

# NOTICE OF ANNUAL MEETING OF SHAREHOLDERS SMARTPAY LIMITED

Notice is hereby given that the 2010 Annual Meeting of Shareholders of SmartPay Limited ("SmartPay" or "the Company") will be held at Fairway Lodge Function and Conference Centre, Argus Place, Takapuna, Auckland on Monday, 4 October 2010 commencing at 9.30am.

## ITEMS OF BUSINESS

- A. Chairman's welcome and introduction
- B. Minutes of previous meeting held on 29 July 2009
- C. Managing Director's review
- D. Financial statements

In relation to SmartPay's annual report for the year ended 31 March 2010, to receive the financial statements for that period and the auditor's report on those financial statements.

- E. Shareholder questions  
(See the Explanatory Notes)
- F. Ordinary resolutions

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

### Remuneration of Auditor

- 1. That the Board be authorised to fix the auditor's remuneration for the ensuing year  
(See Explanatory Note 1)

### Re-election of Director – Wayne Johnson

- 2. That Wayne Johnson be re-elected as a director of SmartPay  
(See Explanatory Note 2)

### Re-election of Director – Gregor Barclay

- 3. That Gregor Barclay be re-elected as a director of SmartPay  
(See Explanatory Note 3)

### Increase in Remuneration payable to Non-Executive Directors

- 4. That the aggregate fees payable to the Company's non-executive Directors be increased from \$140,000 to \$200,000 per annum with effect from 1 April 2010.  
(See Explanatory Note 4)

### **Ratification of Issue of Options – November Financing**

5. That the issue of 19,666,666 options to acquire ordinary shares in the Company, exercisable at 5 cents per share on or before 12 November 2010 be approved and ratified.  
(See Explanatory Note 5)

### **Ratification of Issue of Options – January Financing**

6. That the issue of 61,000,000 options to acquire ordinary shares in the Company, exercisable at 5 cents per share on or before 14 October 2010 be approved and ratified.  
(See Explanatory Note 6)

### **Ratification of Issue of Shares – March Share Placement**

7. That the issue of 10,092,272 ordinary shares in the Company at \$0.0347 per share to a private investor be approved and ratified.  
(See Explanatory Note 7)

### **Ratification of Issue of Shares – May Share Placement**

8. That the issue of 11,991,845 ordinary shares in the Company at \$0.033356 per share to a private investor be approved and ratified.  
(See Explanatory Note 8)

### **Approval of Issue of Options – Rollover of Financing**

9. That the issue of 27,078,441 options to acquire ordinary shares in the Company, exercisable at 3.3356 cents per share on or before 30 September 2011 be approved.  
(See Explanatory Note 9)

### **Ratification of Issue of Shares – September Placement**

10. That the issue of 55,000,000 ordinary shares in the Company at 2 cents per share to private investors be approved and ratified.  
(See Explanatory Note 10)

### **Approval of Issue of Shares – September Placement**

11. That the issue of 160,000,000 ordinary shares in the Company at 2 cents per share to private investors be approved.  
(See Explanatory Note 11)

## 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 Annual Meeting, only those persons who are registered as shareholders of the Company as at 5.00 pm (New Zealand time) on 1 October 2010, being a day which is not more than 20 working days before the Annual Meeting, will be entitled to exercise the right to vote at the Annual Meeting.

## VOTING RESTRICTIONS

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

### Resolution 1

All shareholders may vote on resolution 1.

### Resolution 2

All shareholders may vote on resolution 2.

### Resolution 3

All shareholders may vote on resolution 3.

### Resolution 4

The non-executive directors of the Company and any associated person of any such non-executive director may not vote on resolution 4.

### Resolution 5

The recipients of the options issued, being Nimmo Trustee Limited, Craw Limited, Babbelbek Finance Limited, Minvest Securities Limited, Trustees of the Whakarua Trust, Investment Custodial Services Limited, Trustees of the AJ & MR Thorpe Family Trust, Trustees of the Finn MacCool Trust and their respective directors, shareholders and associated persons may not vote on resolution 5.

### Resolution 6

The recipients of the options issued, being John Nimmo, C W Finance Limited, Minvest Securities Limited, Trustees of the AJ & MR Thorpe Family Trust, Investment Custodial Services Limited and their respective directors, shareholders and associated persons may not vote on resolution 6.

### Resolution 7

The subscriber for the shares issued, being Mr W Yovich and his associated persons may not vote on resolution 7.

## **Resolution 8**

The subscriber for the shares issued, being Mr W Yovich and his associated persons may not vote on resolution 8.

## **Resolution 9**

The proposed recipients of the options issued, being John Nimmo, Trustees of the AJ & MR Thorpe Family Trust, Investment Custodial Services Limited and the Trustees of the Whakarua Trust and their respective directors, shareholders and associated persons may not vote on resolution 9.

## **Resolution 10**

The subscribers for the shares issued, being Mr W Yovich and the Trustees of the AJ & MR Thorpe Family Trust and their respective directors, shareholders and associated persons may not vote on resolution 10.

## **Resolution 11**

The subscribers for the shares, being Walker and Hall Fine Gifts Limited, Omega Investments Limited, the Trustees of the Cicero Trust and the Trustees of the T R Harrison Family Trust, and their respective directors, shareholders and associated persons may not vote on resolution 11.

## **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 9.30 am (New Zealand time) on 2 October 2010.

## EXPLANATORY NOTES

### Shareholder Questions

After the Chairman and Managing Director have given their review of the financial year ended 31 March 2010 and any events which have occurred after 31 March 2010, there will be an opportunity for shareholder questions.

### Explanatory Note 1: Remuneration of Auditor

Section 200(1) of the Companies Act 1993 provides that a company's auditor is automatically re-appointed unless there is a resolution or other reason for the auditor not to be re-appointed. The Board wishes Hayes Knight Audit to continue as the Company's auditor; Hayes Knight Audit has indicated that it is willing to so act and that it remains qualified for the appointment. This resolution authorises the Board to fix the fees and expenses of the auditor.

Notwithstanding the re-appointment of Hayes Knight Audit as auditor, the Directors intend to carry out a tender for the provision of audit services for the SmartPay Group. If Hayes Knight Audit is not successful in the tender process the Directors will request Hayes Knight Audit to resign as auditors to the SmartPay Group and will appoint the successful tenderer as auditor under the powers conferred on the Directors under section 196(4) of the Companies Act 1993 pending the next annual general meeting of the Company.

### Explanatory Note 2: Re-election of Director

The NZSX Listing Rules require that at least one third of directors (excluding any directors appointed by the Board and offered for re-election pursuant to NZSX Listing Rule 3.3.6) or, if their number is not a multiple of three, then the number nearest to one third, shall retire from office at the annual meeting each year, but shall be eligible for re-election at that meeting.

Wayne Johnson, being the director who has held office longest since his last election, will retire by rotation at this annual meeting and, being eligible, offers himself for re-election.

Wayne Johnson has served on the SmartPay Board since 2001 and has over 25 years business and financial transaction experience gained in Australia, New Zealand, Asia and North America. He has founded and helped manage a range of businesses from start-ups through to public listings and has been responsible for a number of large business sales in the technology and telecommunications industries to multinational buyers. Wayne provides a wealth of experience in mergers and acquisitions, corporate advisory and general business development to the SmartPay board. The Board has determined that Mr Johnson is an independent director.

The Board unanimously recommends that shareholders vote in favor of Mr. Johnson's re-election.

### **Explanatory Note 3: Re-election of Director**

NZSX Listing Rule 3.3.6 requires that any person who is appointed as a director by the Directors shall retire from office at the next annual meeting, but shall be eligible for election at that meeting.

Gregor Barclay was appointed as a director of the Company by the Board on 1 April 2010. Accordingly, he will retire by rotation at this annual meeting and, being eligible, offers himself for re-election.

Mr Barclay practices in general commercial law providing advice on mergers and acquisitions, corporate structuring and commercial property. He is a founding principal of Claymore Partners Limited, and has a law degree from the University of Canterbury and a postgraduate diploma in business from Auckland University. Mr Barclay brings experience as a present or past director of high profile New Zealand companies including Kim Crawford Wines, Pacific Forest Products Group and Hospitality New Zealand to the SmartPay board. As a representative of major shareholders and investors in SmartPay, the board has determined that Mr Barclay is a non-independent director.

The Board unanimously recommends that shareholders vote in favor of Mr. Barclay's re-election.

### **Explanatory Note 4: Increase in Remuneration payable to Non-Executive Directors**

NZSX Listing Rule 3.5.1 requires the remuneration paid to Directors to be authorised by ordinary resolution. The remuneration can either be authorised as to:

- (a) a monetary sum per annum payable to all Directors of the Company taken together; or
- (b) a monetary sum per annum payable to any person who from time to time holds office as a Director of the Company.

Resolution 4 is a resolution to approve an increase in the aggregate remuneration payable to the Non-Executive Directors of the Company (along the lines of (a) above). The current approved pool of aggregate remuneration was fixed at \$140,000 by ordinary resolution of the Company's shareholders on 15 May 2006. Since then, and in particular since the acquisition of the payments and transaction processing businesses of ProvencoCadmus in August 2009, the Company has grown significantly. This has resulted in more significant demands on the Directors. The Company is seeking approval from shareholders to increase the aggregate pool of remuneration available to be paid to Non-Executive Directors from \$140,000 to \$200,000. An increase in the remuneration pool will enable the Company to increase the fees paid to the Non-Executive Directors to a level commensurate with the time and effort required of the Directors in overseeing the affairs of the enlarged Company. It should be noted that the annual fee currently payable to the Chairman is \$60,000 and the annual fee currently payable to each of the other Non-Executive Directors is \$38,000. The aggregate of these fees falls within the current approved limit of \$140,000. While the Company does not have any intention to increase the amount of remuneration payable to the Directors with respect to the current financial year, increasing the available remuneration pool to \$200,000 will provide the Company with flexibility to increase the remuneration in the future should an increase be warranted.

## Explanatory Note 5: Ratification of Issue of Options – November Financing

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 a loan facility agreement dated 17 November 2009 (“the November Loan Facility Agreement”) 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 extend the term of the \$3,060,000 loan made available to SmartPay Cadmus Limited (“SCL”) by TMF on 18 August 2009 and agreed to provide additional funding of \$700,000 to SCL. The August 2009 loan was originally made available for a term of three months to enable SCL to pay the first installment of the purchase price payable to the receivers of the ProvencoCadmus group in connection with SCL’s acquisition of the payments and transaction processing businesses and assets of the ProvencoCadmus group on 19 August 2009. The material terms of the November Loan Facility Agreement are as follows:

- (a) Loan Amount: \$3,760,000, comprising \$3,060,000 (Tranche 1) and \$700,000 (Tranche 2);
- (b) Interest Rate: 15% per annum (payable monthly in arrear) (Tranche 1);  
12% per annum (payable monthly in arrear) (Tranche 2);
- (c) Term: 9 months (repayable in full on 17 August 2010);
- (d) Fees: a fee of \$36,000 was payable in connection with the extension of the loan term and increase of the loan amount; and
- (e) Options: In part consideration for the extension of the term of the loan and increase in the loan amount SCL agreed to issue to TMF (or its nominee(s)) 19,666,666 options to acquire ordinary shares in the Company. These options were issued as an incentive to extend the term of the loan facility and increase the loan amount and do not relieve SCL from its obligation to repay the loan amount of \$3,760,000 in full on the repayment date or to pay interest on the loan.

Each option referred to at (e) above entitles (but does not require) the holder to subscribe for one ordinary share in the capital of the Company at 5 cents per share on or before 5.00pm on 12 November 2010.

On 17 November 2009 TMF nominated Craw Limited, Minvest Securities (New Zealand) Limited, Nimmo Trustee Limited, Babbelbek Finance Limited, the Trustees of the Whakarua Trust, Investment Custodial Services Limited, Trustees of the AJ & MR Thorpe Family Trust and the Trustees of the Finn MacCool Family Trust (in varying amounts) as the persons to whom the Company should issue the 19,666,666 options referred to at (e) above and the options were issued to such persons in the relevant amounts on 18 November 2009.

The 19,666,666 options in respect of which ratification is sought represents 1.9% 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 6: Ratification of Issue of Options – January Financing

This resolution is being put before shareholders for the same reasons set out in Explanatory Note 5. If this resolution is passed, it would also allow the Company, as a company listed on NZSX, under NXSX Listing Rule 7.3.5 to renew its capacity to issue securities within the 20% limit by obtaining subsequent shareholder ratification of another issue of shares which has already been made.

Under a loan facility agreement dated 14 January 2010 (“the January Loan Facility Agreement”) and entered into between TM Finance Limited (as lender), SmartPay Cadmus Limited (as borrower) and the Company (as guarantor), TM Finance Limited (“TMF”) made an additional loan facility of \$3,050,000 available to SmartPay Cadmus Limited (“SCL”). The facility was drawn down in various tranches between 14 January 2010 and 1 March 2010. These funds are being used by SCL for general working capital purposes. A working capital facility is required following the acquisition of the payments and transaction processing businesses of ProvencoCadmus as:

- SCL needs to rebuild the service capability of the businesses in order to maintain, service and build the customer base (this capability had been eroded whilst the business was under the management of the previous owners); and
- SCL needs to rebuild the components and finished goods inventory, both of which were run down under the management of the previous owners.

The material terms of the January Loan Facility Agreement are as follows:

- (a) Loan Amount: \$3,050,000;
- (b) Interest Rate: 16% per annum (payable monthly in arrear);
- (c) Term: 9 months (repayable in full on 14 October 2010); and
- (d) Options: In part consideration for the provision of the loan SCL agreed to issue to TMF (or its nominee(s)) 61,000,000 options to acquire ordinary shares in the Company. These options were issued as an incentive to provide the loan facility and do not relieve SCL from its obligation to repay the loan amount of \$3,050,000 in full on the repayment date or to pay interest on the loan.

Each option referred to at (e) above entitles (but does not require) the holder to subscribe for one ordinary share in the capital of the Company at 5 cents per share on or before 5.00pm on 14 October 2010.

On 1 March 2010 TMF nominated C W Finance Limited, Minvest Securities (New Zealand) Limited, John Nimmo, the Trustees of the AJ & MR Thorpe Family Trust and Investment Custodial Services Limited (in varying amounts) as the persons to whom the Company should issue the 61,000,000 options referred to at (d) above and the options were issued to such persons in the relevant amounts on 4 March 2010.

The 61,000,000 options in respect of which ratification is sought represents 6.0% 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 7: March Share Placement

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.

On 31 March 2010 the Company issued 10,092,272 ordinary shares in the capital of the Company to Mr W Yovich at an issue price of \$0.0347 per share. Mr Yovich is an accountant based in Whangarei and a member of the NZ Stock Exchange.

The \$350,000 cash consideration received by the Company for this issue in respect of the share placement is to be used to provide ongoing working capital for the Company.

The 10,092,272 shares in respect of which ratification is sought represents 1.0% 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 8: May Share Placement

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.

On 3 May 2010 the Company issued 11,991,845 ordinary shares in the capital of the Company to Mr W Yovich at an issue price of \$0.033356 per share.

The \$400,000 cash consideration received by the Company for this issue in respect of the share placement is to be used to provide ongoing working capital for the Company.

The 11,991,845 shares in respect of which ratification is sought represents 1.2% 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 9: Approval of Issue of Options – Rollover of Financing

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 November Loan Facility Agreement and the January Loan Facility Agreement referred to in Explanatory Notes 5 and 6 above, TM Finance Limited ("TMF") provided loan funding to SmartPay Cadmus Limited ("SCL") in an aggregate amount of \$6,110,000. The principal amount currently outstanding with respect to these loans is \$5,197,182.18, \$2,147,182.18 of which was originally repayable on 17 August 2010 under the terms of the November Loan Facility Agreement and \$3,050,000 of which was originally repayable on 14 October 2010 under the terms of the January Loan Facility Agreement. SCL, TMF and the Company have entered into deeds of variation of the November Loan Facility Agreement and the January Loan Facility Agreement. As a result of these deeds of variation:

- \$2,487,496.70 of the principal amount is now repayable to TMF on 14 October 2010; and
- \$2,709,685.48 of the principal amount is now repayable to TMF on 30 September 2011 and the interest rate with respect to such portion of the principal amount has been increased to 16% per annum.

In part consideration for the extension of the term of \$2,709,685.48 of the loan funding to 30 September 2011 the Company agreed to issue to TMF (or its nominee(s)) 27,078,441 options to acquire ordinary shares in the Company. These options were offered as an incentive to extend the term of the loan facility and do not relieve SCL from its obligation to repay the principal amount owing in full on the relevant repayment dates or to pay interest on the loan.

Each option referred to above entitles (but does not require) the holder to subscribe for one ordinary share in the capital of the Company at 3.3356 cents per share on or before 5.00pm on 30 September 2011.

TMF has nominated John Nimmo, the Trustees of the AJ & MR Thorpe Family Trust, Investment Custodial Services Limited and the Trustees of the Whakarua Trust (in varying amounts) as the persons to whom the Company should issue the 27,078,441 options. It is proposed that the options will be issued immediately following the holding of the Annual General Meeting of the Company.

The 27,078,441 options in respect of which approval is sought represents 2.7% 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 proceed to issue the options 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 10: Ratification of Issue of Shares – September Placement

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.

On 9 September 2010 the Company issued 55,000,000 ordinary shares in the capital of the Company to Mr W Yovich and the Trustees of the AJ & MR Thorpe Family Trust at an issue price of \$0.02 per share.

The \$1,100,000 cash consideration received by the Company for this issue in respect of the share placement is to be used to provide ongoing working capital for the Company.

The issue price of 2 cents per share represented a discount of approximately 37% to the Average Market Price of an ordinary share in the Company as at the close of trading on 7 September 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 55,000,000 shares in respect of which ratification is sought represents 5.5% 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 11: Approval of Issue of Shares – September Placement

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.

On or about 7 September 2010 the Company entered into subscription agreements to issue 160,000,000 ordinary shares in the capital of the Company to Walker and Hall Fine Gifts Limited, Omega Investments Limited, the Trustees of the Cicero Trust and the Trustees of the TR Harrison Family Trust (in varying amounts) at an issue price of \$0.02 per share. The issue of the shares is conditional on the issue being approved by the Company's shareholders by ordinary resolution or on the Company having sufficient headroom under NZSX Listing Rule 7.3.5 to issue the shares, in each case, on or before 6 October 2010. The Company does not currently have sufficient headroom under NZSX Listing Rule 7.3.5 to issue the shares pursuant to the subscription agreements and therefore the Company is seeking the approval of shareholders, by ordinary resolution, to the issue of the 160,000,000 shares. If the shareholders do not approve the issue of the shares by ordinary resolution, but one or more of the other resolutions at the Annual Meeting are approved creating sufficient headroom for the Company under NZSX Listing Rule 7.3.5 to issue the 160,000,000 shares then the directors intend to issue the shares under NZSX Listing Rule 7.3.5.

The \$3,200,000 of consideration to be received by the Company for the issue of the shares (if the relevant conditions are satisfied and the shares are issued) will be used to provide ongoing working capital for the Company and to assist in repayment of the TM Finance funding.

The proposed issue price of 2 cents per share represents a discount of approximately 37% to the Average Market Price of an ordinary share in the Company as at the close of trading on 7 September 2010 (being the trading day immediately prior to the announcement of the proposed issue). As it is proposed to issue the shares for less than 85% of the Average Market Price of an ordinary share in the Company, the directors will be required to sign a certificate 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 do 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 160,000,000 shares in respect of which approval is sought represents 15.9% of the total equity securities (both ordinary shares and options) in the Company currently on issue.

## Shareholder Share Purchase Plan

On 28 May 2010 SmartPay opened a shareholder share purchase plan offer ("SPP Offer") pursuant to which New Zealand resident shareholders in SmartPay were offered the opportunity to purchase up to \$15,000 of shares in the Company at an issue price of 3.3356 cents per share. The issue price represented a discount of approximately 16.6% to the average closing market price of SmartPay's shares on the New Zealand Stock Exchange between 29 April 2010 to 5 May 2010.

Subscriptions under the SPP Offer were received for 26,082,252 new ordinary shares in SmartPay (resulting in aggregate subscription proceeds of \$870,000) and the new shares were issued to the successful applicants on 23 June 2010.

The SPP Offer was made under NZSX Listing Rule 7.3.4 and in reliance on the Securities Act (NZX – Share and Unit Purchase Plans) Exemption Notice 2005 and the class waiver for all NZSX and NZAX Issuers from NZSX Listing Rule 7.3.1, granted by NZX Limited on 30 April 2010. As such, shareholder approval was not required for the SPP Offer and the issue of shares under the SPP Offer does not need to be ratified by SmartPay's shareholders under NZSX Listing Rule 7.3.5.

## General

This Notice of Annual Meeting has been reviewed and approved by NZX Limited.