

13 April 2021

Dear Shareholders

A Notice of General Meeting of Paygroup Limited (**Paygroup or the Company**) to be held on 13 May 2021 at 11.00 am AEST is now available at <https://paygrouplimited.com/index.php/asx-announcements/>.

Safety of our shareholders and staff is our paramount concern, and therefore we will hold the General Meeting by way of live video conference. There will be no physical meeting.

The consequences of this are as follows:

1. If you wish to attend the virtual meeting, you must email oliver@ocarton.com.au and you will be provided with a link to enable you to join the video conference;
2. We recommend that any questions concerning the business of the meeting are submitted to oliver@ocarton.com.au in advance of the meeting;
3. All resolutions will be determined by way of a poll. The poll will be conducted based on votes submitted by proxy and by Shareholders who have indicated that they intend to vote at the Meeting in accordance with the instructions below.
4. Due to the virtual nature of the Meeting, Computershare, the Company's share registry, will be facilitating voting during the Meeting. If you wish to cast your vote during the Meeting, you will need to visit web.lumiagm.com/361933703 on your smartphone, tablet or computer. You will need the latest versions of Chrome, Safari, Internet Explorer 11, Edge or Firefox. Please ensure your browser is compatible. For further instructions on how to participate online please view the online meeting user guide at www.computershare.com.au/onlinevotingguide.

Shareholders are strongly encouraged to lodge a proxy form to vote at the General Meeting at least 48 hours before the meeting.

Yours sincerely



Oliver Carton
Company Secretary

PAYGROUP LIMITED
ACN 620 435 038
NOTICE OF GENERAL MEETING

Notice is given that the General Meeting of the members of PayGroup Limited (**PayGroup or Company**) will be held by videoconference, at 11.00 am AEST on 13 May 2021.

BUSINESS

RESOLUTION 1 – APPROVAL OF ISSUE OF SECURITIES

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

That, for the purposes of ASX Listing Rule 7.1 and all other purposes, the issue of Consideration Securities as referred to in section 1 of the Explanatory Statement, is approved.

Short Explanation

On 31 March 2021 the Company announced it had entered into an agreement to acquire Integrated Workforce Solutions Pty Ltd (**IWS**), the consideration for which comprises a combination of cash and the Consideration Securities. This resolution is to seek approval for the issue of the Consideration Securities for the purposes of ASX Listing Rule 7.1. ASX Listing Rule 7.1 limits the number of equity securities that a listed entity may issue in any 12 month period to 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period. An issue approved by Shareholders is not counted for these purposes.

Voting Exclusion Statement

The Company will disregard any votes cast in favour on Resolution 1 by the recipients of the Consideration Securities, or any person who may obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons.

However, this does not apply to a vote cast in favour of a resolution by:

- A person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- The Chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the Chair to vote on the resolution as the Chair decides; or
- A holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - The beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - The holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

RESOLUTION 2 – RATIFICATION OF PRIOR ISSUES OF SECURITIES

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

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

- 2.1 *“That for the purposes of ASX Listing Rules 7.4, and for all other purposes, Shareholders ratify the issue and allotment by the Company under ASX Listing Rule 7.1 of the Shares to the recipients set out in Section 3.1 of the Explanatory Statement.”*
- 2.2 *“That for the purposes of ASX Listing Rules 7.4, and for all other purposes, Shareholders ratify the issue and allotment by the Company under ASX Listing Rule 7.1A of the Shares to the recipients set out in Section 3.1 of the Explanatory Statement.”*

Short Explanation

On 31 March 2021, in conjunction with announcing the Acquisition, the Company announced a capital raising program comprising:

- The Tranche 1 Placement;
- The Tranche 2 Placement; and
- The SPP.

This resolution seeks ratification of the issue of shares under the Tranche 1 Placement. Shareholders are able to ratify shares issued during the year by the Company under its placement capacity under Listing Rule 7.1 and 7.1A. The effect of that ratification is to re-set that placement capacity.

Voting Exclusion Statement

The Company will disregard any votes cast in favour of these Resolutions by or on behalf of a person who participated in the Securities issues, or any associates of that persons.

However, this does not apply to a vote cast in favour of a resolution by:

- A person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- The Chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the Chair to vote on the resolution as the Chair decides; or
- A holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - The beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - The holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

RESOLUTION 3 – APPROVAL TO ISSUE TRANCHE 2 PLACEMENT SHARES

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

That, for the purposes of ASX Listing Rule 7.1 and all other purposes, the issue of Shares as referred to in section 4.1 of the Explanatory Statement, is approved.

Short Explanation

As stated above, on 31 March 2021 the Company announced the capital raising program. This resolution seeks approval to issue shares under the Tranche 2 Placement.

Voting Exclusion Statement

The Company will disregard any votes cast in favour on Resolution 3 by the recipients of the securities, including Canaccord Genuity (Australia) Limited, or any person who may obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons.

However, this does not apply to a vote cast in favour of a resolution by:

- A person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- The Chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the Chair to vote on the resolution as the Chair decides; or
- A holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - The beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - The holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

By order of the Board:



Oliver Carton
Company secretary
Dated: 13 April 2021

NOTES

IMPORTANT: Shareholders are urged to direct their proxy how to vote by clearly marking the relevant box for each item on the proxy form.

VOTING IN PERSON

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

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, members are advised that:

- each member has a right to appoint a proxy;
- the proxy need not be a member of the Company; and
- a member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does:**

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

The Chairman of the meeting intends to exercise all available proxies by voting in favour of all resolutions.

To be valid, the enclosed proxy form and the power of attorney or other authority (if any) under which it is signed (or a certified copy of it) must be lodged:

- a) at the offices of the Share Registry – Computershare Investor Services Pty. Limited, GPO Box 242, Melbourne, Victoria, 3001, Australia;
- b) by faxing it to the Share Registry office on fax number 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia);
- c) online: www.investorvote.com.au;
- d) for Intermediary online subscribers only (custodians) - electronically at www.intermediaryonline.com.

not later than 48 hours before the time for commencement of the meeting, being 11.00 am AEST on 11 May 2021.

OTHER INFORMATION

A person may attend the meeting under an appointment of corporate representative pursuant to section 250D of the Corporations Act or Power of Attorney only if a copy of that duly executed appointment or Power of Attorney is lodged with the Share Registry or produced prior to the commencement of the meeting.

The Company has determined that a person's entitlement to vote at the General Meeting will, in accordance with the Corporations Act, be the entitlement of that person set out in the register of Shareholders as at 7:00 pm on 11 May 2021. This means that any Shareholder registered at 7:00 pm on 11 May 2021 is entitled to attend and vote at the General Meeting.

Attorneys should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the meeting, unless it had already been provided to the Share Registry.

Capitalised terms set out in the Explanatory Memorandum have the same meaning in this Notice of Meeting.

EXPLANATORY STATEMENT

INTRODUCTION

The purpose of this Explanatory Statement is to provide Shareholders with an explanation of the business of the meeting and the Resolution proposed to be considered at the General Meeting.

1 INTEGRATED WORKFORCE SOLUTIONS ACQUISITION

1.1 Background

As previously announced on ASX on 31 March 2021, the Company has entered into a binding agreement (**Acquisition Agreement**) to acquire all of the shares in Integrated Workforce Solutions Pty Ltd ACN 603 190 781 (**IWS**) subject to various conditions precedent (the **Acquisition**).

Resolution 1 relates to the securities to be issued as partial consideration for the Acquisition.

1.2 Overview of IWS and rationale for the Acquisition

IWS is an Australian company that was established in 2014 and is headquartered in Sydney. IWS has a wholly owned subsidiary, IWS Bookkeeping Australia Pty Ltd (**Subsidiary**).

IWS provides rostering, payroll and bookkeeping services to clients in Australia and New Zealand and has developed a cloud-based platform to unify data and provide a single dashboard and user interface.

The Acquisition provides PYG with the expertise to enter the franchise sector (that employs over 500,000 employees in Australia) for rostering, payroll and bookkeeping services.

The transaction provides the opportunity for operational synergies and cross sell opportunities, both domestically and internationally.

IWS reported statutory revenue of \$4.8M in FY20 (30 June year-end) and is expected to achieve significant growth over the next couple of years. The Acquisition Earn Out Conditions (detailed in section 1.3 below) are designed to focus IWS' management attention on delivering profitable revenue growth for the next two fiscal years in the order of 20% p.a. at a 70% gross margin, and to incentivize key employees, who currently hold IWS shares and are Vendors, to remain employed by IWS until at least the end of FY23.

All the issued shares in IWS (**IWS Shares**) will be acquired under the acquisition and are owned by the entities set out in the table in section 1.3 (**Vendors**).

1.3 Consideration payable

Under the Acquisition Agreement, the purchase price for the IWS Shares is the aggregate of:

- initial consideration (paid in two tranches), being a combination of cash and fully paid ordinary shares in PYG (Shares) (**Initial Consideration**); and

- up to two potential earn out payments, payable in Shares, based on the performance of IWS and its Subsidiary in FY22 and FY23 (**Earn Out Consideration**),

as described in further detail below. The maximum total consideration payable to the Vendors in Shares and Cash is \$18M.

The Initial Consideration is equal to 2.5 times audited statutory revenue of IWS and its Subsidiary for FY21, subject to a \$15,000,000 cap, and will be paid in two tranches as follows:

- The first tranche of the Initial Consideration will be paid at completion of the Acquisition and reflects 60% of an agreed estimate of the statutory revenue of IWS for FY21 multiplied by 2.5, being \$7,650,000 (**First Tranche**). The First Tranche will be paid to the Vendors as follows:
 - an amount equal to 65% of the First Tranche, being \$4,972,500, will be paid in cash; and
 - an amount equal to 35% of the First Tranche, being \$2,677,500, will be paid by the issue of Shares to the Vendors at a fixed issue price of \$0.658, being the 5-day VWAP immediately prior to signing the Acquisition Agreement (**Issue Price**); and
- The second tranche of the Initial Consideration will be paid in two payments in or around September 2021 and December 2021, once the audited statutory revenue of IWS for FY21 (30 June year end) has been confirmed, and will equal the Initial Consideration less the value of the First Tranche (**Second Tranche**) (and therefore be will be capped at \$7,350,000). The Second Tranche will be paid as follows:
 - an amount equal to 65% of the Second Tranche will be paid in cash in or around September 2021; and
 - an amount equal to 35% of the Second Tranche will be paid by the issue of Shares at the Issue Price in or around December 2021.

Subject to the conditions described below being satisfied in each of FY22 and FY23 (30 June year ends), the Earn Out Consideration will be paid to the Vendors of up to 10% of the Initial Consideration (capped at \$1,500,000) in each of FY22 and FY23 (two payments in total), payable in Shares (**Earn Out Payments**). The issue price for the Shares will be the 5-day VWAP immediately prior to 30 June 2022 and 2023 (as applicable) (subject to a floor price equal to the Issue Price).

The conditions to payment of the Earn Out Payments are the following (**Earn Out Conditions**):

- IWS and its Subsidiary achieving a gross profit margin target of 70%;
- IWS and its Subsidiary achieving at least 95% of a revenue target of \$6.2M (for FY22) and \$7.4M (for FY23) respectively (which excludes non-trading income such as government grants and support, rebates and gain on disposal of assets); and
- For certain Vendors who are IWS key employees, a requirement that they remain employed by IWS up to the time of the Earn Out Payments.

All Shares issued to the Vendors as part of the Initial Consideration (**Initial Consideration Shares**) and as Earn Out Payments (**Earn Out Shares**) are subject to a 24 month period of voluntary escrow, but the

Vendors will be entitled to exercise all voting rights and receive any dividends that are declared in respect of the Shares.

Subject to the assumptions detailed below, the Vendors (or their nominees), and their maximum respective entitlements to Initial Consideration Shares and Earn Out Shares (together **Consideration Securities**), are as follows:

	Vendors	1st Tranche Initial Consideration Shares	2nd Tranche Initial Consideration Shares	FY22 Earn Out Shares	FY23 Earn Out Shares	Total Consideration Securities
1	Rome Corp Pty Ltd (ACN 136 450 443)	580,460	557,697	325,188	325,188	1,788,533
2	Opera Destinations Pty Ltd (ACN 118 663 200)	242,258	232,757	135,718	135,718	746,451
3	Megan Alderton	242,258	232,757	135,718	135,718	746,451
4	E&P Private Investments Pty Ltd (ACN 103 604 495)	191,888	184,364	107,501	107,501	591,253
5	Binalong Rural Pty Ltd (ACN 119 502 902)	76,755	73,746	43,001	43,001	236,503
6	James Valentine Corser and Maria Corser	191,888	184,364	107,501	107,501	591,253
7	Mordes Howard Pty Ltd (ACN 132 916 691)	38,378	36,871	21,499	21,499	118,247
8	On the Grove Pty Ltd (ACN 158 413 337)	191,888	184,364	107,501	107,501	591,253
9	Robert William Dryden	158,928	152,696	89,036	89,036	489,696
10	Don Geethaka Jayasinghe	76,755	73,746	43,001	43,001	236,503
11	JCVC Pty Ltd (ACN 153 445 642)	767,551	737,451	430,001	430,001	2,365,004
12	Anthony Winchester Pascoe	278,124	267,219	155,813	155,813	856,970
13	Greenwich Partners Pty Ltd (ACN 105 795 462)	470,125	451,689	263,375	263,375	1,448,564
14	Geoffrey David Rodgers	191,888	184,364	107,501	107,501	591,253
15	Philip Robert Knox	158,928	152,696	89,036	89,036	489,696
16	Big Senior Holdings Pty Ltd (ACN 146 677 036)	115,133	110,618	64,500	64,500	354,750
17	Buddyworks Pty Ltd (ACN 127 774 476)	95,945	92,184	53,752	53,752	295,632
	Totals	4,069,149	3,909,582	2,279,640	2,279,640	12,538,011

The above table has been prepared on the basis that the maximum number of securities that could be issued are issued, i.e.:

- The audited statutory revenue of IWS and its Subsidiary for FY21 is \$6M (being the agreed cap). The Issue Price for the purposes of the share consideration for the Initial Consideration is \$0.658 (which represents maximum 7,978,731 Initial Consideration Shares).

- All Earn Out Conditions are satisfied in FY22 and FY23 and total Earn Out Payments equal \$3M (being the agreed cap). The issue price of the Shares issued as Earn Out Payments is the Issue Price (being the floor price) (which represents 4,559,280 maximum Earn Out Shares).

1.4 Conditions precedent

The Acquisition is subject to various conditions precedent, including the following:

- the Company's shareholders approving Resolution 1 and the ASX granting the waiver referred in paragraph 2.2;
- the Company raising at least \$9,750,000 pursuant to the Placement and the SPP;
- certain key employees of IWS entering into new employment contracts on terms acceptable to the Company;
- there has been no material breach of any warranties given by the Vendors or any pre-completion business conduct obligations, which has not been remedied before completion;
- there are no matters, events or circumstances that arise or have arisen during the period between 31 January 2021 and Completion which have had, or, in the reasonable opinion of the Company, are likely to have, either individually or when aggregated with other matters, events or circumstances, a material adverse effect (as defined in the Acquisition Agreement); and
- any required regulatory approvals being obtained.

If any condition precedent is not satisfied (or waived in accordance with the Acquisition Agreement) by 31 May 2021 (or such later date as agreed by the Company and the Vendors), a party to the Acquisition Agreement may elect to terminate the Acquisition Agreement.

The Company and the counterparties to the Acquisition Agreement have the right to end the agreement in certain circumstances. This includes where the conditions precedent are not satisfied or waived by the stated end date and where either party is in breach of its completion obligations. Accordingly, the Acquisition Agreement may be ended by the Company or a counterparty before completion.

1.5 Impact on capital structure of Paygroup

The impact of the Acquisition and the associated capital raising program described in this notice on the issued capital of Paygroup will be as follows:

	Number of Shares	Proportion of Shares
Shares on issue prior to the announcement of the Acquisition and the associated capital raising program	82,522,339	67.72%
Tranche 1 Placement Shares issued on 9 April 2021 – Resolution 2	20,300,000	16.66%
Shares to be issued to IWS Vendors:		
<i>Initial Consideration – First Tranche</i>	4,069,149	3.34%
<i>Initial Consideration – Second Tranche (Maximum)</i>	3,909,582	3.21%
<i>FY22 Earn Out Consideration (Maximum)</i>	2,279,640	1.87%
<i>FY23 Earn Out Consideration (Maximum)</i>	2,279,640	1.87%
Maximum Shares to be issued to IWS Vendors – Resolution 1	12,538,011	10.29%

Tranche 2 Placement Shares to be issued – Resolution 3	6,500,000	5.33%
Total Shares on issue if Resolutions 1 and 3 are passed	121,860,350	100%

Note: this table does not include the impact of the SPP that is part of the capital raising program

1.6 Directors Recommendations

The Directors do not have any material interest in the outcome of the Resolutions 1 other than as a result of their interest arising solely in the capacity of Shareholders of the Company. The Directors recommend that Shareholders vote in favour of Resolution 1 given the rationale for the Acquisition set out in section 1.2 above.

2 RESOLUTION 1 – APPROVAL OF ISSUE OF CONSIDERATION SECURITIES

2.1 ASX Listing Rule 7.1

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more Equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The proposed issue of Consideration Shares does not fit within any of the exceptions to Listing Rule 7.1 and exceeds the 15% limit in Listing Rule 7.1. It therefore requires the approval of Shareholders under Listing Rule 7.1.

The effect of Resolution 1 will be to allow the Company to issue the Consideration Shares during the period of 3 months after the Meeting or a longer period, if allowed by ASX, without using the Company's 15% annual placement capacity under Listing Rule 7.1.

If Resolution 1 is passed, the Company will be able to issue the Consideration Shares and proceed to completion of the Acquisition. In addition, the issue will be excluded from the calculation of the number of Equity Securities that the Company can issue without Shareholder approval under Listing Rule 7.1.

If Resolution 1 is not passed, the Company will not be able to issue the Consideration Securities to complete the Acquisition. In those circumstances the Company may either seek an alternate acquisition, or negotiate with the Vendors to complete the acquisition using alternative consideration or when it can do so using its placement allowance under ASX Listing Rule 7.1.

2.2 ASX Waiver

Listing Rule 7.3 sets out the requirements for shareholder approval under Listing Rule 7.1 (see section 2.3 below). In particular, Listing Rule 7.3.4 provides that the notice of meeting must (inter alia) state the date by which the entity will issue the securities and that the securities must be issued no later than three months after the date of the meeting.

The Company applied for a waiver of Listing Rule 7.3.4 to permit the issue of the 2nd Tranche Initial Consideration Shares, the FY22 Earn Out Shares and the FY23 Earn Out Shares later than three months after the date of the meeting and on the basis set out in this notice. On 12 April 2021 ASX granted that waiver as follows:

Waiver Decision

1. Based solely on the information provided, ASX Limited ('ASX') grants PayGroup Limited (the 'Company') a waiver from listing rule 7.3.4 to the extent necessary to permit the Company in its notice of meeting ('Notice') seeking shareholder approval for the issue of up to:
 - 1.1 3,909,582 fully paid ordinary shares ('Deferred Consideration Securities') as part payment of the second tranche of initial consideration for the acquisition by the Company of all of the issued capital in Integrated Workforce Solutions Pty Ltd ('IWS') under a Share Sale Agreement ('Agreement') (the initial consideration being based on the audited revenue of IWS and its wholly-owned subsidiary, IWS Bookkeeping Australia Pty Ltd (together, the 'IWS Group') for FY21); and
 - 1.2 4,559,280 fully paid ordinary shares ('Performance Securities') as earn out consideration for the acquisition of IWS under the Agreement, as follows:
 - (a) up to 2,279,640 Performance Securities, subject to IWS Group achieving revenue (excluding non-trading income) ("Operating Revenue") of at least 95% of \$6.2 million and a gross profit margin target of 70% for the 2022 financial year ('Milestone One'); and
 - (b) up to 2,279,640 Performance Securities, subject to the IWS Group achieving Operating Revenue of at least 95% of \$7.4 million and a gross profit margin target of 70% for the 2023 financial year ('Milestone Two').
- 1.1 (Milestone One and Milestone Two , together, 'Milestones'),

not to state that the Deferred Consideration Securities and the Performance Securities will be issued no later than 3 months from the date of the shareholder meeting ('Meeting'), on the following conditions:

- 1.2 The Agreement is conditional on the Company's shareholders approving the issue of the Deferred Consideration Securities and the Performance Securities under Listing Rule 7.1 and ASX granting a waiver from Listing Rule 7.3.4.
- 1.3 The Deferred Consideration Securities and the Performance Securities are issued after the satisfaction of the Milestones (if and as applicable) and in any event by no later than 8 February 2024.
- 1.4 The Milestones are not varied.
- 1.5 The maximum number of Deferred Consideration Securities and Performance Securities to be issued is capped at 8,468,862 ordinary shares and this is stated in the Notice, along with adequate details regarding the potential dilution.
- 1.6 For any annual reporting period during which any of the Deferred Consideration Securities and the Performance Securities have been issued or any of them remain to be issued, the Company's annual report sets out the number of Deferred Consideration Securities and Performance Securities issued in that annual reporting period, the number of Deferred Consideration Securities and Performance Securities that remain to be issued and the basis on which the Deferred Consideration Securities and the Performance Securities may be issued.
- 1.7 In any half year or quarterly report for a period during which any of the Deferred Consideration Securities and the Performance Securities have been issued or remain to be issued, the Company must include a summary statement of the number of Deferred Consideration Securities and Performance Securities issued during the reporting period,

the number of Deferred Consideration Securities and Performance Securities that remain to be issued and the basis on which the Deferred Consideration Securities and the Performance Securities may be issued.

- 1.8 The Notice contains the full terms and conditions of the Deferred Consideration Securities and the Performance Securities as well as the conditions of this waiver.

2.3 Specific information required by ASX Listing Rule 7.3

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of the Consideration Securities:

- 2.3.1 The maximum number of securities to be issued (assuming an Earn Out Payment issue price of \$0.658 (being the floor price) and satisfaction of all conditions to payment of each Earn Out Payment) is as set out in section 1.4.
- 2.3.2 Consideration is the acquisition of IWS and its Subsidiary. The Company will acquire all the issued shares in IWS as set out in item 1.4.
- 2.3.3 The dates of issue of the Consideration Securities are set out below. As noted in section 2.2, on 12 April 2021 the Company obtained a waiver from ASX allowing it to issue securities more than three months from the date of this meeting:

Securities	1 st Tranche Initial Consideration Shares	2 nd Tranche Initial Consideration Shares	FY22 Earn Out Shares	FY23 Earn Out Shares
Expected date of issue	Within 3 months of the date of this meeting	December 2021	December 2022	December 2023

- 2.3.4 No funds will be raised from the issue of the Consideration Securities.
- 2.3.5 A voting exclusion statement is included in the Notice of Meeting.
- 2.3.6 Shares to be issued as Consideration Securities are ordinary fully paid Shares that will rank equally with other Shares on issue.

3 RESOLUTION 2 – RATIFICATION OF ISSUE OF TRANCHE 1 PLACEMENT SECURITIES

3.1 Background

The Board is allowed to issue or agree to issue up to 15% of its issued capital without Shareholder approval each 12 months under ASX Listing Rule 7.1, and a further 10% under certain conditions under ASX Listing Rule 7.1A.

Under Listing Rule 7.4, the Company can seek Shareholder ratification of an issue made within the limit of ASX Listing Rule 7.1 and 7.1A, and, if given, the effect of the ratification is to deem that the securities issued were issued with Shareholder approval, meaning that, from the date of the approval, the Board is again able to issue up to a further 15% of the issued capital without Shareholder approval.

If shareholder approval is not given, the Equity Securities set out in Table 1 of Schedule 1 will count in calculating the Company's 15% limit, thereby decreasing the number of Equity Securities it can issue in the 12 months following the issue dates.

On 31 March 2021, in conjunction with announcing the Acquisition, the Company announced a capital raising program comprising:

- Placement of 20,300,000 Shares to raise \$11.4m (Tranche 1 Placement);
- Placement of 6,500,000 Share to raise \$3.6m (Tranche 2 Placement);
- Share Purchase Plan (SPP).

As stated in the announcement dated 31 March 2021, PayGroup intends to use the proceeds from the capital raising program to fund: the cash consideration of the IWS acquisition; investment in additional sales capabilities across key markets; further investment in automation and artificial intelligence to enhance margins; and working capital and transaction costs.

The securities the subject of this resolution are the Tranche 1 Placement securities as set out in Table 1 to Schedule 1. Of those securities, 12,071,619 were issued under Listing Rule 7.1 and 8,228,381 were issued under Listing Rule 7.1A.

3.2 Terms of Securities

The Securities issued were Shares ranking equally with other Shares on issue.

3.3 ASX Listing Rule requirements for Resolution 4

(a) ASX Listing Rule 7.4

As stated, ASX Listing Rule 7.4 enables the Company to ratify an issue of securities made without prior Shareholder approval under ASX Listing Rule 7.1 and 7.1A if:

- i. the issue of securities did not breach ASX Listing Rule 7.1; and
- ii. Shareholders subsequently approve the issue of those securities by the Company.

The securities issued did not breach ASX Listing Rule 7.1.

(b) Technical information required by ASX Listing Rule 7.4

Pursuant to, and in accordance with, ASX Listing Rule 7.5, the following information is provided in relation to Resolution 4:

- i The number of securities issued is set out in Table 1 Schedule 1;
- ii the issue price of the Securities and date of issue was as set out in Table 1 Schedule 1;
- iii the terms of the Securities were as set out in Table 1 Schedule 1;

- iv the names of the persons to whom the Company issued the Securities were as set out in Table 1 Schedule 1;
- v the funds raised from the issue of the Securities were used for the purposes set out in section 2.1.

3.4 Recommendation of directors

All Directors recommend that Shareholders vote in favour of Resolution 2.

RESOLUTION 3 – APPROVAL TO ISSUE TRANCHE 2 PLACEMENT SECURITIES

4.1 General

The Company seeks approval to issue the Tranche 2 Placement Securities set out in Table 2 of Schedule 1.

As stated in paragraph 3.1, the Company has announced a capital raising program, including the Tranche 2 Placement Securities. The purposes of the capital raising program are as set out in that paragraph.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of this Resolution 3 will be to allow the Company to issue the Placement Securities during the period of 3 months after this meeting, without using the Company's 15% annual placement capacity under ASX Listing Rule 7.1.

If Resolution 3 is not approved, the Company will only be able to issue the Placement Securities when it can do so using its placement capacity under ASX Listing Rule 7.1 or 7.1A. This is dependant on Shareholders approving Resolutions 1 and 2.

4.2 ASX Listing Rule 7.3

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of securities:

- 4.2.1. The maximum number of securities to be issued is 6,500,000.
- 4.2.2. Consideration is \$0.56 per Share.
- 4.2.3. The Shares will be issued to the recipients within 3 months of the date of this meeting.
- 4.2.4. \$3,600,000 will be raised from the issue of the Shares.
- 4.2.5. A voting exclusion statement is included in the Notice of Meeting.
- 4.2.6. The Shares are ordinary fully paid Shares that will rank equally with other Shares on issue. Terms of the Options are set out above.

4.3 Board recommendation

The Directors recommend that Shareholders vote in favour of Resolution 3. The Chair intends to vote undirected proxies in favour of it.

Schedule 1

Table 1
Tranche 1 Placement Securities

Date of issue announcement	No of securities	Date of issue	Class	Issue Price (\$)	Close market price (\$)	Discount (%)	Consideration cash (\$)	Consideration non cash – current value	Purpose of issue	Persons issued to or basis on which those persons were determined
31 March 2021	20,300,000	9 April 2021	ordinary	\$0.56	\$0.63	14.9	\$0.56 per Share	Nil	See paragraph 2.1	Clients of Canaccord Genuity (Australia) Limited

Table 2
Tranche 2 Placement securities

Type	Number	Issue price	Terms	Recipients
Shares	6,500,000	\$0.56	Ordinary fully paid shares	Clients of Canaccord Genuity (Australia) Limited

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Need assistance?



Phone:
1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)



Online:
www.investorcentre.com/contact



YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **11.00 am (AEST) on Tuesday, 11 May 2021.**

Paygroup Limited Annual General Meeting

This year, as part of the Australian Government's response to the Coronavirus crisis, temporary modifications have been made to the *Corporations Act 2001* under the *Corporations (Coronavirus Economic Response) Determination (No.3) 2020*.

These modifications allow notices of meeting, and other information regarding a meeting to be provided online where it can be viewed and downloaded. We are relying on technology to facilitate shareholder engagement and participation in the meeting. Details of where you can access the notice of meeting, lodge a proxy and participate in the meeting are contained in this letter.

Meeting date and location:

The Annual General Meeting of Paygroup Limited will be a virtual meeting, which will be conducted online on Thursday, 13 May 2021 at 11.00 am (AEST).

Attending the meeting online:

If you choose to participate online on the day of the meeting you will be able to view a live webcast of the meeting, ask the Directors questions online and submit your vote in real time.

Webcast and Questions

If you wish to attend the virtual meeting, you must email oliver@ocarton.com.au and you will be provided with a link to enable you to join the video conference

Voting

To vote online during the meeting you will need to visit web.lumiagm.com/361933703 on your smartphone, tablet or computer.

You will need the latest versions of Chrome, Safari, Internet Explorer 11, Edge or Firefox. Please ensure your browser is compatible. For further instructions on how to participate online please view the online meeting user guide at <http://www.computershare.com.au/onlinevotingguide>

Access the meeting documents and lodge your proxy online:

Online:

Access the meeting documents and lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is



Control Number: 999999

SRN/HIN: I9999999999

PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

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Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

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

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

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative

If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Lodge your Proxy Form:

XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is



Control Number: 999999
SRN/HIN: I9999999999
PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
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SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

Step 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Paygroup Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the General Meeting of Paygroup Limited to be held as a virtual meeting on Thursday, 13 May 2021 at 11.00 am (AEST) and at any adjournment or postponement of that meeting.

Step 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Resolution 1 Approval of issue of Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Ratification of prior issues of Securites	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 Approval to issue Tranche 2 Placement Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s) *This section must be completed.*

<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Individual or Securityholder 1	Securityholder 2	Securityholder 3	Date
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	

Update your communication details *(Optional)*

Mobile Number Email Address

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

