercise of the Options and there is therefore less dilutionary impact on the remaining shareholders. The total number of options to be issued to the current Non-Executive Directors of the Company under Resolution 1 (if approved) is 70,000,000. This represents approximately 5.27% of the total equity securities (both ordinary shares and options) in the Company currently in issue. The options which are proposed to be issued to the Non-Executive Directors are in addition to the annual fees currently payable to them, being $60,000 per annum in the case of the Chairman and $38,000 per annum in the case of each of the other Non-Executive Directors. The VWAP (volume weighted average price) of an ordinary share in the Company for the month to 31 March 2011 was approximately $0.0219 per share. The exercise price of the March 2014 Director Incentive Options, being $0.04, represents a premium of approximately 83% to the one-month VWAP to 31 March 2011 and the exercise price of the March 2016 Director Incentive Options, being $0.05, represents a premium of approximately 128% to the one-month VWAP to 31 March 2011. The Remuneration Committee of the Board recommended setting the exercise prices at these levels as they consider that they will incentivise the Directors to create value for the Company (and ultimately its shareholders). The premiums are such that significant value must be created for the Company and shareholders as a whole before the Directors receive any tangible financial benefit from the Options. Over the 12 months from 1 March 2010 to 28 February 2011 the ordinary shares in the Company traded on the NZSX in a range of a high of 4.3 cents per share to a low of 2.2 cents per share. The volume weighted average price of the Company's shares as traded on the NZSX during the period from 1 March 2010 to 28 February 2011 is $0.0319 per share. In accordance with NZSX Listing Rule 7.3.1(a), a listed company may not issue any Equity Securities unless either the precise terms and conditions of the issue of those Equity Securities have been approved by an ordinary resolution of shareholders who hold the class of Equity Securities to be issued, or the issue is made in accordance with one of the modes of issue provided in NZSX Listing Rules 7.3.4 to 7.3.11.The Options will be Equity Securities for the purposes of the NZSX Listing Rules and as such the issue of the Options to the Non-Executive Directors is subject to approval by shareholders of the Company by ordinary resolution. NZSX Listing Rule 6.2.2 requires an Appraisal Report to accompany a notice of meeting where the notice of meeting proposes a resolution to consider an issue of Equity Securities and the issue is likely to result in more than 50% of such Equity Securities being acquired by Directors or associated persons of Directors. All of the Options proposed to be issued under Resolution 1 will be issued to Directors of the Company (or their respective nominees) and therefore an Appraisal Report is required in connection with the proposed issue. The Company commissioned Simmons Corporate Finance Limited ("Simmons Corporate Finance") to prepare an Appraisal Report in accordance with NZSX Listing Rules 1.7.1, 1.7.2 and 6.2.2 in relation to, amongst other matters, the proposed issue of the Options to the Non-Executive Directors. The Board refers shareholders to the Appraisal Report, a copy

	of which accompanies this Notice of Meeting. Whilst the Appraisal Report should be read in its entirety, section 2 of the Appraisal Report contains a summary of Simmons Corporate Finance's principal findings and opinion regarding the issue of the Options to the Non-Executive Directors. The board considers the proposed grant of options to the Non-Executive Directors to be reasonable in the circumstances, given the necessity to attract the highest calibre of professionals to the Company.
Explanatory Note 2: **Issue of Options to River Horse Consulting Limited**	Under Resolution 2 the shareholders of the Company are being asked to approve the issue of up to 20,000,000 options to River Horse Consulting Limited (a related company of Mr Ian Bailey) with each such option entitling the holder to subscribe for one fully paid ordinary share in the Company at $NZ0.04 cents per share on or before 5.00pm on 31 March 2016. On 15 December 2008 SmartPay New Zealand Limited (a wholly-owned subsidiary of the Company) and River Horse Consulting Limited ("River Horse") entered into a consultancy contract pursuant to which River Horse provides services to the Company and, in particular, pursuant to which Mr Ian Bailey acts as the Managing Director of the SmartPay group of companies. Being a director and shareholder of River Horse and a director of the Company constitutes Mr Bailey an associated person of River Horse and an associated person of the Company under the NZSX Listing Rules. The services provided by Mr Bailey and River Horse Consulting Limited are provided pursuant to the one consultancy contract. The consultancy contract between SmartPay New Zealand Limited ("SmartPay NZ"), River Horse and Mr Bailey was amended and restated by virtue of agreements dated 20 January 2010 and 10 December 2010 (the "Consultancy Contract"). The material amendments made to the Consultancy Contract in January 2010 and December 2010 were as follows: • The annual base remuneration payable to River Horse was increased from $200,000 to $305,000 as from 18 August 2009; • The number of hours per week that the services are to be performed was increased from 30 to 40; • Introduction of a short term performance bonus in respect of the year ending 31 March 2011 and each subsequent financial year of the contract. The bonus is a payment of up to $90,000 per annum subject to River Horse meeting specified performance targets; and • Introduction of a long term incentive bonus in the form of share options as described below. These amendments were made in light of the acquisition of the transaction and payments processing businesses of ProvencoCadmus in August 2009 and the resultant five-fold expansion of the SmartPay group's business. Under the terms of the Consultancy Contract River Horse (and Mr Bailey) performs various services for the SmartPay group, including providing management and executive services, development of business plans, policies and objectives for the Company, and the implementation of plans, policies, programmes and budgets approved by the Board. The Consultancy Contract is for a term of 3 years from 1 July 2008 but is renewable by agreement between River Horse and SmartPay NZ for further periods of two years each. The remuneration payable to River Horse under the Consultancy Contract comprises: (a) An annual fee of $305,000; (b) The issue of 8,000,000 shares in the Company (these shares were issued to River Horse on 15 December 2008 and the issue of the shares was ratified by ordinary resolution of the Company's shareholders on 29 July 2009); (c) By way of a short term performance bonus in respect of the year ending 31

	March 2011 and each subsequent financial year, a payment of $90,000 subject to River Horse meeting specified performance targets. The performance targets for the financial year ending 31 March 2011 are fixed in the Consultancy Contract. The performance targets applicable to each subsequent financial year are subject to agreement between SmartPay NZ and River Horse no later than the commencement of the relevant financial year; and (d) By way of a long-term performance incentive, options to acquire ordinary shares in the Company. The issue of these options in respect of the financial year ending 31 March 2011 is the subject of Resolution 2. Mr Bailey does not receive any additional remuneration for his services as a director of the Company and the total remuneration payable by the Company to Mr Bailey and River Horse is as described above. The Board of the Company considers that the total remuneration payable to River Horse under the Consultancy Contract (comprising cash, shares and options as outlined above) is in line with the market. As referred to above, the Consultancy Contract provides a long-term performance incentive to River Horse through the issue of options by the Company to River Horse. River Horse's option entitlement is as follows: (a) In respect of the financial year ending 31 March 2010 – none; (b) In respect of the financial year ending 31 March 2011 – 20 million share options with each option entitling the holder to subscribe for one ordinary fully paid share in the Company for $NZ0.04 cents per share on or before 5.00pm on 31 March 2016; (c) In respect of the financial year ending 31 March 2012 – 20 million share options with each option entitling the holder to subscribe for one ordinary fully paid share in the Company for $NZ0.05 cents per share on or before 5.00pm on 31 March 2016; and (d) In respect of the financial year ending 31 March 2013 – 20 million share options with each option entitling the holder to subscribe for one ordinary fully paid share in the Company for $NZ0.06 cents per share on or before 5.00pm on 31 March 2016. The grant of options to River Horse is not automatic. Each grant of options is conditional on: • shareholder approval and compliance with all applicable laws and NZSX Listing Rules; • the Company and the SmartPay group meeting certain cash flow, EBITDA, growth and other targets as agreed between the Company and River Horse prior to the start of the relevant financial year; and • the Consultancy Contract continuing in force until after the end of the financial year in respect of which the grant of the options relates. The performance targets for the financial year ending 31 March 2011 are set out in a schedule to the Consultancy Contract and include: • The Company achieving EBITDA of at least $7million; • River Horse presenting to the board by 31 December 2010 a committed equity raising on commercially reasonable terms of not less than NZ$3 million; • The Company developing banking relationships for bulk funding with a core New Zealand bank; • The Company completing integration of the ProvencoCadmus business into

	SmartPay; • Reduction in overhead costs by not less than $200,000 per month; • PAX product certified and released to the market; • Removal of manufacturing divisions and securing outsourcing of manufacturing; • Assisting in developing and implementation of an acquisition strategy developed by the board of directors. The exact terms of the performance targets are commercial and confidential. The board reserves the right to review the targets and/or bonus should further acquisitions or divestments take place that materially impact the achievement or otherwise of the targets. In addition, the board of directors of the Company may in its absolute discretion: • Waive one or more of the relevant performance targets; and / or • Extend the timeframe for meeting one or more of the performance targets; and / or • Grant all or a portion of the relevant options to River Horse notwithstanding that all of the agreed performance targets are not met within the agreed timeframes. The terms of the options to be issued to River Horse (assuming the relevant performance targets and other conditions to grant are met, or are waived by the Board if applicable) will be as follows: (a) the options will be exercisable immediately following the date of grant (with the options to be granted upon fulfillment (or waiver by the Board) of the performance targets and other conditions); (b) the options will be issued for nil consideration and in part consideration for achieving the relevant performance targets and as an incentive for River Horse's continued efforts for the benefit of the Company and the Company's shareholders; (c) subject to (i) below the exercise price will be payable in full at the time of exercise; (d) the options will be non-transferrable other than to (i) Ian Bailey; (ii) a spouse of Ian Bailey; (ii) the trustee(s) of a trust in which River Horse or Ian Bailey is a beneficiary, and (iii) the trustee of a superannuation fund of which River Horse or Ian Bailey is a shareholder; (e) the shares issued upon exercise of the options will rank equally with existing ordinary shares in the Company from the date of issue; (f) if the Company makes a bonus issue of shares prior to the expiry of the exercise of the options, the number of securities over which an option may be exercised may be increased by the number of securities which the holder of the option would have received if that option had been exercised before the record date for the bonus issue; (g) if there is a pro rata issue (other than a bonus issue) to the holders of shares, the exercise price of each option will be adjusted in accordance with the formula set out in NZSX Listing Rule 8.1.7; (h) if, prior to the expiry or exercise of the relevant options, there is a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, other than a bonus issue or a pro-rata issue of the kind referred to in (f) or (g), then the number of shares over which an option is exercisable or the exercise price of those options or both shall be recalculated (as appropriate) by the board of the Company in its

absolute discretion, having regard to the NZSX Listing Rules, in a manner which will not result in any benefit being conferred on the holders of the options which are not conferred on shareholders as a whole;

(i) the holder of the options may, in its sole discretion, exercise options held by them in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the exercise price, elect instead to receive upon such exercise the "Net Number" of ordinary shares in the Company determined according to the following formula (a "Cashless Exercise"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A = the total number of ordinary shares in the Company with respect to which the options held by such option holder are then being exercised.

B = the volume weighted average trading price of the ordinary shares of the Company calculated by dividing the total value of shares traded by the total volume of shares traded on all stock exchanges trading the shares of the Company (as reported by the respective exchanges or obtained through Bloomberg) during the 5 trading days immediately preceding the date of exercise of the options.

C = the exercise price of the applicable options.

The Board of the Company considers that the number and terms of the share options forming part of the long-term incentive for River Horse under the Consultancy Contract are fair and are in the interests of the Company as they will act as an incentive to River Horse and Mr Bailey to further improve the performance of the Company for the benefit of the Company and its shareholders.

The 20,000,000 options to be issued under Resolution 2 (if approved and if the relevant performance criteria with respect to the grant of such options are met, or (if applicable) are waived by the Board) represents approximately 1.5% of the total equity securities (both ordinary shares and options) in the Company currently in issue.

In accordance with NZSX Listing Rule 7.3.1(a), a listed company may not issue any Equity Securities unless either the precise terms and conditions of the issue of those Equity Securities have been approved by an ordinary resolution of shareholders who hold the class of Equity Securities to be issued, or the issue is made in accordance with one of the modes of issue provided in NZSX Listing Rules 7.3.4 to 7.3.11. The options (if any) to be issued to River Horse under the Consultancy Contract will be Equity Securities for the purposes of the NZSX Listing Rules and as such the issue of options to River Horse is subject to approval by shareholders of the Company by ordinary resolution.

The Company is seeking approval of shareholders to issue up to 20 million share options to River Horse in connection with the financial year ending 31 March 2011 subject to the conditions recorded in the Consultancy Contract being met, including (unless the performance of one or more of the same is waived by the Board) that the Company meets the performance targets for the financial year ending 31 March 2011 as set out in the Consultancy Contract. Shareholder approval is not currently sought for the issue of any other options under the Consultancy Contract. The issue of any further options in respect of the financial years ending 31 March 2012 and beyond will be subject to shareholder approval being obtained for such issue in due

	course. NZSX Listing Rule 6.2.2 requires an Appraisal Report to accompany a notice of meeting where the notice of meeting proposes a resolution to consider an issue of Equity Securities and the issue is likely to result in more than 50% of such Equity Securities being acquired by Directors or associated persons of Directors. All of the options proposed to be issued to River Horse under Resolution 2 will be issued to River Horse, being an associated person of Ian Bailey, a director of the Company and therefore an Appraisal Report is required in connection with the proposed issue. The Company commissioned Simmons Corporate Finance to prepare an Appraisal Report in accordance with NZSX Listing Rules 1.7.1, 1.7.2 and 6.2.2 in relation to, amongst other matters, the proposed grant of the options to River Horse. The Board refers shareholders to the Appraisal Report, a copy of which accompanies this Notice of Meeting. Whilst the Appraisal Report should be read in its entirety, section 3 of the Appraisal Report contains a summary of Simmons Corporate Finance's principal findings and opinion regarding the grant of the options to River Horse. If the resolution relating to the grant of options to River Horse is not approved by shareholders the options will not be issued and it is likely that alternative compensation/incentive arrangements will need to be made with River Horse.
Explanatory Note 3: **Ratification of Issue of Options – TM Finance Loans**	NZSX Listing Rule 7.3.5 permits companies listed on the NZSX to issue equity securities without obtaining shareholder approval where the total number of equity securities issued and all other equity securities of the same class issued pursuant to that Rule during the 12 month period preceding the date of issue (or the period from the date of issue if shorter) does not exceed 20% of the total number of equity securities on issue at the commencement of that period. NZSX Listing Rule 7.3.5 also allows companies listed on the NZSX to renew this capacity to issue securities within the 20% limit, when it has been used, by obtaining subsequent shareholder ratification of issues which have already been made. Under loan facility agreements dated 17 November 2009 and 14 January 2010 ("the Loan Facility Agreements") and entered into between TM Finance Limited (as lender), SmartPay Cadmus Limited (as borrower) and the Company (as guarantor), TM Finance Limited ("TMF") agreed to make available to SmartPay Cadmus Limited ("SCL") loan funding of $6,810,000 in aggregate. Under the Loan Facility Agreements $3,760,000 of the amount advanced was repayable on 17 August 2010 and the balance of $3,050,000 was repayable on 14 October 2010. As recorded in the Notice of the Company's AGM held on 4 October 2010, and as approved at such AGM, the Company issued options in connection with the extension of the repayment date for $2,487,496.70 of the amount owed to TMF to 30 September 2011. By virtue of certain subsequent variation agreements TMF has agreed to: (a) extend the repayment date of a further $669,997.36 to 30 September 2011; (b) extend the repayment date of $750,000 to 31 December 2010; and (c) subsequently extend the repayment date of $375,000 of the amount referred to at (b) above to 30 June 2011 (the balance of the amount referred to at (b) above having been repaid on 31 December 2010). The interest rate for the loans as so extended is 16% per annum (payable monthly in arrears). In addition to the extension to the repayment dates under the Loan Facility Agreements, by virtue of a facility agreement entered into between TMF (as lender), SCL (as the borrower) and the Company dated 30 September 2010 (the "Galileo Facility Agreement") TMF advanced a further $534,948 to SCL. These funds were used by the SmartPay group to repay a like amount owed by SmartPay New Zealand Limited to Galileo Investments Limited. The terms of the loan advanced to SCL under the Galileo Facility Agreement mirror the terms of the Loan Facility Agreements (as varied). Both loans accrue interest at 16% per annum (payable

	monthly in arrears) and, except for $375,000 which is due for repayment on 30 June 2011, are repayable in full on 30 September 2011. As at 1 March 2011 the position with respect to the loans made available by TMF to SCL was as follows: (a) $3,455,317.16 had been repaid either in cash or via the exercise of options; (b) $375,000 is repayable as at 30 June 2011; and (c) the balance of $3,514,630.84 is repayable on 30 September 2011. In part consideration for the further extensions of the term of the loans under the Loan Facility Agreements (except for the extension of the repayment date for $375,000 to 30 June 2011) and the refinance of the Galileo Investments loan through the Galileo Facility Agreement, in each case as referred to above, SCL agreed to issue to TMF (or its nominee(s)) 13,600,204 options to acquire ordinary shares in the Company. These options were issued as an incentive to extend the term of the loan facilities and to refinance the Galileo Investments Loan and do not relieve SCL from its obligation to repay the loan amounts in full on their due dates or to pay interest on the loans. The key terms of the options are as follows: (a) 12,041,264 of the options entitle (but do not require) the holder to subscribe for one ordinary share in the capital of the Company at $0.033356 on or before 5.00pm on 30 September 2011; and (b) 1,558,940 of the options entitled (but do not require) the holder to subscribe for one ordinary share in the capital of the Company at $0.033356 on or before 5.00pm on 31 December 2010. The options referred to at (b) above were not exercised prior to 5.00pm on 31 December 2010 and have now expired. TMF nominated Minvest Securities (New Zealand) Limited, Galileo Investments Trustee Limited and the Trustees of the Cicero Trust (in varying amounts) as the persons to whom the Company should issue the 13,600,204 options and the options were issued to such persons in the relevant amounts on 23 November 2010. The 13,600,204 options in respect of which ratification is sought represents approximately 1.02% of the total equity securities (both ordinary shares and options) in the Company currently in issue. If this resolution is not approved by shareholders, the Company will not be able to issue more shares than it is currently permitted to under the NZSX Listing Rules.
Explanatory Note 4: **Ratification of Issue of Shares – December Placement**	Ratification is sought under NZSX Listing Rule 7.3.5 (described above in Explanatory Note 3) which imposes restrictions on the issue of shares without shareholder approval in any 12 month period. The Company wishes to ratify the issue of shares in December 2010 so that it may issue further shares under NZSX Listing Rule 7.3.5 in the future. On 17 December 2010 the Company issued 113,750,000 ordinary shares in the capital of the Company in varying amounts to the Trustees of the AJ & MR Thorpe Family Trust, Terrence Harrison, Peter Thorpe, Wong Bei Keen & Jeffrey Hing, Alistair Thorpe, Ablelease Investment Limited and Pacific Alliance Asia Opportunity Fund L.P. at an issue price of $0.02 per share. The $2,275,000 cash consideration received by the Company for this issue in respect of the share placement was used to retire debt and to provide ongoing working capital for the Company. The issue price of 2 cents per share represented a discount of approximately 25.6% to the Average Market Price of an ordinary share in the Company as at the close of trading on 20 December 2010 (being the trading day immediately prior to the

	announcement of the issue). As the shares were issued for less than 85% of the Average Market Price of an ordinary share in the Company, the directors signed a certificate required under NZSX Listing Rule 8.1.3 to the effect that the issue price is fair and reasonable to the Company and to all shareholders who did not participate in the issue. The Company has previously informed the market of its need to obtain additional equity in order to improve its balance sheet. In the current market the directors were advised that in order to raise the amount of equity required in a timely manner it would need to offer the shares at a substantial discount to the current Average Market Price. The 113,750,000 shares in respect of which ratification is sought represents approximately 8.56% of the total equity securities (both ordinary shares and options) in the Company currently on issue. If this resolution is not approved by shareholders, the Company will not be able to issue more shares than it is currently permitted to under the NZSX Listing Rules.
Explanatory Note 5: **Ratification of Issue of Convertible Notes**	Ratification is sought under NZSX Listing Rule 7.3.5 (described above in Explanatory Note 3) which imposes restrictions on the issue of shares without shareholder approval in any 12 month period. The Company wishes to ratify the issue of certain convertible notes by the Company so that it may issue further shares under NZSX Listing Rule 7.3.5 in the future. Pursuant to a Convertible Note Subscription Agreement between the Company (as issuer) and the Trustees of the Pakihi Pension Scheme (as subscriber) dated 15 December 2010 (as amended on 14 February 2011 and 9 March 2011) (the “Convertible Note Agreement”), the Pakihi Pension Scheme committed to subscribe for: (a) 1,000,000 convertible notes at $1.00 each on 15 December 2010; (b) 350,000 convertible notes at $1.00 each on 15 February 2011; and (c) a further 650,000 of convertible notes at $1.00 in May 2011. The 1,000,000 convertible notes referred to at (a) above were issued on 15 December 2010 and the convertible notes referred to at (b) above were issued on 15 February 2011. The issue of notes referred to at (c) above is conditional on the Pakihi Pension Scheme being satisfied that the Company will achieve EBITDA of not less than $7 million in the financial year ending 31 March 2011 (this condition may be waived by the Pakihi Pension Scheme). Approval for the issue of the convertible notes referred to at (c) above is the subject of Resolution 6. The material terms of the convertible notes are as follows: (a) each note accrues interest at 10% per annum (payable monthly in arrear); (b) if not redeemed or converted earlier, the notes must be redeemed in full by the Company on 15 February 2013; (c) each note is convertible at the option of the holder into fully paid ordinary shares in the Company at a conversion price of $0.015 per share. If the holder exercises the conversion option with respect to all of the 1,350,000 notes issued as at the date of this Notice of Meeting, the holder will be issued 90,000,000 fully paid ordinary shares in the Company. The $1,350,000 of subscription proceeds received by the Company for the issue of the 1,350,000 convertibles notes on 15 December 2010 and 15 February 2011 has been used by the Company to retire existing indebtedness of the Company. The Company’s obligations to the trustees of the Pakihi Pension Scheme under the Convertible Note Agreement are guaranteed by each of SmartPay New Zealand Limited, SmartPay Technologies Limited, Net Pay Limited, Software International Limited, Retail Radio Limited, FIVO Limited, Merchant IP Services Limited and Sampro Limited and each such entity has executed a general security agreement

smartpay

	pursuant to which it has granted the trustees of the Pakihi Pension Scheme a joint first-ranking security interest in all of its assets and undertakings as security for its obligations to the trustees of the Pakihi Pension Scheme under the guarantee. The 1,350,000 convertible notes (constituting 90,000,000 equity securities, based on a conversion price of $0.015) in respect of which ratification is sought represents approximately 6.78% of the total equity securities (both ordinary shares and options) in the Company currently in issue. If this resolution is not approved by shareholders, the Company will not be able to issue more shares than it is currently permitted to under the NZSX Listing Rules.
Explanatory Note 6: **Approval of Issue of Convertible Notes**	This resolution is being put before shareholders under NZSX Listing Rule 7.3.1, which Rule entitles the Company to issue securities if the terms and conditions of the issue are approved by an ordinary resolution of the Company's shareholders. Under the Convertible Note Agreement referred to in Explanatory Note 5 above, the Pakihi Pension Scheme may subscribe for a further 650,000 convertible notes at $1.00 each in May 2011. As referred to in Explanatory Note 5 the obligation of the Pakihi Pension Scheme to subscribe for such convertible notes is subject to the Pakihi Pension Scheme being satisfied that the Company will achieve EBITDA of not less than $7 million in the financial year ending 31 March 2011. This condition may be waived by the Pakihi Pension Scheme. If the Pakihi Pension Scheme subscribes for the additional tranche of convertible notes and the condition to such subscription is satisfied or waived, the 650,000 convertible notes to be issued to the Pakihi Pension Scheme will be convertible at $0.015 into 43,333,333 fully paid ordinary shares in the Company, representing approximately 3.2% of the total equity securities (both ordinary shares and options) in the Company currently on issue. The materials terms of the convertible notes are set out in Explanatory Note 5 above. If this resolution is not approved by shareholders, the Company will, if the condition to such subscription of convertible notes is met or waived, proceed to issue the convertible notes in accordance with its contractual commitment but will do so under the 20% limit under NZSX Listing Rule 7.3.5 if one or more of the other resolutions put to the Annual Meeting with respect to the ratification of prior issues of equity securities are approved.
Explanatory Note 7: **General**	(a) The total number of equity securities in respect of which ratification is sought under resolutions 3 to 5 is 217,350,204 being approximately 16.37% of the total equity securities currently on issue. (b) This Notice of Meeting has been reviewed and approved by NZX Limited.