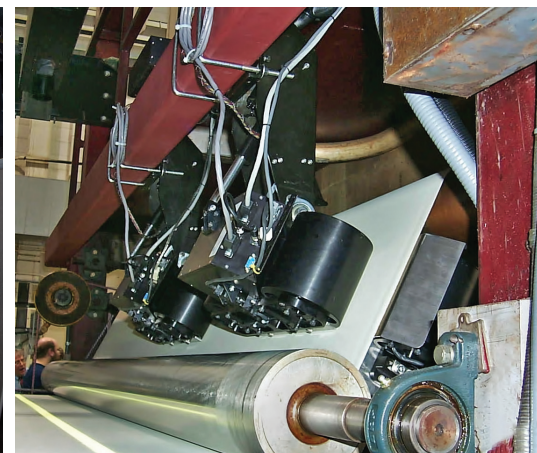
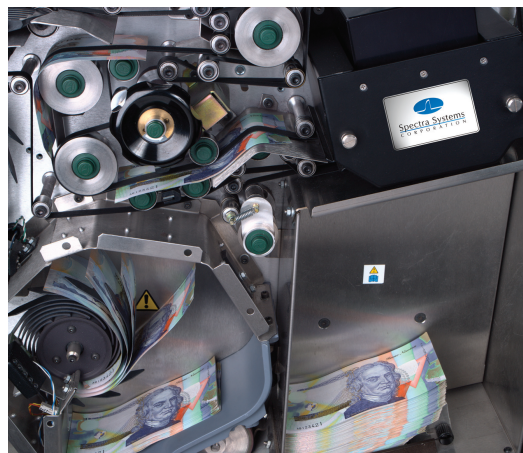




Spectra Systems

C O R P O R A T I O N

Providing advanced technology solutions for banknote and product authentication



ADMISSION DOCUMENT

Admission to AIM



Nominated Adviser and Broker

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the contents of this document or the action you should take, you should immediately seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised pursuant to the Financial Services and Markets Act 2000, as amended ("FSMA") if you are resident in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

The Company and the Directors whose names appear on page 4 of this document accept individual and collective responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for all of the Common Shares of the Company in issue and to be issued to be admitted to trading on the London Stock Exchange's AIM market. It is expected that trading in the Common Shares will commence on AIM on 25 July 2011. **AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.**

A copy of this document, which comprises an admission document drawn up in accordance with the AIM Rules for Companies, has been issued in connection with the application for admission to trading of all of the Common Shares of the Company in issue and to be issued pursuant to the Placing. This document does not comprise a prospectus for the purpose of FSMA and the Prospectus Rules of the Financial Services Authority and has not been delivered to the Registrar of Companies in England and Wales for registration.

The whole of this document should be read. Your attention is particularly drawn to the Risk Factors set out in Part II of this document.



Spectra Systems
CORPORATION

SPECTRA SYSTEMS CORPORATION

(incorporated and registered in Delaware, USA)

**Placing of 18,592,320 Common Shares at
75.3 pence per Share**

and

Application for Admission to AIM

**Nominated adviser and broker
WH Ireland Limited**

All of the Common Shares, including the Placing Shares, will, upon Admission, rank equally in all respects, including the right to receive all dividends or other distributions thereafter declared, made or paid.

WH Ireland Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as nominated adviser and broker to the Company. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, expressed or implied, is made by WH Ireland Limited as to any of the contents of this document. WH Ireland Limited will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document or for advising them on the contents of this document or any other matter.

The distribution of this document outside the UK may be restricted by law and therefore any persons outside the UK into whose possession this document comes should inform themselves about and observe any such restrictions as to the Placing, the Placing Shares, the Existing Common Shares and the distribution of this document. Any failure to comply with such restrictions may constitute a violation of the securities laws of any jurisdiction outside of the UK. This document does not constitute an offer to sell or the solicitation of an offer to buy shares in any jurisdiction in which such offer is unlawful. In particular, this document is not for distribution, directly or indirectly, in or into Canada, Australia, Japan, the Republic of South Africa or the United States or to any national, resident or citizen of Canada, Australia, Japan, the Republic of South Africa or the United States.

The Common Shares have not been and will not be registered under the securities legislation of any province or territory of Canada, Australia, Japan, or the Republic of South Africa. Accordingly, the Common Shares may not, subject to certain exceptions, be offered or sold directly or indirectly, in or into Canada, Australia, Japan, the Republic of South Africa or to any national, citizen or resident of Canada, Australia, Japan or the Republic of South Africa. In addition, the Placing Shares have not been, and, in connection with the Placing, will not be, registered under the US Securities Act or under any US state securities laws and may not be offered or sold, directly or indirectly, in or into the United States or to, or for the account or benefit of, US Persons unless the Placing Shares are registered under the US Securities Act or an exemption from the registration requirements of the US Securities Act is available. The Placing Shares are being offered to non-US Persons outside the United States in transactions exempt from the registration requirements of the US Securities Act in reliance on Regulation S. Purchasers of the Placing Shares may not offer to sell, pledge or otherwise transfer the Placing Shares in the United States or to, or for the account or benefit of, US Persons unless such offer, sale, pledge or transfer is registered under the US Securities Act or an exemption from registration is available. The Company is not, at the present time, undertaking a public offering of the Placing Shares in the United States. Further information regarding the significant restrictions on resale and/or transfer that are applicable to the Placing Shares is set out in Part IV of this document. Hedging transactions involving the Placing Shares may not be conducted, directly or indirectly, unless in compliance with the US Securities Act.

Copies of this document will be available for collection, free of charge, from WH Ireland Limited, 24 Martin Lane, London EC4R 0DR for one month from the date of this document.

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PLACING STATISTICS

Gross proceeds of the Placing receivable by the Company	£14,000,017
Net proceeds of the Placing receivable by the Company	£12,800,016
Number of Common Shares in issue immediately prior to Admission	9,473,998
Number of Common Shares issued pursuant to the Conversion	17,185,052
Placing Price per Placing Share	75.3 pence
Number of Placing Shares to be issued by the Company	18,592,320
Total number of Common Shares in issue following Admission	45,251,370
Percentage of Enlarged Share Capital subject to the Placing	41.09 per cent.
ISIN code for Existing Common Shares and non-restricted Converted Common Shares	US84756T1060
ISIN code for Placing Shares and restricted Converted Common Shares	USU8457D1091

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission effective and commencement of dealings on AIM of the Enlarged Share Capital	25 July 2011
Despatch of definitive share certificates	15 August 2011

Each of the times and dates in the above timetable is indicative only and subject to change. All times are London times unless otherwise stated.

DIRECTORS, SECRETARY AND ADVISERS

Directors	The Honourable BJ Penn (<i>Non-Executive Chairman</i>) Dr. Nabil Lawandy (<i>Chief Executive Officer</i>) Mark Curcio (<i>Non-Executive Director</i>) Martin Jaskel (<i>Non-Executive Director</i>) Roland Puton (<i>Non-Executive Director</i>) Dr. Oussama Salam (<i>Non-Executive Director</i>) Donald Stanford (<i>Non-Executive Director</i>)
Company secretary	Douglas Anderson (<i>Chief Financial Officer</i>)
Registered office	2711 Centerville Road Suite 400 Wilmington, DE 19808 United States of America
Principal place of business	321 South Main Street Suite 102 Providence, RI 02903 United States of America
Nominated adviser and broker	WH Ireland Limited 24 Martin Lane London EC4R 0DR
Reporting accountants	RSM Tenon Audit Limited 66 Chiltern Street London W1U 4JT
Lawyers to the Company	K&L Gates LLP One New Change London EC4M 9AF and State Street Financial Center One Lincoln Street Boston, MA 02111 United States of America
Lawyers to the Placing	Covington & Burling LLP 265 Strand London WC2R 1BH
Registrars	Computershare Investor Services (Jersey) Limited Queensway House Hilgrove Street St Helier Jersey JE1 1ES

DEFINITIONS

In this document, where the context permits, the expressions set out below shall bear the following meanings:

“2007 Plan”	the Company’s 2007 Incentive Compensation Plan, further details of which are set out in paragraph 6 of Part V of this document
“Act”	the Companies Act 2006
“Admission”	admission of the Enlarged Share Capital to trading on AIM and such admission becoming effective in accordance with Rule 6 of the AIM Rules for Companies
“AIM”	the market of that name operated by the London Stock Exchange
“AIM Rules for Companies”	the AIM Rules for Companies published by the London Stock Exchange from time to time
“AIM Rules for Nominated Advisers”	the AIM Rules for Nominated Advisers published by the London Stock Exchange from time to time
“Bylaws”	the bylaws of the Company, as amended and restated from time to time, further details of which are set out in paragraph 3 of Part V of this document
“Brown University”	Brown University of Providence, Rhode Island, US
“Certificate of Incorporation”	the certificate of incorporation of the Company, as amended and restated from time to time, further details of which are set out in paragraph 3 of Part V of this document
“Common Shares”	shares of common stock of the Company with a par value of \$0.01 per share
“Company” or “Spectra”	Spectra Systems Corporation, a corporation organised under the laws of the State of Delaware, USA
“Conversion”	the conversion of Preferred Stock into Common Shares, upon Admission, pursuant to the Certificate of Incorporation as detailed in paragraph 2 of Part V of this document
“Converted Common Shares”	the 17,185,052 Common Shares to be issued at Admission pursuant to the Conversion
“CREST”	the electronic systems for the holding and transfer of shares in dematerialised form operated by Euroclear UK & Ireland Limited
“Directors” or “Board”	the directors of the Company whose names appear on page 4 of this document and “Director” shall mean any one of them
“Disclosure and Transparency Rules”	the Disclosure and Transparency Rules made by the FSA under Part VI of the Financial Services and Markets Act 2000

“Enlarged Share Capital”	the enlarged issued common share capital of the Company following Admission, as enlarged by the Placing and the Conversion
“Existing Common Shares”	the 9,473,998 existing Common Shares in issue as of the date of this document
“FSA”	the Financial Services Authority of the United Kingdom
“FSMA”	the Financial Services and Markets Act 2000 (as amended)
“G8”	a forum comprising the governments of Canada, France, Germany, Italy, Japan, Russia, the UK and the US
“London Stock Exchange”	London Stock Exchange plc
“Model Code”	the Model Code set out in the Annex to LR9 of the FSA’s Listing Rules
“Official List”	the official list of the UKLA
“Panel”	the UK Panel on Takeovers and Mergers
“Placing”	the conditional placing of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 19 July 2011 between WH Ireland, the Company and the Directors relating to the Placing, further details of which are set out in paragraph 10 of Part V of this document
“Placing Price”	75.3 pence per Common Share
“Placing Shares”	the 18,592,320 new Common Shares to be issued by the Company pursuant to the Placing
“Preferred Stock”	Series A Convertible Preferred Stock, Series B Convertible Preferred Stock, Series B-1 Convertible Preferred Stock, Series B-2 Convertible Preferred Stock, Series B-3 Convertible Preferred Stock, Series B-4 Convertible Preferred Stock, Series B-5 Convertible Preferred Stock, Series C Convertible Preferred Stock, Series D Convertible Preferred Stock, Series E-1 Convertible Preferred Stock and Series F Convertible Preferred Stock of the Company, in each case \$0.01 par value per share
“Prohibited Person”	means any individual, firm, partnership, association, limited liability company or other entity who is: (a) listed on the U.S. Office of Foreign Assets Control’s “Specially Designated Nationals” list or list of target countries, the U.S. Department of Commerce, Bureau of Industry and Security’s Denied Persons List or Entities List, the Federal Bureau of Investigation’s Most Wanted List or any other FBI-issued watch list, the Office of Defense Trade Controls’ Debarred Parties list, or the U.S. Department of the Treasury’s Blocked Persons List; or (b) resident or organised in any country subject to a U.S. Office of Foreign Assets Control sanctions program, as determined from time to time

“Prospectus Directive”	Directive No 2003/71/EC of the European Parliament and of the Council passed on 4 November 2003 and relating to the prospectus to be published when securities are offered to the public or admitted to trading
“Registrar”	Computershare Investor Services (Jersey) Limited
“Regulation S”	Regulation S promulgated under the US Securities Act
“Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No.3755) as amended
“Rule 144”	Rule 144 promulgated under the US Securities Act
“SEC”	the US Securities and Exchange Commission
“Shareholder”	a holder of Common Shares
“Share Scheme”	the 2007 Plan
“Takeover Code”	the City Code on Takeovers and Mergers (as published by the Panel)
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UKLA”	the United Kingdom Listing Authority, being the Financial Services Authority acting in its capacity as the competent authority for the purposes of the Financial Services and Markets Act 2000
“US Exchange Act”	the United States Securities Exchange Act of 1934, as amended from time to time
“US”, “USA” or “United States”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
“US Person”	has the meaning ascribed to such phrase by Regulation S
“US Securities Act”	the United States Securities Act of 1933, as amended from time to time
“Warrants”	warrants to subscribe for Common Shares as described in paragraph 6 of Part V of this document
“WH Ireland”	WH Ireland Limited, nominated adviser and broker to the Company
“£” and “p”	United Kingdom pounds and pence sterling, respectively
“\$” and “c”	United States dollars and cents, respectively

PART I

INFORMATION ON THE COMPANY AND THE PLACING

Introduction

Spectra Systems Corporation, which is based in Providence, Rhode Island, USA, invents, develops, manufactures and markets advanced technology-based security solutions used primarily to authenticate and process banknotes. Its solutions include consumable materials, hardware and software systems, and its users include two G8 central banks and 13 other central banks.

Background and history

Spectra was founded in 1996 by its Chief Executive, Dr. Nabil Lawandy. Since its inception, the Company's strategy has been to commercialise technologically advanced security solutions, both covert and public, for banknotes and other documents. The Company provides an integrated solution, in that it supplies engineered consumable materials for authentication and processing purposes, as well as hardware and software systems to verify the presence of the authentication and processing materials.

The Company has penetrated the currency and documentation markets through a series of strategic supply and licensing agreements with governmental, institutional and corporate partners. Its customers include:

- A G8 central bank organisation;
- One of the world's largest commercial security printers and papermakers, which supplies the Company's technology to a second G8 central bank and 13 other central banks;
- Crane & Co., the exclusive manufacturer and supplier of US currency and passport paper; and
- Technical Graphics Incorporated, which is a major supplier of security threads for world currencies.

Spectra protects its intellectual property through patents, when possible and appropriate, and through the maintenance of strict confidentiality of processes and materials. All but a few of the materials used for security features in the Company's solutions are protected by patents.

The business

The Company invents, develops, manufactures and markets integrated materials and systems solutions to authenticate and process banknotes and other high value documents. Its covert solutions include proprietary engineered consumable materials and the authentication software and hardware systems necessary to identify these materials. These integrated solutions are used by two G8 central banks and 13 other central banks for currency security, and exclusively by a G8 country for passport security.

The Company's consumable materials are available in several forms, including particles, threads, inks and coatings. These materials incorporate unique engineered signatures and codes and can either be used to provide covert machine readable signatures and codes (for use by central banks for currency authentication) or "public-level" security (for use by shop keepers and commercial banks).

The Company's software and hardware systems include high-speed currency authentication sensors, of which the Company is one of the world's leading suppliers. Central banks instal the sensors in currency sorting machines capable of authentication at rates of up to 40 banknotes

per second with error rates of less than one in 100,000 in some cases. In addition to sensors, the Company also supplies quality control equipment for use in paper manufacturing and printing with its materials, and is developing banknote fitness sensing hardware.

The Company is in the process of commercialising a new generation security feature. A G8 central bank, having evaluated the security of the new feature, has contracted the Company to develop sensors to identify both the new generation feature as well as the current feature. This development contract is part of a comprehensive agreement with the Company which includes the purchase of several hundred sensors once the prototypes have been tested and approved. Having gone through a similar process with the same central bank in 2001, the Directors are confident that this central bank will execute the sensor acquisition element of the agreement as well as acquire new generation consumable materials on a long term basis.

The Company, in conjunction with a UK based public security feature manufacturing company, is also currently in discussions with the Reserve Bank of India concerning the new generation feature. These discussions have proceeded through two rounds of elimination and are expected, by the Directors, to be concluded during 2011.

The market

Spectra's physical security solutions address the increasing need and demand for the authentication and processing of currencies and identity documents. Renewed levels of awareness of security issues, driven, in the Directors' opinion, by a combination of national security and identity theft issues, have increased the global demand for innovative and effective solutions.

Covert and overt security features in banknotes play an important role in protecting governments from a variety of counterfeiting sources, including state sponsored activities whose purpose is suspected to be to obtain arms and materials which can threaten national security. State sponsored counterfeiting, undertaken by Germany in World War II, is also believed to be the source of Superdollars and Supernotes (the US Secret Service terms for counterfeit notes of extremely high quality) which are believed to have been manufactured in the Middle East since the 1990s and more recently in Asia.

In addition to the potential national security threats which arise from large scale sophisticated counterfeiting, the significant annual losses due to identity theft will, in the Directors' opinion, continue to support the use of banknotes for the foreseeable future. In 2006 the Economist Intelligence Unit estimated that global losses due to identity theft and fraud exceeded \$200 billion in 2003 and reached approximately \$2 trillion in 2005. In 2010 US consumers experienced approximately \$50 billion of such loss, with an average per victim loss of \$631. Also in 2010, a Congressional Research Service Report stated that identity theft was the nation's fastest growing type of fraud. Identity theft has resulted in consumers switching back to using cash, with approximately 42 per cent. using more cash in 2010 than in 2009. The Directors believe that the combination of state sponsored counterfeiting operations, along with the cost of identity theft, will provide a continuing demand for Spectra's security solutions.

The Directors estimate that in excess of 100 billion banknotes are produced each year and that this volume of production is growing at an average of 6 per cent. per annum. They also estimate that the size of the banknote authentication market currently amounts to approximately \$600 million per annum worldwide, and project that it will reach \$1 billion by 2015.

The Directors also believe that there is potential for sales of other banknote processing equipment, such as fitness sensing equipment, leveraging the Company's expertise in interfacing with sorting machines manufactured by the two major suppliers, who have an installed base of approximately 2,000 central bank sorting machines. The Directors estimate that approximately \$300 billion is spent globally on cash processing each year.

Certain existing covert machine-readable technologies have been in use for over 30 years and a G8 central bank has contracted to use one of the Company's solutions for a term of over 20 years. In addition, it is the usual practice of central banks to supplement, rather than replace,

security features in banknotes. The Directors therefore anticipate Spectra's consumable material revenues generally continuing for in excess of 20 years and would also anticipate sales of improved sensors to the same central banks broadly every ten years.

Furthermore, the Company's solutions can be used for authenticating, processing and tracking pharmaceutical products, software, optical discs and branded luxury goods. The Company has developed and has ready for market a number of security features for use with various packaging materials, including cardboard, plastics and glass. In addition, it is currently in commercial discussions with a major US plastic film packaging company and a US biotechnology process development company.

Commercialisation

The Company commercialises its solutions through a combination of direct sales to central bank organisations as well as through a licensing and supply arrangement with one of the world's largest security printers, which sells the solutions to other central banks.

The covert product solution, comprising enabling hardware and software which interact in a lock and key fashion with the consumable materials, is sold as a complete system, which is often followed by the sale of quality control hardware, sensors and then materials on a long-term basis (at a current average gross margin for both covert and public materials of approximately 60 per cent.). In addition to the sale of the hardware, Spectra also provides certain central banks with repair services on a long-term basis. The sensors sold to central banks are typically replaced by the central bank every ten years to take advantage of technological advances in various subsystems and to meet environmental requirements.

The Company, having developed its reputation as a supplier of reliable and advanced anti-counterfeiting systems, is now in a position to market its newest security feature directly to both existing and new central bank customers. This strategy has met with rapid success, with one G8 central bank already funding the development of the required sensor platform and the Reserve Bank of India currently evaluating the technology for possible adoption in 2011.

Competition

The Company's solutions for covert machine-readable currency authentication face competition primarily from the 30 year old "M-feature", which is supplied by Giesecke and Devrient GmbH ("G&D"), a German supplier of currency processing products. The M-feature's response is believed to be determined only by its chemical formula.

The Directors are confident that the Company's solutions, which are engineered as opposed to being simply chemical in nature, have been successfully deployed for over a decade and have been adopted by two G8 central banks, enjoy significant competitive advantages relative to other covert banknote security features.

In addition, the Directors believe that the Company has a number of further strengths, including:

- the ability to customise its covert solutions;
- the ability to combine covert solutions with other security features;
- the high reliability of its systems;
- the Company's ability to rapidly innovate new products and respond to customer requirements;
- the inherent efficiencies and other competitive advantages of a small, flexible and responsive organisation;
- the Company's strong intellectual property platform, in the form both of patents and technical knowhow; and
- its corporate partnership, exclusive amongst machine-readable security feature providers, with one of the world's largest commercial security printers.

The Company's ability to develop new products rapidly has most recently been demonstrated by a G8 central bank contracting for further development of the Company's new generation security feature, on which initial development commenced only two years ago.

The Directors believe that the Company's competitors have yet to produce products which compete effectively with the Company's existing and new solutions.

Strategy

Following Admission, the Company intends to pursue a growth policy based upon both organic development and strategic acquisition.

The Company's solutions and technologies are currently used by two G8 and 13 other central banks. Its strategy is to expand this user base and also to apply the solutions and technologies to other market places. The Company has therefore adopted a strategy of marketing combined public and covert technologies, both directly and through partnerships with primarily public security technology suppliers, to central banks and packaging manufacturers. This is key to the marketing strategy for the new generation feature into the central banks of India and China, and is expected by the Directors to expand the Company's customer base and allow it to offer products with dual use and reduced costs of implementation.

In addition, all of Spectra's security features have been developed to be compatible with polymer substrates, which are already in use in the manufacture of bank notes in 29 countries. As these banknotes last longer and result in savings for central banks, the Directors believe that this compatibility is important to the growth of the Company's business.

Following Admission, the Company intends to establish an integrated facility to manufacture consumable materials in-house, rather than on a sub-contracted basis, which, the Directors believe, will enable the Company to reduce its costs by approximately \$0.5 million per annum.

In order to accelerate and facilitate market penetration, the Company's new features have been developed to be incorporated into public security features already in use. The Company is therefore keen to acquire companies providing public or covert security features which can be integrated into its operations. The acquisition of such companies would be expected to open new channels for marketing the Company's solutions, while providing a rational approach for central banks to save money while implementing both their public security features of choice with cutting edge covert features from Spectra.

Alongside expansion of markets for its existing products, the Company continues research and development work on new products and services based upon its technological expertise, which may open new markets including banknote fitness sensing and biotechnology.

Intellectual property

The Company's portfolio of intellectual property rights consists of 34 directly granted patents, 21 pending patent applications, 19 exclusively licensed patents and patent applications, and materials processes and formulations which are kept as trade secrets.

The patent portfolio comprises patent families representing applications which relate specifically to banknote authentication and fitness, general products and goods authentication and tracking, and materials and processes not related to security applications, which are being offered for licensing.

Currently the Company has a total of 34 directly granted US and foreign patents. Ten of the 26 US patents relate to banknote authentication and fitness, twelve relate to the area of general products and goods authentication and tracking and four relate to other materials, devices and processes. Four of the eight granted foreign patents relate to banknote authentication and four relate to

authentication and tracking. The foreign patents represent families of countries where the technology has been protected and includes key North American, European, Latin American and Asian countries.

In addition to the issued and granted patents, the Company has 12 pending US applications and nine pending foreign applications.

The Company also has the benefit of 19 issued patents and pending applications licensed from Brown University. Six issued US patents licensed from Brown University are derived from one initial patent licensed in 1996 which has application to the Company's business in banknote authentication. A seventh patent relates to a process for making micro-optics in certain glass materials. In addition to the issued US patents licensed from Brown University, there are 12 granted foreign patents and foreign patent applications which are included in the licence from Brown University. Under the terms of its licence agreement with Brown University, the Company pays a royalty equal to 5 per cent. of certain current generation material revenues.

The Company has not had and is not aware of any third party challenges during the prosecution of its portfolio.

The Company has used and registered, to distinguish its solutions, technologies and services from those of its competitors, the names "Spectrashift", "Vericoat", "Vericam" and "Spectrafluor".

The Directors recognise the importance of intellectual property and its significance is reflected by the involvement of senior personnel in the decision making process.

Summary financial information

The following information has been extracted from the audited financial information on the Company for the three years ended 31 December 2010 set out in Part III of this document and summarises the trading record of the Company. Investors should read the full text of this document and, in particular, Part III and not rely solely on this summary.

INCOME STATEMENT INFORMATION	<i>Year ended 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Revenues:			
Materials	4,381	3,886	3,062
Systems	156	1,422	1,430
Service	2,106	1,752	1,777
Royalty	362	364	1,009
	<u>7,005</u>	<u>7,424</u>	<u>7,278</u>
Gross profit	<u>4,158</u>	<u>3,907</u>	<u>4,349</u>
Income from operations	<u>647</u>	<u>288</u>	<u>359</u>
Income before taxation	<u>672</u>	<u>304</u>	<u>365</u>
BALANCE SHEET INFORMATION	<i>As at 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Net assets	<u>2,105</u>	<u>4,088</u>	<u>4,672</u>

In the year ended 31 December 2009, the Company recognised a deferred tax asset of \$1.246 million. This contributed significantly to the increase in net assets at 31 December 2009 to approximately \$4.088 million. At 31 December 2010, the deferred tax asset recognised remained at \$1.246 million but the total potential deferred tax asset at full recognition at that date

was approximately \$9.936 million. In accordance with US GAAP and the Company's accounting policy, the amount recognised represents the amount that the Directors consider it more likely than not to be realised. This is more fully described in note E7 of Part III of this document.

In the year ended 31 December 2010, approximately \$0.703 million of non-refundable advance royalties was recognised as royalty income, as the Directors did not anticipate that future income based on sales of the underlying materials relating to optical discs would cover such advance royalties. This is in accordance with the Company's accounting policy.

Current trading and prospects

The Directors believe that the Company has made significant progress in the year to date. In particular it has, *inter alia*:

- entered into a contract, commencing in July 2011, with a G8 central bank to develop and, after prototype acceptance, manufacture and deliver upgraded sensors in relation to its current generation feature, and also to provide ongoing service and maintenance in relation thereto, which is expected over several years to generate revenues of up to \$10 million;
- entered into a contract, commencing in July 2011, with a G8 central bank to develop a sensor for the new generation feature, and negotiated a statement of work to provide the new generation consumable material;
- received an order for a significantly increased volume of consumable materials, commencing in August 2011, from one of the world's largest security printers for a G8 central bank customer;
- generated record sales, on an annualised basis, of phosphors, a public security material; and
- entered into a development agreement with one of the world's largest security printers to incorporate its covert security features into polymer banknotes.

As the benefits of much of this progress will be realised in the second half of the current financial year, the Directors anticipate that the Company's results for the year ending 31 December 2011 will be weighted towards the second half.

In light of the Company's existing contracted business, its progress in the year to date, ongoing discussions with the Reserve Bank of India concerning the new generation feature and other negotiations with potential purchasers of the Company's solutions, in both banknote and other applications, the Directors believe that the Company has excellent prospects.

Dividend policy

The Company has never declared or paid a dividend on its issued share capital. The payment of future dividends will depend on the future earnings of the Company. The Board intends that the Company will pay a dividend to Shareholders when it is able and appropriate to do so.

Directors, senior management and employees

Board of Directors

The Board, which is required by the US Department of Security Services, the regulatory body of suppliers to the US Government, to comprise a majority of US citizens, comprises the following Directors:

The Honourable BJ Penn, Non-Executive Chairman (aged 73)

Mr. Penn, a US citizen, was Acting Secretary of the US Navy from March to May 2009, having previously been Assistant Secretary of the Navy (Installations and Environment) from March 2005. He was also Director, Industrial Base Assessments from October 2001 to March 2005, with responsibility for the overall health of the US defence industrial base. He commenced his career

as a Naval Aviator, having received his BS from Purdue University, West Lafayette and his MS from the George Washington University, DC. Mr. Penn has been a member of the Board since June 2010 and became Chairman of the Board on 7 June 2011.

Nabil Lawandy, President and Chief Executive Officer (aged 54)

Dr. Lawandy, a US citizen, the President and Chief Executive Officer of the Company and a member of the Board of Directors, founded the Company in 1996. From 1981 to 1997, Dr. Lawandy was a tenured full professor of Engineering and Physics at Brown University. He holds a BA in physics, and an MSc and PhD in chemistry, each from The Johns Hopkins University. He has authored over 170 reviewed scientific papers and is an inventor on 52 US and 27 foreign issued patents. He has also received a Presidential Young Investigator award, an Alfred P. Sloan Fellowship, a Rolex Award for Enterprise and a Samuel Slater Award for Innovation.

Roland Puton, Non-Executive Director (aged 76)

Mr. Puton, a Swiss citizen, served as the president and chief executive officer of Rolex Watch USA Inc from 1984 until his retirement in 2000. He holds a degree in business administration from the Swiss Business School. Mr. Puton has been a member of the Board since 1997.

Donald Stanford, Non-Executive Director (aged 61)

Mr. Stanford, a US citizen, who was until 2001 the chief technical officer of GTECH Corporation, is an Adjunct Professor of Computer Science and Engineering at Brown University. He holds a BA in International Relations and an MS in Computer Science and Applied Mathematics, both from Brown University. Mr. Stanford has been a member of the Board since 2008.

Mark Curcio, Non-Executive Director (aged 51)

Mr. Curcio, a US citizen, received his MBA from Carnegie-Mellon University and went on to become one of the founding partners of Bain and Company's Los Angeles Office as well as Bain's Private Equity Practice. From 1997 through 2000, he was the chief executive officer of Artisan Entertainment and currently he is a partner of Curcio Capital Advisors, working on assignments for companies such as TPG, Goldengate Capital, and Sheridan Square Entertainment. Mr. Curcio has been a member of the Board since 2008.

Dr. Oussama Salam, Non-Executive Director (aged 64)

Dr. Salam, a Lebanese citizen, has served as director general of the International Centre for Commerce and Contracting, a construction company in Saudi Arabia, from September 1978 until 2000. Dr. Salam co-founded WorldCare Limited, a company in the emerging field of global e-Health, and served on its board of directors from 1993 until June 1998. He received a BSc, in Civil Engineering from Loughborough University of Technology and an MS and a PhD in Civil Engineering from The Ohio State University. Dr. Salam has been a member of the Board since 1996.

Martin Jaskel, Non-Executive Director (aged 65)

Mr. Jaskel, a British citizen, is a director of European American Capital Limited, a specialist investment bank advising clients on a global basis on debt and equity capital issues, foreign exchange and trade finance issues. Prior to joining the bank Mr. Jaskel founded MSJ Associates Limited, a consultancy in capital markets and held a consultancy position with KPMG Corporate Finance. His background was as a partner in W. Greenwell & Co., UK Stockbrokers, director of Global Marketing, NatWest Treasury and managing director, Global Trade and Banking Services, NatWest Markets. He has extensive experience as a non-executive director of both private and listed companies. Mr. Jaskel has been a member of the Board since 2007.

The Honourable BJ Penn and Messrs Puton, Stanford, Curcio and Jaskel are each considered by the Board to be independent Non-Executive Directors.

Senior management

Doug Anderson, Chief Financial Officer and Company Secretary (aged 38)

Mr. Anderson joined the Company as Chief Financial Officer in December 2006 and was appointed Company Secretary in June 2011. Prior to joining the Company, Mr Anderson was employed by Bluestreak Inc., a global marketing technology company where he served as president. Mr Anderson also held several financial positions including director and secretary of Bluestreak's wholly owned UK subsidiary, Bluestreak International Limited. Prior to Bluestreak, he was responsible for financial and account operations at Log On America, a publicly traded telecommunication company. He also spent three years at Ernst & Young advising clients on financial strategy, accounting and compliance needs. Mr. Anderson holds an MBA from Boston University and a BA from the University of Rhode Island.

William Goltsos, Vice President, Engineering (aged 52)

Dr. Goltsos was appointed Vice President, Engineering, in April 2000. From September 1996 to April 2000, he served as Senior Systems Engineer. Prior to that, from 1992 to 1996, he served as a Staff Member of the MIT/Lincoln Laboratory's Optical Communications Group. Dr. Goltsos holds a BSc in Physics from Rensselaer Polytechnic Institute and an MSc and PhD in Physics from Brown University.

James Cherry, Director of Authentication Systems (aged 55)

Mr. Cherry serves as Director of Authentication Systems. He joined the Company in 2002 from Auspex Systems, an enterprise network data storage system business, where he had been involved in marketing and product management for seven years. Prior to that, he had worked for five years at DuPont in product management.

Dr. Andrei Smuk, Director of Research and Development (aged 39)

Dr. Smuk, who joined the Company in 2000, was appointed Director of Research and Development in 2006. He is responsible for the development of advanced materials and innovative sensor systems. He received a PhD in Physics from Brown University in 2000 and an MS in Applied Physics from the Moscow Institute of Physics and Technology in 1994.

Employees

The Company employs 20 full-time staff, of whom four are involved in research & development, eleven in engineering, service and application support, two in sales & marketing and three in finance, management and administration.

Technical advice

The Company has access, on an *ad hoc* basis, to various specialists, in areas of relevance to its solutions. Two of these specialists in close proximity to the Company are Dr. Joseph Calo, Professor of Chemical Engineering at Brown University, and Dr. Leon Cooper, Thomas J. Watson Sr. Professor of Science, Brown University (Nobel prize winner, Physics, 1972).

Share Scheme

As more fully explained in paragraph 6 of Part V of this document, options and warrants to subscribe for Common Shares (representing 13.42 per cent. of the Enlarged Share Capital) have been granted to employees and Directors of the Company.

The Directors have the capacity to issue options over a further 8,537,873 Common Shares (representing 18.87 per cent. of the Enlarged Share Capital) pursuant to the 2007 Plan. However, following Admission, the Company will comply with the ABI Guidance for Share-Based Incentive Schemes, published in December 2009, in respect of future grants of options under the Share Scheme and any future share option schemes.

Corporate governance

The Directors recognise the importance of sound corporate governance and intend that the Company will comply with the provisions of the “Corporate Governance Guidelines for Smaller Quoted Companies” published by the Quoted Companies Alliance.

The Board is responsible for formulating, reviewing and approving the Company’s strategy, budgets and corporate actions. Following Admission, the Company intends to hold Board meetings at least six times each financial year and at any other times as and when required.

The Company has established properly constituted audit, compensation and government security committees of the Board with formally delegated duties and responsibilities.

The audit committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on. It will receive and review reports from the Company’s management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The audit committee intends to meet no less than three times each financial year and will have unrestricted access to the Company’s auditors. The audit committee comprises Roland Puton, as chairman, Mark Curcio and Martin Jaskel.

The compensation committee reviews the performance of executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. The compensation committee comprises Roland Puton, as chairman, Martin Jaskel, Oussama Salam and Donald Stanford.

The government security committee is responsible for ensuring the implementation within the Company of all procedures, organisational matters and other aspects pertaining to the security and safeguarding of information, including the exercise of appropriate oversight and monitoring of operations to ensure that protective measures are effectively maintained and implemented. The government security committee comprises BJ Penn, as chairman, and Nabil Lawandy.

The Board intends to comply with Rule 21 of the AIM Rules relating to Director’s dealings and will also take all reasonable steps to ensure compliance by the Company’s applicable employees and the Company has adopted a share dealing code for this purpose on substantially the same terms as the Model Code.

Takeover Code

As the Company was incorporated under the laws of the state of Delaware in the US and its registered office and its place of central business are outside of the UK, the Channel Islands and the Isle of Man, the provisions of the Takeover Code will not apply to the Company. As a result, certain of the protections that are afforded to shareholders under the Takeover Code, for example in relation to a takeover of a company or certain shareholding activities of shareholders, do not apply to the Company. Certain provisions have been inserted into the Bylaws which adopt similar procedures to the Takeover Code in the event of any party (or parties acting in concert) obtaining an interest in the issued Common Shares carrying 30 per cent. or more of the voting rights. However, there is no assurance that the courts of the State of Delaware, USA will uphold or allow the enforcement of the provisions.

Your attention is drawn to the risk factors contained in Part II of this document in this regard. The Bylaws contain provisions which seek to incorporate certain rules and arrangements set out in the Takeover Code, further details of which are summarised in paragraph 3 of Part V.

Reasons for Admission and use of proceeds

The Company has applied for the Enlarged Share Capital to be admitted to trading on AIM to:

- increase its corporate standing and profile, particularly in the UK from where the Company expects to generate a significant proportion of its growth;
- provide it with working capital to finance its organic growth and with access to additional capital to finance its growth by acquisition; and
- attribute a value to its Common Shares so as to increase the benefits of the Share Scheme in attracting, retaining and incentivising employees.

The net proceeds of the Placing of approximately £12.8 million are expected to be applied:

- to finance the development of an integrated facility to manufacture in-house, rather than on a sub-contracted basis, consumable materials (approximately £0.9 million);
- to complete the development of banknote fitness sensing technology (approximately £0.6 million);
- to finance the marketing of the new generation security feature to the central banks of India and China (approximately £1.2 million);
- to fund strategic acquisitions, where the Directors consider that such acquisitions will enhance the business; and
- as to the balance for general working capital purposes.

Lock-ins and orderly market arrangements

The Directors who, on Admission, will be the beneficial holders of a total of 5,638,900 Common Shares, in aggregate representing approximately 12.46 per cent. of the Enlarged Share Capital, have undertaken to the Company and to WH Ireland, as Nominated Adviser, that, subject to certain limited exemptions, they will not sell or otherwise dispose of, or agree to sell or dispose of, any of their respective interests in the Common Shares held on Admission at any time during the period of 12 months following Admission. Certain orderly market provisions will apply for a further period of 12 months after expiry of the 12 month lock-in period.

Albany International Corp will, on Admission, be the beneficial holder of a total of 3,160,526 Common Shares, representing approximately 7 per cent. of the Enlarged Share Capital, and have undertaken to the Company and to WH Ireland, as Nominated Adviser, that, subject to certain limited exemptions, they will not sell or otherwise dispose of, or agree to sell or dispose of, any of their respective interests in the Common Shares held on Admission at any time during the period of 6 months following Admission.

Further details of the lock-in undertakings are set out in paragraph 10 of Part V of this document.

Admission

Application has been made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will be effective and that dealings in the Common Shares will commence on 25 July 2011.

Restrictions on transfer under the US Securities Act and US Exchange Act

The Common Shares have not been, and will not be, registered under the US Securities Act or under any securities laws of any state or other jurisdiction of the United States. The Placing Shares are being offered only to non-US Persons outside the United States in transactions exempt from the registration requirements of the US Securities Act in reliance on Regulation S. Accordingly, the Placing Shares are "restricted securities" as defined in Rule 144 under the US Securities Act. The Placing Shares may not be offered, sold or delivered, directly or indirectly, in or into the United States or to, or for the account or benefit of, any US Person, unless the transfer is registered under the US Securities Act or an exemption from the registration requirements is available under the US Securities Act such as under Regulation S, Rule 144 or otherwise.

One of the criteria for the exemptions from registration under Regulation S to apply is that, subject to certain exemptions, US Persons, and anyone acting for the account or benefit of a US Person, do not purchase the Placing Shares during a one-year period after issuance. As such, the share certificates issued in respect of the Placing Shares will be required to bear a legend describing restrictions on transfer to US Persons, and anyone acting for the account or benefit of a US Person and prohibiting hedging transactions in the Common Shares unless in compliance with the US Securities Act. To enable the Company to comply with US securities laws, the Bylaws permit the Directors to refuse to register the transfer of any Common Share where: (i) it appears to the Company that the transfer is not made in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act or pursuant to an available exemption from registration under the Securities Act and any applicable state securities laws; or (ii) such transfer might require the Company to register its Common Shares under Section 12 of the US Exchange Act, or would result in the Company becoming subject to the periodic reporting requirements of the US Exchange Act.

Settlement of trades in the Common Shares in issue immediately prior to Admission will depend on whether the relevant Common Shares or Preferred Stock from which they were converted were acquired more than twelve months before Admission and whether they are held by non-affiliates, or are subject to applicable lock-in agreements. As of the date of this document and after giving effect to the Conversion, up to 20,984,858 Common Shares, for which there is currently no market in the US, are eligible for resale pursuant to an exemption from registration under the US Securities Act. However, 8,778,152 of such Common Shares are subject to lock-in agreements described herein. Common Shares held by affiliates may be subject to additional transfer restrictions.

As restricted securities, settlement of trades in the Common Shares will be required to take place in paper form rather than in CREST to ensure greater certainty that purchases of the Placing Shares are not made by US Persons during the one year period after issuance.

Further details of the transfer restrictions in respect of the Placing Shares are set out in Part IV of this document.

Restrictions on transfer under other US laws

To enable the Company to comply with certain US federal laws and trading and economic sanctions enforced by the US Office of Foreign Assets Control and the US Department of Defense, the Bylaws permit the Directors to refuse to register the transfer of any Common Share where: (i) the transferee is not able to certify to the Company or the Registrar that it is not a Prohibited Person; or (ii) as a result of such transfer a non-US Person would have a legal or beneficial interest, directly or indirectly, in the Common Shares representing at least 5 per cent. of the issued Common Shares and such non-US Person does not have in place requisite agreements with the applicable government agency(ies) prohibiting access to classified information and prohibiting the non-US Person from exercising control over or influencing the business or management of the Company.

For the same reason the Bylaws also provide that where, in the opinion of the Directors, Common Shares are being held or beneficially owned, directly or indirectly, by any holder (a "Disadvantageous Owner"): (i) whose interest in Common Shares is in breach of any law or requirement of any country or jurisdiction; (ii) who is a Prohibited Person; or (iii) who is a non-US Person with an interest in the Common Shares representing at least 5 per cent. of the issued Common Shares and such non-US Person does not have in place requisite agreements with the applicable government agency(ies) prohibiting access to classified information and prohibiting the non-US Person from exercising control over or influencing the business or management of the Company, the Company may direct the Disadvantageous Owner to transfer some or all of his Common Shares to a person who would not, by reason of a transfer, become a Disadvantageous Owner.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the Uncertificated Securities Regulations 2001.

Due to the restrictions imposed by the US Securities Act, the Common Shares will be settled in certificated form and will not be settled through CREST. Accordingly, the Company has not applied for the Common Shares to be admitted to CREST. The Directors intend to apply for the Common Shares to be settled in CREST once the relevant transfer restrictions no longer apply.

Effects of US domicile

The Company is a US corporation organised under the laws of the State of Delaware. There are a number of differences between the corporate structure of the Company and that of a public limited company incorporated in the UK. While the Directors consider that it is appropriate to retain the majority of the usual features of a Delaware corporation, the Directors intend to take certain actions to conform to UK standard practice. Set out in paragraph 15 of Part V of this document is a description of certain provisions of the Company's Certificate of Incorporation and Bylaws which incorporate English law principles in relation to pre-emption rights, notifiable interests and takeovers.

Details of the Placing and Admission

Pursuant to the Placing, which has been arranged by WH Ireland, the Placing Shares have been conditionally placed with institutional and other investors in the United Kingdom at the Placing Price. The Placing has not been underwritten.

Subject to the Placing becoming unconditional, the Placing will raise approximately £14 million before expenses (approximately £12.8 million net of expenses) for the Company.

The Placing Shares will represent approximately 41.09 per cent. of the issued share capital of the Company immediately following Admission. The Placing Shares will be issued credited as fully paid and will, on issue, rank *pari passu* with the Existing Common Shares, including the right to receive all dividends and other distributions thereafter declared, made or paid. At Admission, approximately 19.45 per cent. of the Common Shares will not be in public hands.

Application has been made for all the Common Shares (including the Placing Shares) to be admitted to trading on AIM. The Placing Shares have not been marketed in whole or in part to the public in conjunction with the application for Admission.

The Placing is conditional, *inter alia*, upon:

- the Placing Agreement becoming unconditional (save for Admission) and not having been terminated in accordance with its terms prior to Admission; and
- Admission taking place on 25 July 2011 or such later date as WH Ireland and the Company may agree, not being later than 31 July 2011.

Taxation

Your attention is drawn to paragraph 14 of Part V of this document. These details are intended only as a general guide to the current tax position under UK and US taxation law. If an investor is in any doubt as to his or her tax position he or she should consult his or her own independent financial adviser immediately.

Additional information

Prospective investors should read the whole of this document which provides additional information on the Company and the Placing and not rely on summaries or individual parts only. In particular, the attention of prospective investors is drawn to Part II which contains a summary of the risk factors relating to an investment in the Company.

PART II

RISK FACTORS

In addition to all other information set out in this document, the following specific risk factors should be considered carefully by potential investors in evaluating whether to make an investment in the Company. The investment described in this document may not be suitable for all of its recipients. Before making a final decision, investors in any doubt are advised to consult their stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised pursuant to the FSMA if resident in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

You should carefully consider the risks described below and ensure that you have read this document in its entirety before making a decision to invest in the Company.

Prospective investors should be aware that an investment in the Company is speculative and involves a high degree of risk. In addition to the other information contained in this document, the Directors believe that the following risk factors are the most significant for potential investors and should be considered carefully in evaluating whether to make an investment in the Company. If any of the risks described in this document actually occurs, the Company may not be able to conduct its business as currently planned and its financial condition, operating results and cash flows could be seriously harmed. In that case, the market price of the Common Shares could decline and all or part of an investment in the Common Shares could be lost. However, the risks listed do not necessarily comprise all those associated with an investment in the Company. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect on the Company. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and tax requirements. The risks listed below are not set out in any particular order of priority.

Risks relating to the business

The covert technologies underlying the Company's solutions could be breached

Users of the Company's security solutions rely on the integrity of those solutions and the confidentiality of the underlying technologies remaining intact. In the event that a third party were able to determine, reverse engineer and/or manufacture the Company's covert features, the Company's ability to generate revenue could be adversely affected.

Complex products

Certain of the products produced by the Company are highly complex and are designed to be used in complex systems. Faults may be discovered and may arise as a result of non-compatibility with materials produced by third parties. Failure to correct errors or other problems identified after deployment could result in loss of revenue, loss of customers, failure to achieve market acceptance of a product, loss of market share, diversion of resources away from product development, legal action and increased insurance costs, each of which could have a negative effect on the Company's business and financial condition.

Continued product development and introduction

The Company must continually develop and refine its products in order to maintain (or increase) its market position and this may require significant investment by the Company, particularly if there are significant changes in technology in the future.

The development of new or enhanced products is a complex process and delays may be experienced due to difficulties encountered in the design and manufacturing processes, including in respect of systems and materials, which could prevent or delay the introduction of new or enhanced products.

Reliance on customer approval for new solutions

Development projects undertaken by the Company generally require customer approval and contract agreement prior to production and revenue generation commencing. Lengthy delays in such customer approval or contract agreement, outside the control of the Company, may therefore lead to delays in production and revenue generation which would in turn impact the timing, but typically not the aggregate value, of revenues. In addition, although the Directors consider this highly unlikely, a G8 central bank user has the right to substitute the Company with an alternative provider of banknote security solutions.

The Company's markets may become impacted by technological change

The markets for the Company's products may become characterised by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction of products embodying new technology and the emergence of new industry standards could render the Company's existing products obsolete and unmarketable and may exert price pressures on existing products. If the Company could not then develop products that remain competitive in terms of technology and price and that meet customer needs, this could have a negative effect on the business.

Financial results may be significantly influenced by a small number of contracts with a limited number of customers

The Company's financial results may be materially affected in any particular financial year by a small number of large contracts with a limited number of customers. For example, in the year ended 31 December 2010, the Company's two largest customers accounted for approximately 81 per cent. of its revenue. Although contracts for the supply of consumable materials are generally long-term, the timing of winning and fulfilling of other contracts is unpredictable, potentially causing significant fluctuations in actual results, as compared with expectations or plans.

Security accreditations

A significant proportion of the Company's revenues are dependent upon the Company retaining various security accreditations. Loss of such an accreditation, which might be outside the Company's control, could therefore have a significant impact on its revenues.

Dependence on key personnel

The success of the Company depends on a limited number of employees, and in particular the Chief Executive Officer and other managers with technological and development input. The Company has endeavoured to ensure its key employees are incentivised but cannot guarantee the retention of these staff. It also has the benefit of keyman insurance.

US employees do not have notice periods

Save for Nabil Lawandy, the Chief Executive Officer of the Company, whose employment is subject to a six month notice period, each of the US employees of the Company is employed "at will", as is customary in the US. Consequently, the Company can impose no contractual terms that require a US employee to give to the Company more than nominal notice when the employee voluntarily terminates his or her employment with the Company. As a result, the Company may be more exposed than other non-US companies to the likelihood of its staff departing with nominal notice which, given that many of the employees possess a large amount of know-how individually, may result in that know-how not being passed on effectively to remaining and incoming employees. Most of the Company's employees have signed an 18 month non-compete and a five year confidentiality undertaking, however the Company may be required to release certain of these undertakings if one of the G8 central bank users exercises its right to solicit employees of the Company.

In the US, an executive director can be terminated for cause as an employee by a company, but will remain on the board of such company until he either resigns from such board, fails to be elected annually by the shareholders of such company or is removed from such board by a valid

resolution of such company's shareholders. Consequently, an executive Director may be able to remain on the Board and have an influence on Board proceedings for a period of time after he has been terminated for cause by the Company.

The Company's competitors may have access to greater financial resources

The Company may face competition from other companies with greater capital resources. Given that the Company competes in an industry driven by technological innovation, it may be the case that these competitors are able to develop more advanced products more rapidly than the Company. In addition the Company's competitors may be able to take advantage of their scale and undertake aggressive pricing policies with which the Company cannot compete effectively.

Expansion into new markets

The Company intends to penetrate new markets. However, there can be no guarantee that entry into these markets will generate commercially viable revenues and failure to do so could negatively impact the Company's financial and management resources, diverting them away from other uses.

Risks relating to intellectual property

Proprietary technology and intellectual property

The Company's success depends to a significant degree on its ability to protect its intellectual property rights. In addition to many patents, it also relies upon various intellectual property protections, including trade secret and contractual provisions, to preserve its intellectual property rights. Despite these precautions, it may be possible for third parties to obtain and make use of its intellectual property and some foreign laws do not protect proprietary rights to the same extent as the laws of the UK or US.

Competitors of the Company may seek to bring action against the Company for alleged third party infringements. It is possible that the Company's patents could be challenged by a third party and, even if the challenge were not successful, it could have a significant impact on the Company's financial and management resources. Third party patent applications filed earlier may block the Company's own patent applications. The Company's products may be sold in countries where there is less protection of intellectual property rights than under UK or US law, and enforcement of the Company's intellectual property rights may be ineffective.

The Company intends to protect its patent rights against infringement through negotiation and litigation, if necessary. Such litigation is costly and may not be successful. The Company has limited financial resources with which to pursue enforcement actions. If the Company is unsuccessful or unable to take appropriate action to enforce its rights, the Company's business will be materially and adversely affected.

Expiry of patents

All patents have a limited duration of enforceability. With some exceptions, notably US patents that are extended due to delays caused by the US Patent and Trademark Office, US patents have a duration of 20 years from the filing date. Once a patent expires, the invention disclosed in the patent may be freely used by the public without accounting to the patent owner, as long as there are no other unexpired patents that embrace an aspect of the invention. The Company strives to patent improvements, new uses, or new formulations relating to the underlying inventions, but there is no certainty that any improvement, new use, or new formulation will be patented to extend the protection of the underlying invention, or provide additional coverage to adequately protect the invention. As a result, the public may have the right to freely use the invention described in and previously protected by an expired patent.

Reliance on exclusive licences

The Company has exclusive licences for the use of certain patents owned by Brown University which are used in connection with the Company's banknote authentication products. The Company's business is dependent on the commercialisation of these technologies and as a result

its success depends to an extent on its ability to retain these exclusive licences. The licence agreements with Brown University include certain financial obligations that the Company must perform in order to retain exclusive licence rights, comprising royalty payments and ongoing fees through the life of the patents. If the Company defaults in the payment of these royalties and fees, Brown University has the right to terminate its licence agreements. Although the Directors believe that the Company has good working relationships with the patent owner, the Company may not be able to perform these obligations, and Brown University may terminate the licence agreements. The Company may not be able to generate sufficient revenue from its products to satisfy the payment obligations. The failure or inability to retain the exclusive licence rights would have a material adverse effect on the Company's business, financial condition and results of operations.

Under licence arrangements the Company may be obligated to protect the rights of the licensors and enforcement litigation may be expensive.

Under the terms of its licence agreements the Company may be obligated to pay the costs of any patent infringement claim, whether to defend an action or to bring an action. Litigation may be necessary to enforce patents issued or licensed to the Company or its licensors to determine the scope or validity of another party's proprietary rights. As a result, the Company could incur substantial costs if litigation is required whether to defend against patent suits brought by third parties, to participate in patent suits brought against or initiated by the Company's collaborators or licensors, to initiate similar suits, or to participate in an interference proceeding. The Company may not prevail in any of these actions or proceedings. An adverse outcome in litigation or interference or other proceeding in a court or patent office could subject the Company to significant liabilities, require disputed rights to be licensed from other parties, or require the Company or its partners to cease using certain technology.

Risks relating to admission of the Common Shares to AIM

Volatility of share price

The trading price of the Common Shares may be subject to wide fluctuations in response to a number of events and factors, Company specific or otherwise, such as variations in operating results, changes in financial estimates, recommendations by securities analysts, the operating and share price performance of other companies which investors may deem comparable to the Company and news reports relating to trends in the geographical and sectoral markets in which the Company operates. These factors may adversely affect the trading price of the Common Shares, regardless of the Company's operating performance. Prospective investors should be aware that the value of the Common Shares could go down as well as up and investors may therefore not recover their initial investment, especially as the market in the Common Shares may have limited liquidity.

Less demanding rules for companies admitted to AIM

The Common Shares will be admitted to AIM. The AIM Rules are less demanding than those applying to shares listed on the Official List. Further, the London Stock Exchange has not itself examined or approved the contents of this document.

There is no guarantee that the Company will maintain its listing on AIM

The Company cannot assure investors that the Company will always retain a listing on AIM. If it fails to retain such a listing, the level of liquidity of the Common Shares traded on AIM would decline, which could have an adverse impact on the price of the Common Shares.

Realisation of investment

Potential investors should be aware that Admission should not be taken as implying that there will be a liquid market in the Common Shares and that the market price of the Common Shares may not reflect the underlying value of the Company. An investment in the Common Shares may therefore be difficult to realise.

It may be more difficult for an investor to realise his or her investment in a company whose shares are traded on AIM than a company whose securities are listed on the Official List. AIM has been in existence since June 1995 but its future success and liquidity as a market for the Common Shares cannot be guaranteed.

Risk relating to UK and US law and the Company's constitution

Application of UK and US legislation

The Company is incorporated under the laws of the State of Delaware, United States. Accordingly, a significant amount of the legislation in England and Wales regulating the operation of companies does not apply to the Company. In addition, the laws of the State of Delaware will apply in respect of the Company and these laws provide for mechanisms and procedures that would not otherwise apply to companies incorporated in England and Wales. The rights of Shareholders are governed by Delaware law and by the Company's Certificate of Incorporation and Bylaws, which differ from the typical rights of shareholders in the UK and other jurisdictions. As its principal place of business is in Rhode Island, provisions of Rhode Island law may also affect the Company.

Takeover regulations

The Company is incorporated in and subject to the laws of the State of Delaware, United States. Accordingly, the Company and transactions in its Common Shares are not subject to the provisions of the Takeover Code. Effective upon Admission certain provisions of the Company's Bylaws adopt procedures similar to the Takeover Code in the event of any party (or parties acting in concert) obtaining an interest in the issued Common Shares carrying 30 per cent. or more of the voting rights of the Company, but there is no assurance that the courts of the State of Delaware, USA will uphold or allow the enforcement of these provisions.

Restrictions on the transfer of the Placing Shares under the US Securities Act

The Placing Shares have not been and will not be registered under the US Securities Act in connection with the Placing or the Admission, or under the securities legislation of any state of the United States. The Placing Shares are being offered only to non-US Persons outside the US in transactions exempt from the registration requirements of the US Securities Act in reliance on Regulation S, further details of which are set out in Part IV of this document. The Placing Shares are "restricted securities" as defined in Rule 144 promulgated under the US Securities Act. Purchasers of the Placing Shares may not offer to sell, pledge or otherwise transfer the Placing Shares in the United States or to, or for the account or benefit of, any US Person unless such offer, sale, pledge or transfer is registered under the US Securities Act or any exemption from the registration requirements thereof is available. Hedging transactions involving the Placing Shares may not be conducted, directly or indirectly, unless in compliance with the US Securities Act. Only the Company is entitled to register the offer and the sale of the Placing Shares under the US Securities Act and the Company has no obligation to do so. The Company can give no assurances that an exemption from registration will be available to any subscribers for or purchasers of the Placing Shares. To enable the Company to comply with US securities laws, the Bylaws permit the Directors to refuse to register the transfer of any Common Share where it appears to the Company that the transfer is not made in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act or pursuant to an available exemption from registration under the Securities Act and any applicable state securities laws.

When issued, the Placing Shares will be in certificated form and the certificates issued in respect of the Placing Shares will bear a legend describing restrictions on transfer and prohibiting hedging transactions in the Placing Shares unless in compliance with the US Securities Act. By subscribing for or purchasing the Placing Shares, each subscriber or purchaser, agrees, among other things, (i) that it is outside the US and was outside the US at the time the subscription or purchase was originated; (ii) that it is not (and is not buying on behalf of or for the account or benefit of) a US Person and is not acquiring the Placing Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of the Placing Shares in or into the US; (iii) to re-offer or resell the Placing Shares only in accordance with the provisions of Regulation S, pursuant

to registration under the US Securities Act or pursuant to an available exemption from registration under the US Securities Act; and (iv) not to engage in hedging transactions, directly or indirectly, with regard to such securities unless in compliance with the US Securities Act. Please refer to Part IV of this document for further details of the transfer restrictions applicable to the Placing Shares.

The above restrictions severely restrict purchasers of Placing Shares from reselling such shares in the United States or to a US Person. In addition, as described in Part I of this document, the Placing Shares cannot at this stage be traded through CREST. Therefore, the Placing Shares will have a lower liquidity than might otherwise exist if the Placing Shares were held in CREST and were not subject to such restrictions. These requirements may have an adverse effect on the rate at which a trading market for those Placing Shares develops. In the event that a sale in the United States or to a US Person is permitted, such a purchaser may require a discount to the current market price of the shares due to restrictions on transfer of such shares in the United States or to US Persons. In the event that the market for the Placing Shares outside the United States does not develop or becomes illiquid, purchasers of such shares may be unable to access the market within the United States due to the restrictions on transfer of such shares.

Prospective investors' ability to invest in the Company's securities or to transfer the Company's securities may be limited by certain US federal law considerations

In order to comply with certain US federal laws and trading and economic sanctions enforced by the US Office of Foreign Assets Control and the US Department of Defense, the Company intends to restrict the ownership and holding of Common Shares to ensure that Common Shares are not held by any holder (a "Disadvantageous Owner"): (i) whose interest in Common Shares is in breach of any law or requirement of any country or jurisdiction; (ii) who is a Prohibited Person; or (iii) who is a non-US Person with an interest in the Common Shares representing at least 5 per cent. of the issued Common Shares and such non-US Person does not have in place requisite agreements with the applicable government agency(ies) prohibiting access to classified information and prohibiting the non-US Person from exercising control over or influencing the business or management of the Company.

The Company may refuse to register any transfer of Common Shares if such transfer might cause the Company to have a Shareholder who is deemed by the Board to be a Disadvantageous Owner.

Further details of the transfer restrictions in respect of the Common Shares contained in the Bylaws are set out in paragraph 3 of Part V of this document.

Other risks

Financial reporting

The Company reviews internal controls over financial reporting procedures from time to time. However, because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, internal controls may not be adequate at any particular time because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Accordingly, internal controls over financial reporting cannot provide absolute assurance of achieving financial reporting objectives.

Currency risk

The Company will present its financial information in US dollars. In addition, the Company is a company resident for tax purposes in the US and incurs the majority of its costs in US dollars. The proceeds of the Placing will be received in pounds sterling. This may give rise to an exchange rate risk against the US\$, the Company's functional currency. The Company's share price will be quoted in pounds sterling. However, its reporting currency and the market for its products and services are denominated in US dollars rather than Pounds Sterling. As a result, movements in foreign exchange rates may cause a mismatch between actual returns and investors' expectations of returns, and also affect the share price.

The Company may incur substantial expenses in the event that it is required to register certain of its outstanding Common Shares

The Company is a party to two registration rights agreements pursuant to which certain holders of the Company's capital stock, upon notice given by holders of at least 51 per cent. of the shares subject thereto (including shares of Common Stock acquired by such holders after the date of the relevant agreement), have a one-time right under each agreement to require the Company to use its best efforts to cause those Common Shares to be registered under the US Securities Act as soon as possible and at the Company's expense. If the Company is required to register Common Shares in the US, the costs of registration would be substantial and may have a material adverse effect on the Company's financial position. Additionally, as a publicly registered, reporting company in the US, the Company would be subject to ongoing costly and public disclosure requirements under the US Exchange Act.

Future funding requirements

The Company may need to raise additional capital in the future to fund the expansion of the Company or to acquire or invest in complementary businesses. If additional financing is not available, or available only on terms that are not acceptable to the Company, it may be unable to fund the development and expansion of its business, attract qualified personnel, promote its brand name, take advantage of business opportunities or respond to competitive pressures. Any of these events may harm the Company's business. Also, if the Company raises funds by issuing additional Common Shares or securities convertible into Common Shares, its Shareholders will experience dilution, which may be significant, to their ownership interest in the Company. If the Company raises funds by issuing shares of a different class or by issuing debt, the holders of such different classes of shares or debt securities may have rights senior to the rights of Shareholders.

Dividends may not be paid

The Company has never declared or paid cash dividends on its capital stock. The payment of any future dividends will depend on the future earnings of the Company. The payment of future dividends is, therefore, uncertain.

Forward looking statements

All statements other than statements of historical fact, contained in this document constitute "forward looking statements". In some cases, forward-looking statements can be identified by terms such as "may", "intend", "might", "will", "should", "could", "would", "believe", "anticipate", "expect", "estimate", "anticipate", "predict", "project", "potential", or the negative of these terms, and similar expressions. Such forward-looking statements are based on assumptions and estimates and involve risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this Part II. New factors may emerge from time to time that could cause the Company's business not to develop as it expects and it is not possible for the Company to predict all such factors. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward-looking statements. Except as required by law, the Company disclaims any obligation to update any such forward-looking statements in this document to reflect future events or developments.

The risk factors listed above do not necessarily comprise all those associated with an investment in the Company.

PART III

FINANCIAL INFORMATION ON THE COMPANY

Section A: Accountant's report on the Company

RSM Tenon
RSM Tenon Audit Limited
66 Chiltern Street
London
W1U 4JT

The Directors
Spectra Systems Corporation
321 South Main Street, Suite 102
Providence, RI 02903
USA

The Directors
WH Ireland Limited
24 Martin Lane
London
EC4R 0DR

19 July 2011

Dear Sirs

Spectra Systems Corporation ("Spectra" or "the Company")

We report on the financial information set out in sections A to E below. This financial information has been prepared for inclusion in the AIM Admission Document dated 19 July 2011 of Spectra Systems Corporation on the basis of the accounting policies set out in Section A of this financial information. This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Spectra are responsible for preparing the financial information on the basis of preparation set out in Section A to the financial information and in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). The Directors of the Company are responsible for the document in which the financial information is included.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purpose of complying with Schedule Two of the AIM Rules for Companies, and consent to its inclusion in the Admission Document.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document dated 19 July 2011, a true and fair view of the state of affairs of Spectra as at the dates stated and of its statements of income, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in Section A and in accordance with US GAAP as described below.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

RSM Tenon Audit Limited

Statutory Auditors

The historical financial information set out in Sections B to E below for Spectra for the 3 years to 31 December 2010 has been prepared by the directors of the Company on the basis of preparation set out in Section A below.

A – Summary of significant accounting policies

The following is a summary of the material accounting policies adopted in preparing the financial information in Paragraphs B to E below in accordance with US Generally Accepted Accounting Principles.

The financial information is presented in United States Dollars.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates that require management's most difficult and subjective judgments include the assessment and recoverability of property, plant and equipment and goodwill; the valuation of inventory; and the recognition and measurement of income tax assets and liabilities. The actual results experienced may differ materially from management's estimates.

Cash and cash equivalents

The Company considers highly liquid investment purchases with a maturity of ninety days or less at date of acquisition to be cash equivalents.

Concentration of credit risk and significant customers

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. The Company's cash management policies restrict investments to low risk, highly liquid securities, and the Company restricts its transactions to financial institutions with good credit standing. The Company has cash on deposit with two financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution per depositor. As at 31 December 2010, the amount in excess of the FDIC limit was \$3,908,789, including \$3,115,969 of money market funds at a financial institution which is not FDIC insured.

Concentrations of credit risk with regard to trade accounts receivable are limited due to the concentration of business with government entities. The following table summarises the number of customers that individually comprise greater than 10 per cent. of total revenues and their aggregate percentage of the Company's total revenue:

<i>Year ended 31 December</i>	<i>Number of significant customers</i>	<i>Percentage of total revenues</i>
2008	3	95%
2009	3	94%
2010	2	82%

The following table summarises the number of customers that individually comprise greater than 10 per cent. of total accounts receivable and their aggregate percentage of the Company's total accounts receivable:

<i>As at 31 December</i>	<i>Number of significant customers</i>	<i>Percentage of total accounts receivable</i>
2008	1	95%
2009	3	93%
2010	2	81%

Inventory

Inventories are stated at the lower of cost or market value using the first-in, first-out method.

Intangible assets

Intangible assets are recorded at the purchase price. Amortisation is calculated using the straight line method over the estimated useful lives of the assets. The Company evaluates the possible impairment of long-term assets whenever events and circumstances indicate that the carrying value of the assets may not be recoverable.

Property and equipment

Property and equipment is stated on the basis of cost. Depreciation is calculated using the straight line method over the following estimated useful lives:

Laboratory equipment	3-5 years
Computer and office equipment	3-5 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of lease term or estimated useful life
Software	3-5 years
Manufacturing equipment	5 years

Computer software

The Company capitalises certain costs in connection with developing new internal software under Accounting Standards Codification ("ASC") – 350 which requires entities to capitalise certain internal-use software costs once certain criteria are met. Overhead, general and administrative and training costs are not capitalised.

Investment in affiliates

The Company accounts for investments in affiliates under the cost method of accounting if the Company owns less than 20 per cent. of the affiliates' outstanding capital. As at 31 December 2010, the Company held a 19 per cent. ownership in SpectraMed Inc and an 18 per cent. ownership in Solaris NanoSciences Inc ("Solaris"). These affiliates have incurred significant losses in prior years and the investments are recorded at \$0 throughout the period covered by this report.

Accounting for stock-based compensation

The Company has adopted ASC-718 in accounting for its Employee Stock Option Plan. Accordingly, the Company uses the Black-Scholes option pricing model to calculate compensation costs associated with options granted to employees. Total compensation costs are recorded over the option vesting period, generally three years. The Company recorded compensation costs of \$293,036, \$433,373 and \$218,910 in the years ended 31 December 2008, 2009 and 2010, respectively.

Revenue recognition

Materials revenue includes sales of pigments and security taggants and delivery of prototypes thereof. Service revenue includes research and development services provided for a fixed price or for a specific period.

Revenues related to sales of pigments and security taggants and research and development services provided for a specific period are generally recognised when products are shipped or services are provided, the risk of loss has passed to the customer, the sales price is fixed or determinable and collectability is reasonably assured.

Revenue from multi element arrangements is recognised once all elements of the contract are delivered unless the following criteria have been met: (1) the product or service has been delivered; (2) the fee for the delivered element is not subject to forfeiture, refund or concession based on performance or delivery or the undelivered element; and (3) the fair value of the undelivered element is determined based upon the price charged by Spectra or that charged by competitors when similar services or products are sold separately; in which case the revenues for each element will be recognised independently, in accordance with the Company's policy.

Royalties are recognised when they are earned based on sales or use of technologies by third parties except where future income is not anticipated to cover non-refundable advances received, when the excess royalty is taken to income.

Research and development

Internal research and development costs are expensed as incurred. Internal research and development costs were \$117,972 in the year ended 31 December 2008 and \$0 in years ended 31 December 2009 and 2010. Third party research and development costs are expensed when the contracted work has been performed or as milestones have been achieved.

Income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income taxes. The benefits from net operating losses carried forward may be impaired or limited in certain circumstances. In addition, a valuation allowance can be provided for deferred tax assets when it is more likely than not that all or some portion of the deferred tax asset will not be realised.

ASC-740 – Income Taxes – Accounting for Uncertainty in Income Taxes, creates a single model to address accounting for uncertainty in tax positions. This has been adopted by the Company and no change in accounting was required. ASC-740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognised in the financial statements. ASC-740 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure and transition.

B – Statements of income

		Years ended 31 December		
	Note	2008	2009	2010
		\$	\$	\$
REVENUES				
Materials		4,380,626	3,885,861	3,061,802
Systems		156,205	1,421,887	1,429,823
Service		2,106,485	1,752,377	1,777,619
Royalty	E1	361,530	363,954	1,008,944
		<u>7,004,846</u>	<u>7,424,079</u>	<u>7,278,188</u>
COST OF SALES		<u>2,846,966</u>	<u>3,517,265</u>	<u>2,929,163</u>
GROSS PROFIT		4,157,880	3,906,814	4,349,025
OPERATING EXPENSES				
Research and development		1,130,113	986,457	1,464,562
General and administrative		1,962,675	2,037,114	2,121,069
Stock-based compensation expense		293,036	433,373	218,910
Sales and marketing		125,415	161,734	185,767
		<u>3,511,239</u>	<u>3,618,678</u>	<u>3,990,308</u>
INCOME FROM OPERATIONS	E1	646,641	288,136	358,717
OTHER INCOME/(EXPENSE)				
Interest income		26,050	15,450	9,048
Interest expense		(1,211)	—	(2,836)
Other income		313	—	—
		<u>25,152</u>	<u>15,450</u>	<u>6,212</u>
INCOME BEFORE TAXATION		671,793	303,586	364,929
PROVISION/(BENEFIT) FOR INCOME TAXES	E7	<u>—</u>	<u>(1,246,000)</u>	<u>—</u>
NET INCOME/(LOSS)		<u>671,793</u>	<u>1,549,586</u>	<u>364,929</u>

C – Balance sheets

	<i>Note</i>	<i>2008</i>	<i>31 December</i> <i>2009</i>	<i>2010</i>
		\$	\$	\$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		2,413,268	3,354,850	3,369,993
Accounts receivable		676,013	500,909	157,644
Inventory	E4	910,315	828,304	839,369
Prepaid expenses and other current assets		144,796	150,404	127,626
Deferred tax assets	E7	—	272,000	344,000
		<u>4,144,392</u>	<u>5,106,467</u>	<u>4,838,632</u>
PROPERTY, PLANT AND EQUIPMENT	E2	<u>82,634</u>	<u>331,287</u>	<u>298,113</u>
LONG TERM ASSETS				
Intangible assets	E3	275,000	206,250	137,500
Restricted cash	E5	1,000,000	1,000,000	1,000,000
Deferred tax assets	E7	—	974,000	902,000
Investments in affiliated companies		—	—	—
Other assets		21,424	19,435	17,445
		<u>1,296,424</u>	<u>2,199,685</u>	<u>2,056,945</u>
TOTAL ASSETS		<u><u>5,523,450</u></u>	<u><u>7,637,439</u></u>	<u><u>7,193,690</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable		598,742	652,003	400,840
Accrued expenses and other liabilities	E6	610,390	761,633	649,872
Deferred revenue		2,209,078	2,135,604	1,470,940
		<u>3,418,210</u>	<u>3,549,240</u>	<u>2,521,652</u>
STOCKHOLDERS' EQUITY				
Convertible preferred stock	E9	122,256	122,256	122,256
Additional paid in capital – convertible preferred stock	E9	26,040,570	26,040,570	26,040,570
Common stock	E9	94,740	94,740	94,740
Additional paid in capital – common stock	E9	7,230,232	7,663,605	7,882,515
Accumulated deficit		(31,382,558)	(29,832,972)	(29,468,043)
		<u>2,105,240</u>	<u>4,088,199</u>	<u>4,672,038</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u><u>5,523,450</u></u>	<u><u>7,637,439</u></u>	<u><u>7,193,690</u></u>

D – Cash flow statements

<i>Note</i>	<i>Years ended 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
	\$	\$	\$
Cash flow from operating activities			
Net income before taxation	671,793	303,586	364,929
Depreciation and amortisation	236,380	113,798	193,763
Stock based compensation expense	293,036	433,373	218,910
Gain on sale of assets	(313)	—	—
Accounts receivable	(522,751)	175,104	343,265
Prepaid expenses and other current assets	(78,377)	(3,619)	24,768
Inventory	(282,732)	82,011	(11,065)
Deferred contract costs	117,972	—	—
Accounts payable	(243,328)	53,261	(251,163)
Accrued expenses and other liabilities	161,502	151,243	(111,761)
Deferred revenue	115,836	(73,474)	(664,664)
Net cash from operating activities	<u>469,018</u>	<u>1,235,283</u>	<u>106,982</u>
Cash flows from investing activities			
Purchases of property, plant and equipment	(61,332)	(293,701)	(91,839)
Proceeds of sale of assets	3,000	—	—
	<u>(58,332)</u>	<u>(293,701)</u>	<u>(91,839)</u>
Cash flows from financing activities			
Proceeds from issue of common stock	532,750	—	—
Payments on capital lease	(8,917)	—	—
	<u>523,833</u>	<u>—</u>	<u>—</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	934,519	941,582	15,143
Cash and cash equivalents at beginning of year	<u>1,478,749</u>	<u>2,413,268</u>	<u>3,354,850</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>2,413,268</u></u>	<u><u>3,354,850</u></u>	<u><u>3,369,993</u></u>

E – Notes to the financial information

Note 1. Income from operations

Royalties

In the year ended 31 December 2010, \$703,081 has been recognised as royalty income as it is not anticipated by the Directors that these non-refundable advance royalties will be covered by future income based on sales by the licensee.

Employees

The average monthly number of employees (including executive directors) during each year was:

	2008 Number	2009 Number	2010 Number
Management	4	4	4
Support and administration	12	14	15
	<u>16</u>	<u>18</u>	<u>19</u>

Employment costs

	2008 \$	2009 \$	2010 \$
Wages and salaries	1,679,263	1,934,770	2,075,061
Social security costs	120,271	150,941	163,215
	<u>1,799,534</u>	<u>2,085,712</u>	<u>2,238,276</u>

Included in employment costs were amounts paid to Directors as follows:

	2008 \$	2009 \$	2010 \$
Emoluments for qualifying services	<u>669,150</u>	<u>728,260</u>	<u>592,350</u>

Highest paid Director:

	2008 \$	2009 \$	2010 \$
Emoluments for qualifying services	<u>411,250</u>	<u>446,500</u>	<u>421,500</u>

Note 2. Property and equipment

Property and equipment consist of the following:

	2008 \$	31 December 2009 \$	2010 \$
COST			
Laboratory equipment	469,777	474,422	474,422
Computer and office equipment	414,110	429,735	439,913
Furniture and fixtures	105,109	105,109	105,109
Leasehold improvements	332,588	367,937	367,937
Software	304,433	304,433	307,054
Manufacturing equipment	737,743	975,825	1,054,865
	<u>2,363,760</u>	<u>2,657,461</u>	<u>2,749,300</u>
Less: Accumulated depreciation	<u>(2,281,126)</u>	<u>(2,326,174)</u>	<u>(2,451,187)</u>
NET BOOK VALUE	<u>82,634</u>	<u>331,287</u>	<u>298,113</u>

The depreciation expense amounted to \$167,630, \$45,048 and \$125,013 for years ended 31 December 2008, 2009 and 2010, respectively.

Note 3. Intangible assets

Intangible assets consist of the following:

	<i>31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
	\$	\$	\$
COST			
Patents	687,500	687,500	687,500
Less: Accumulated amortisation	(412,500)	(481,250)	(550,000)
NET BOOK VALUE	<u>275,000</u>	<u>206,250</u>	<u>137,500</u>

The amortisation expense amounted to \$68,750 in each of the years ended 31 December 2008, 2009 and 2010.

The cost of maintaining existing and developing new intangible assets are written off as incurred.

Note 4. Inventory

Inventories consist of the following:

	<i>31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
	\$	\$	\$
Raw materials	857,715	794,806	794,062
Finished goods	52,600	33,498	45,307
	<u>910,315</u>	<u>828,304</u>	<u>839,369</u>

Note 5. Restricted cash

Restricted cash represents money market investments held as collateral for certain performance agreements entered into by the Company in 2002 and as required in accordance with terms of a sales contract. The agreement currently requires \$1,000,000 be maintained as collateral.

Note 6. Accrued expenses and other liabilities

Accrued expenses and other liabilities consist of the following:

	<i>31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
	\$	\$	\$
Royalties	315,418	362,425	273,942
Employee compensation	182,674	235,595	242,135
Professional fees	45,000	40,000	41,750
Property and sales taxes	16,878	89,653	26,284
Product warranty	25,000	25,000	25,000
Other	25,420	8,960	40,761
	<u>610,390</u>	<u>761,633</u>	<u>649,872</u>

Note 7. Income taxes

The components of the income tax (benefit)/provision consists of the following:

	31 December		
	2008	2009	2010
	\$	\$	\$
Federal income tax provision computed at federal statutory rate	240,000	103,000	(117,000)
State income taxes provision	40,000	19,000	22,000
Federal deferred	—	—	14,000
State deferred	—	—	509,000
Change in valuation allowance	—	(1,246,000)	(662,000)
Utilisation of net operating losses	(280,000)	(122,000)	—
Provision for income taxes	<u>—</u>	<u>(1,246,000)</u>	<u>—</u>

Deferred income tax assets are as follows:

	31 December		
	2008	2009	2010
	\$	\$	\$
Depreciation and amortisation	77,000	20,000	118,000
Deferred revenue	884,000	854,000	870,000
Deferred rent	—	1,000	1,000
Federal and state tax credits	1,319,000	1,087,000	761,000
Inventory	30,000	28,000	28,000
Accrued expenses	10,000	10,000	10,000
Net operating loss carry forward	8,660,000	8,318,000	8,148,000
Valuation allowance	(10,980,000)	(9,072,000)	(8,690,000)
Total net deferred tax assets	<u>—</u>	<u>1,246,000</u>	<u>1,246,000</u>

The Company uses an effective tax rate of 40 per cent. consisting of a federal rate of 34 per cent. and a state rate of 6 per cent. net of federal effect.

As at 31 December 2010, the Company has net operating losses available to be carried forward, expiring between 2017 and 2027 for US federal income tax purposes, of approximately \$23,725,000 and \$1,350,000 of state losses available to be carried forward expiring in 2011. A valuation allowance has been established for \$9,072,000 and \$8,690,000 as at 31 December 2009 and 2010, respectively, for the deferred tax benefit related to those losses carried forward and other deferred tax assets. The valuation allowance decreased by \$382,000 in 2010, primarily due to expiring state net operating losses and tax credits. The reduction in the valuation allowance in 2009 resulting in a tax benefit of approximately \$1,246,000 in 2009 is a result of recognition, for the first time, of net operating losses available to be carried forward and management's projections of future taxable income.

At 31 December 2010, the Company also had approximately \$556,000 and \$205,000 of tax credits to carry forward that are available to offset federal and state liabilities, respectively. The federal and state credits will begin to expire between 2017 and 2030 for federal credits and between 2011 and 2012 for state credits.

For tax purposes, the Company has a capital loss carry forward of \$700,000. No tax benefit has been assigned to this amount. Capital losses can only be used to offset capital gains and expire five years after the date of loss. Management deems the future utilisation of this loss unlikely.

In 2007, SpectraDisc Corporation merged with the Company. SpectraDisc Corporation had net operating losses carried forward of approximately \$1,400,000 and tax credit carry forwards of \$8,300. Due to the restrictive nature of IRS code section 382 and 383, management deems the future utilisation of these net operating losses and tax credits unlikely and has elected not to include them in the deferred tax calculations.

The utilisation of the tax losses carried forward, described above, is dependent upon future profitability prior to any expiration dates. Additionally, substantial changes in ownership and tax laws and regulations may substantially limit their realisation.

Note 8. Commitments

Lease commitments

The Company holds various real estate leases. The Company’s lease agreement for corporate office space expires 30 September 2012. In 2008, the Company’s lease for laboratory space in East Providence was extended through 31 May 2011, and in April 2011 was further extended through 31 May 2014. Rent expense was \$203,646, \$232,799 and \$232,812 for the years ended 31 December 2008, 2009 and 2010, respectively.

Future minimum lease payments are as follows:

<i>Year ending 31 December</i>	\$
2011	133,699
2012	46,675
	180,374
	180,374

Licence and supply agreements

In 1996 the Company entered into a licence agreement, which was amended in 1999 and 2002, under which the Company obtained a non exclusive right to use certain technology through the term of the licensor’s patents on such technology. The licence agreement contains provisions for royalties to be paid on sales of products developed under the agreement. For the years ended 31 December 2008, 2009 and 2010, the Company recorded \$188,919, \$136,214 and \$139,136, respectively in royalty expense.

On 8 March 1999, the Company entered into a licence agreement with a Shareholder, who holds less than 10 per cent. of the Company’s shares, to provide product consulting, technical services and technical know-how to facilitate incorporation of the Company’s technology into products the Shareholder sells to US government agencies. The Shareholder is entitled to 30 per cent. of the gross margin of future sales of passport paper. For the years ended 31 December 2008, 2009 and 2010, the Company had sales relating to such technology. However, the royalty calculation as per the agreement resulted in no royalty expense. The term of the agreement is fifteen years from the date the U.S. government agencies commenced use of the technology, but no longer than twenty years after the agreement’s effective date.

Note 9. Stockholders' equity

Shares in issue

The number of shares in issue at each period end was as follows:

	<i>Authorised number</i>	<i>Issued number</i>	<i>Nominal value (\$0.01 per share) \$</i>	<i>Additional paid in capital \$</i>
Preferred Stock				
Series A	4,167,000	4,167,000	41,670	4,659,432
Series B	1,700,000	1,653,666	16,537	1,571,364
Series C	1,777,778	1,777,778	17,778	3,948,393
Series D	2,362,400	1,516,300	15,163	6,176,537
Series E-1	2,925,000	1,670,443	16,704	7,475,176
Series B-1	2,000,000	913,472	9,135	1,498,091
Series B-2	600,000	361,832	3,618	539,130
Series B-3	150,000	112,105	1,121	133,404
Series B-4	100,000	52,080	521	38,539
Series B-5	100,000	888	9	504
		<u>12,225,564</u>	<u>122,256</u>	<u>26,040,570</u>
Common Shares				
At 31 December 2009	125,000,000	9,473,998	94,740	7,663,605
Stock compensation expense		—	—	218,910
At 31 December 2010		<u>9,473,998</u>	<u>94,740</u>	<u>7,882,515</u>

Conversion

The preferred shares are convertible into Common Shares at a rate determined by dividing the applicable conversion value by the applicable conversion price for each series of Preferred Stock. The conversion values and conversion prices, as those terms are defined in the Company's Certificate of Incorporation are subject to certain adjustment. The preferred shares may be converted into common shares at the option of the stockholder at any time. The conversion of the preferred shares shall occur automatically immediately prior to a public offering of the Company's Common Shares which raises gross proceeds of at least \$5,000,000.

Common Shares – warrants

On 7 April 2008, the Company raised \$600,000 in exchange for 1,000,000 Common Shares valued at \$0.60 each. The Company paid a 10 per cent. commission and also provided the agent with a warrant to purchase 275,000 Common Shares at an exercise price of \$0.60 per share. The warrant expires on 7 April 2013. The Company believes the fair value of the warrants to be immaterial at 31 December 2010.

Stock option plan

In December 1996 the Company's Board of Directors, who controlled a majority of the shares of the Company, approved the 1997 Stock Option Plan (the "1997 Plan").

The 1997 Plan provided that key employees, non-employee directors, and certain consultants and advisors may be granted either non-qualified or incentive stock options for the purchase of the Company's Common Shares at the fair market value, on the date of the grant. Stock options generally vest over three years. The options would be exercisable over a period up to ten years from the date of grant.

In February 2002, the Company adopted the 2002 Stock Plan (the "2002 Plan") which provided for the grant of incentive stock options and non-qualified stock options, stock awards and stock purchase rights for the purchase of up to 1,500,000 of the Company's Common Shares to officers, employees, consultants and Directors of the Company. The Board of Directors was responsible for administration of the 2002 Plan. The Board determined the term of each option, the option exercise

price, and the number of shares for which each option is granted and the rate at which each option is exercisable. Incentive stock options under the 2002 Plan could be granted to an officer or employee at an exercise price per share of not less than the fair value per Common Share on the date of the grant (not less than 110 per cent. of fair value in the case of holders of more than 10 per cent. of the Company's voting stock) and with a term not to exceed ten years from the date of the grant (five years for incentive stock options granted to holders of more than 10 per cent. of the Company's voting stock). Non-qualified stock options under the 2002 Plan could be granted to consultants or directors at an exercise price per share of not less than 85 per cent. of the fair value of the Common Shares.

Upon the effective date of the 2002 Plan, the 1997 Plan was terminated. The termination did not affect the previously issued options.

In 2007, the 2002 Plan was amended to increase the number of Common Shares reserved for issuance pursuant to the 2002 Plan to 3,500,000.

In December, 2006, the Company also granted options to purchase 1,000,000 Common Shares at an exercise price of \$0.90 to its Chief Financial Officer, all of which have since vested. The options expire 10 years from the date of grant.

In May 2007, the Company adopted the 2007 Stock Plan (the "2007 Plan") which provided for the grant of incentive stock options and nonqualified stock options, stock awards and stock purchase rights for the purchase of up to 10,600,000 of the Company's Common Shares to officers, employees, consultants and Directors of the Company. The Board of Directors is responsible for administration of the 2007 Plan. The Board determines the term of each option, the option exercise price, and the number of shares for which each option is granted and the rate at which each option is exercisable. Incentive stock options may be granted to an officer or employee at an exercise price per share of not less than the fair value per common share on the date of the grant (not less than 110 per cent. of fair value in the case of holders of more than 10 per cent. of the Company's voting stock) and with a term not to exceed ten years from the date of the grant (five years for incentive stock options granted to holders of more than 10 per cent. of the Company's voting stock). Nonqualified stock options may be granted to consultants or Directors at an exercise price per share of not less than 85 per cent. of the fair value of the Common Shares.

Both the 2007 Plan and the 2002 Plan existed at 31 December 2010.

At 31 December 2010, 9,478,060 options were available under the 2007 Plan. 636,576 options were issued without a plan.

Information related to stock options granted by the Company is summarised as follows (including certain options granted outside of a plan):

	<i>Years ended 31 December</i>			
	<i>2009</i>		<i>2010</i>	
	<i>Number of shares under option</i>	<i>Weighted average exercise price \$</i>	<i>Number of shares under option</i>	<i>Weighted average exercise price \$</i>
Outstanding at beginning of year	3,471,312	0.91	5,404,540	0.80
Granted	1,933,228	0.60	390,397	0.60
Exercised	—	—	—	—
Forfeited/cancelled	—	—	(336,234)	0.39
Outstanding at end of year	<u>5,404,540</u>	<u>0.80</u>	<u>5,458,703</u>	<u>0.81</u>

The following table summarises information about stock options outstanding at 31 December 2010:

<i>Exercise price range</i>	<i>Options outstanding</i>			<i>Options exercisable</i>	
	<i>Number of outstanding shares</i>	<i>Weighted average contractual life (years)</i>	<i>Weighted average exercise price</i>	<i>Number of shares</i>	<i>Weighted average exercise price</i>
\$0.11-\$1.00	5,367,703	6.49	\$0.73	4,953,666	\$0.74
\$3.85-\$5.75	91,000	2.23	\$5.39	91,000	\$5.39
	<u>5,458,703</u>			<u>5,044,666</u>	

The Company currently uses the Black-Scholes option pricing model to determine the fair value of its stock options. The valuations determined using this model are affected by assumptions regarding a number of complex and various subjective variables including stock price, volatility, expected life of options, risk free interest rates, and expected dividends if any. The assumptions used to value stock option grants for the year ended December 31, 2010 are as follows:

Risk free rate	0.41%
Expected life	5 years
Assumed volatility	59.77% – 61.52%
Expected dividends	None
Expected forfeitures	None

Note 10. Related party transactions

100 per cent. of the sales of the Company's phosphor products, which were \$935,000, \$1,211,369 and \$358,202 for the years ended 31 December 2008, 2009 and 2010, respectively, were to a company owned by a Shareholder who is interested in less than 10 per cent. of the Company's issued share capital at Admission.

The Company provides consulting services to Solaris, a company in which Spectra has an equity interest and of which Dr. Lawandy, a Director and Shareholder of Spectra, is a director and shareholder. The value of consulting services provided was \$90,498, \$330,406 and \$185,931 in the years ended 31 December 2008, 2009 and 2010, respectively, and amounts due from Solaris, included in prepaid expenses and other current assets were \$79,220, \$99,522 and \$100,019 at 31 December 2008, 2009 and 2010, respectively.

Note 11. Employee retirement plan

During 1999, the Company adopted a defined contribution plan, established under the guidelines of Section 401(k) of the Internal Revenue Code ("IRC"), which covers all employees. Employees are eligible to participate in the Plan at the beginning of the first month following the date of hire. Employees may contribute up to the maximum allowed by the IRC of eligible pay on a pretax basis. The Company made a matching contribution of 50 per cent. of employee contributions up to 4 per cent. of eligible salary. Company matching contributions vest at 25 per cent. after one year of service, 50 per cent. at the end of two years of service and 100 per cent. at the end of three years of service. For the years ended 31 December 2008, 2009 and 2010, the Company's matching contributions were \$23,766, \$28,224 and \$30,660, respectively.

Note 12. Subsequent events

In accordance with Note E9 above, as part of the admission of the Company's Common Shares to AIM, all classes of Preferred Stock will convert to Common Stock.

Section B – Summary of differences between US GAAP and IFRS

Under the AIM Rules for Companies, companies incorporated in the United States may prepare their financial statements in US GAAP and the Company will do so. There are differences between US GAAP and IFRS. A summary of the differences which the Directors believe to be relevant to the Company's historical financial information is set out below.

1. Intangible assets

US GAAP

Development costs are expensed as incurred unless addressed by a separate standard.

IFRS

Development costs are capitalised when technical and economic feasibility of a project can be demonstrated in accordance with specific criteria. Some of the standard criteria include: demonstrating technical feasibility, intent to complete the asset and ability to sell the asset in the future, as well as others.

2. Recognition of deferred tax assets

US GAAP

Deferred tax assets are recognised in full (except for certain outside basis differences), but a valuation allowance reduces the asset to the amount that is more likely than not to be realised.

IFRS

Amounts are recognised only to the extent it is probable (similar to “more likely than not” under US GAAP) that they will be realised.

3. Share based payments

US GAAP

Entities make an accounting policy election to recognise compensation cost for awards containing only service conditions either on a straight line basis or on an accelerated basis, regardless of whether the fair value of the award is measured based on the award as a whole or for each individual tranche.

IFRS

Entities must recognise compensation cost on an accelerated basis. Each individual tranche must be separately measured.

4. Gains on sale (eg fixed assets)

US GAAP

Gains are included within operating expenses in the statement of comprehensive income.

IFRS

Gains are included within other income in the statement of comprehensive income.

5. Preferred shares

US GAAP

For public companies in the USA, the shares would be treated as “mezzanine equity” rather than as a liability since they are contingently redeemable and not redeemable for a fixed price on a fixed date.

IFRS

An element of these shares should be treated as a financial liability, hence resulting in a finance charge each period.

PART IV

US RESTRICTIONS ON THE TRANSFER OF COMMON SHARES ISSUED TO NON-US PERSONS

Terms used in the following description that are defined in Regulation S are used as defined therein.

The Placing Shares have not been, and will not currently be, registered under the US Securities Act or under any securities laws of any state or other jurisdiction of the US and are “restricted securities” as defined in Rule 144 promulgated under the US Securities Act. A purchaser of Placing Shares may not offer, sell, pledge or otherwise transfer Placing Shares, directly or indirectly, in or into the United States or to, or for the account or benefit of, any US Person, except pursuant to a transaction meeting the requirements of Rules 901 to 905 (including the Preliminary Notes) of Regulation S, pursuant to an effective registration statement under the US Securities Act or pursuant to an exemption from the registration requirements of the US Securities Act. Hedging transactions in the Common Shares may not be conducted, directly or indirectly, unless in compliance with the US Securities Act. The certificates evidencing the Placing Shares will bear a legend to the following effect, unless the Company determines otherwise in compliance with applicable law:

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “US SECURITIES ACT”), AND IS A RESTRICTED SECURITY (AS DEFINED IN RULE 144 UNDER THE US SECURITIES ACT). THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF REGISTRATION OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT. HEDGING TRANSACTIONS INVOLVING THIS SECURITY MAY NOT BE CONDUCTED DIRECTLY OR INDIRECTLY, UNLESS IN COMPLIANCE WITH THE US SECURITIES ACT. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE US SECURITIES ACT PROVIDED BY REGULATION S THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT: (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY: (I) OUTSIDE OF THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 UNDER THE US SECURITIES ACT; (II) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE US SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE); OR (III) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE US SECURITIES ACT, IN EACH CASE (I) THROUGH (III) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES; AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO TRANSFER RESTRICTIONS WHICH REQUIRE THAT IN ADDITION TO ANY CERTIFICATIONS REQUIRED FROM A TRANSFEROR, PRIOR TO THE EXPIRATION OF A ONE-YEAR DISTRIBUTION COMPLIANCE PERIOD, THE TRANSFEREE CERTIFIES AS TO WHETHER OR NOT IT IS A US PERSON WITHIN THE MEANING OF REGULATION S UNDER THE US SECURITIES ACT AND PROVIDES CERTAIN OTHER CERTIFICATIONS AND AGREEMENTS. PRIOR TO PERMITTING ANY TRANSFER, THE COMPANY MAY REQUEST AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH TRANSFER IS TO BE EFFECTED IN A TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE US SECURITIES ACT OR IS EXEMPT FROM REGISTRATION.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN ADDITIONAL TRANSFER RESTRICTIONS, DIVESTITURE REQUIREMENTS AND DISCLOSURE REQUIREMENTS AS MORE FULLY SET FORTH IN THE COMPANY’S BY-LAWS, A COPY OF WHICH SHALL BE PROVIDED ON REQUEST.

Prior to one year after the later of (1) the time when the Placing Shares are first offered to persons other than distributors in reliance upon Regulation S and (2) Admission:

- (a) every purchaser of Placing Shares (other than a distributor) will be required to certify that it is (i) not a US Person and is not acquiring the securities on behalf of or for the account or benefit of any US Person or is a US Person who purchased securities in a transaction that did not require registration under the US Securities Act and (ii) not located in the United States;
- (b) every purchaser of the Placing Shares will be required to certify that it is not purchasing the Placing Shares as a result of any “directed selling efforts” (as defined in Regulation S);
- (c) every purchaser of the Placing Shares will be required to agree to resell such Placing Shares only in accordance with the provisions of Rules 901 to 905 (including the Preliminary Notes) of Regulation S, pursuant to an effective registration statement under the US Securities Act or pursuant to an available exemption from registration and will be required to agree not to engage in hedging transactions, directly or indirectly, with regard to the Common Shares unless in compliance with the US Securities Act; and
- (d) each distributor selling securities to a distributor, a dealer (as defined in Section 2(a)(12) of the US Exchange Act), or a person receiving a selling concession, fee or other remuneration will be required to send a confirmation or other notice to the purchaser stating that the purchaser is subject to the same restrictions on offers and sales that apply to a distributor.

Each purchaser of Placing Shares acquired in reliance on Regulation S will be required, prior to any transfer of such Placing Shares, to represent and agree as follows, that:

1. the purchaser is not a US Person and is not acting on behalf of or for the account or benefit of a US Person and is not located in the United States at the time the investment decision is made with respect to the Placing Shares;
2. the purchaser understands that the Placing Shares have not been registered under the US Securities Act or under the securities law of any state or any other jurisdiction of the United States, and may not be offered, sold, pledged or otherwise transferred, directly or indirectly by such purchaser except (i) in an offshore transaction to non-US Persons and otherwise meeting the requirements of Rule 901 through Rule 905 (including Preliminary Notes) of Regulation S, (ii) pursuant to an effective registration statement under the US Securities Act, or (iii) pursuant to an exemption from the registration requirements of the US Securities Act, and in each case, in accordance with all applicable securities laws of the states of the United States and any other applicable jurisdictions;
3. the purchaser understands and agrees that, if in the future it decides to resell, pledge or otherwise transfer any Placing Shares or any beneficial interests in any Placing Shares prior to the date which is one year after the later of (i) the date when the Placing Shares are first offered to persons (other than distributors) pursuant to Regulation S and (ii) Admission, it will do so only outside the United States in an offshore transaction to non-US Persons and otherwise in compliance with Rule 901 to Rule 905 (including the Preliminary Notes) under Regulation S, pursuant to an effective registration statement under the US Securities Act or pursuant to an exemption from the registration requirements of the US Securities Act and in each such case in accordance with any applicable securities law of any state of the United States and any other applicable jurisdiction;
4. hedging transactions involving the Placing Shares may not be conducted, directly or indirectly, unless in compliance with the US Securities Act;
5. the purchaser agrees to, and each subsequent holder is required to, notify any transferee or subsequent holder of its Placing Shares of the resale restrictions referred to in paragraphs (2) through (4) above, if then applicable;

6. the purchaser acknowledges that, prior to any proposed transfer of Placing Shares other than pursuant to an effective registration statement, the transferee of Placing Shares will be required to provide certifications and other documentation relating to the non-US Person status of such transferee and that such transferee was not located in the United States at the time the investment decision was made with respect to the Placing Shares;
7. the purchaser acknowledges that the Company, WH Ireland and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and warranties and agrees that if any such acknowledgement, representation or warranty deemed to have been made by virtue of its purchase of Placing Shares is no longer accurate, it shall promptly notify the Company and WH Ireland; and
8. the purchaser and transferee acknowledge that the Placing Shares will bear a restrictive legend to the following effect, unless the Company determines otherwise in compliance with applicable law:

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT"), AND IS A RESTRICTED SECURITY (AS DEFINED IN RULE 144 UNDER THE US SECURITIES ACT). THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF REGISTRATION OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT. HEDGING TRANSACTIONS INVOLVING THIS SECURITY MAY NOT BE CONDUCTED DIRECTLY OR INDIRECTLY, UNLESS IN COMPLIANCE WITH THE US SECURITIES ACT. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE US SECURITIES ACT PROVIDED BY REGULATION S THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT: (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY: (I) OUTSIDE OF THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 UNDER THE US SECURITIES ACT; (II) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE US SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE); OR (III) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE US SECURITIES ACT, IN EACH CASE (I) THROUGH (III) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES; AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO TRANSFER RESTRICTIONS WHICH REQUIRE THAT IN ADDITION TO ANY CERTIFICATIONS REQUIRED FROM A TRANSFEROR, PRIOR TO THE EXPIRATION OF A ONE-YEAR DISTRIBUTION COMPLIANCE PERIOD, THE TRANSFEEE CERTIFIES AS TO WHETHER OR NOT IT IS A US PERSON WITHIN THE MEANING OF REGULATION S UNDER THE US SECURITIES ACT AND PROVIDES CERTAIN OTHER CERTIFICATIONS AND AGREEMENTS. PRIOR TO PERMITTING ANY TRANSFER, THE COMPANY MAY REQUEST AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH TRANSFER IS TO BE EFFECTED IN A TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE US SECURITIES ACT OR IS EXEMPT FROM REGISTRATION.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN ADDITIONAL TRANSFER RESTRICTIONS, DIVESTITURE REQUIREMENTS AND DISCLOSURE REQUIREMENTS AS MORE FULLY SET FORTH IN THE COMPANY'S BY-LAWS, A COPY OF WHICH SHALL BE PROVIDED ON REQUEST.

Shares issued pursuant to Regulation S are deemed to be restricted securities under the US Securities Act. Therefore, purchasers of Placing Shares will need to comply with Rule 144 promulgated under the US Securities Act with respect to any resale to US Persons following the expiration of the one-year Regulation S distribution compliance period.

Subject to various conditions including, among others, the availability of current information regarding the Company, applicable holding periods and volume and manner of sale restrictions, Rule 144 may be available for US resale of Placing Shares.

PRIOR TO PURCHASING PLACING SHARES OR CONDUCTING ANY TRANSACTIONS IN THE PLACING SHARES, INVESTORS ARE ADVISED TO CONSULT PROFESSIONAL ADVISERS REGARDING THE ABOVE RESTRICTIONS ON TRANSFER AND OTHER RESTRICTIONS REFERRED TO IN THIS DOCUMENT.

In this document, a “US Person” has the meaning set forth in Regulation S and includes:

- (i) any natural person resident in the United States;
- (ii) any partnership or corporation organised or incorporated under the laws of the United States;
- (iii) any estate of which any executor or administrator is a US Person;
- (iv) any trust of which any trustee is a US Person;
- (v) any agency or branch of a foreign entity located in the United States;
- (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US Person;
- (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated or (if an individual) resident in the United States; and
- (viii) any partnership or corporation if:
 - (a) organised or incorporated under the laws of any foreign jurisdiction; and
 - (b) formed by a US Person principally for the purpose of investing in securities not registered under the US Securities Act, unless it is organised or incorporated and owned, by accredited investors (as defined in Rule 501(a) under the US Securities Act) who are not natural persons, estates or trusts.

The following are not “US Persons”:

- (i) any discretionary account or similar account (other than an estate or trust) held for the benefit or account of a non-US Person by a dealer or other professional fiduciary organised, incorporated, or (if an individual) resident in the United States;
- (ii) any estate of which any professional fiduciary acting as executor or administrator is a US Person if:
 - (a) an executor or administrator of the estate who is not a US Person has sole or shared investment discretion with respect to the assets of the estate; and
 - (b) the estate is governed by foreign law;
- (iii) any trust of which any professional fiduciary acting as trustee is a US Person, if a trustee who is not a US Person has sole or shared investment discretion with respect to the trust assets, and no beneficiary of the trust (and no settlor if the trust is revocable) is a US Person;
- (iv) an employee benefit plan established and administered in accordance with the law of a country other than the United States and customary practices and documentation of such country;

- (v) any agency or branch of a US Person located outside the United States if:
 - (a) the agency or branch operates for valid business reasons; and
 - (b) the agency or branch is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located; and
- (vi) the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, and their agencies, affiliates and pension plans, and any other similar international organisations, their agencies, affiliates and pension plans.

PART V
ADDITIONAL INFORMATION

1. The Company

- 1.1 The Company was incorporated on 3 July 1996 under the laws of the State of Delaware, USA under the name Spectra Acquisition Corporation. The name of the Company was changed to Spectra Science Corporation on 27 August 1996, and to Spectra Systems Corporation on 12 July 2001. The Company's registered office is located at 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States of America. The Company's registered number is 2640595.
- 1.2 The principal place of business of the Company is 321 South Main Street, Suite 102, Providence, RI 02903, United States of America (telephone number: 00 1 401 274 4700).
- 1.3 The Company's legal and commercial name at the date of this document is Spectra Systems Corporation. The Company operates under the law of the State of Delaware, USA.
- 1.4 The liability of the stockholders of the Company is limited.

2. Share capital of the Company

- 2.1 The authorised and issued share capital of the Company as at the date of this document and Admission is as set out below. All the issued share capital of the Company has been fully paid.

At the date of this document

	<i>Authorised Number</i>	<i>Issued and fully paid Number</i>
Common Stock of \$0.01 each	125,000,000	9,473,998
Preferred Stock of \$0.01 each	17,882,178	17,882,178

At Admission

Common Stock of \$0.01 each	125,000,000	45,251,370
Preferred Stock of \$0.01 each	17,882,178*	0

* Upon Conversion, none of the authorised shares of Preferred Stock converted as a result thereof may be reissued by the Company.

- 2.2 The following is a summary of the changes in the Company's issued share capital during the three years preceding the date of this document:
- (a) In 2008, the Company:
- (i) issued 30,998 Common Shares pursuant to the exercise of warrants; and
- (ii) issued, in connection with a financing by the Company, 1,000,000 Common Shares at a purchase price of \$0.60 per share to Galtbury Assets Inc., and in connection with such financing, issued to Oussama Salam, a Director, a warrant to subscribe for 275,000 Common Shares at a subscription price of \$0.60 per share.
- (b) On 7 June 2011, the Board resolved to effect a filing with the Delaware Secretary of State whereby 3,656,614 shares of its authorised, designated, but unissued shares of preferred stock resumed their prior status as undesignated preferred stock of the Corporation. Such filing became effective as of 17 June 2011.
- (c) On 7 June 2011, the Board further approved, subject and only to be effected upon completion and effectiveness of the filing described immediately above, the designation of 5,656,614 of its undesignated shares of preferred stock, as "Series F Convertible

Preferred Stock," par value \$0.01 per share, with certain rights and preferences. The related certificate of designation was filed, and became effective with the Delaware Secretary of State on 22 June 2011. The Company's Series F Convertible Preferred Stock converts automatically into a total of 56,566 Common Shares immediately prior to Admission, unless earlier converted at the discretion of the Company.

- (d) On 23 June 2011, the Company issued to five of its employees an aggregate of 5,656,614 shares of its Series F Convertible Preferred Stock for services rendered.
- 2.3 Upon Admission, all of the Company's then outstanding shares of Preferred Stock will automatically convert into Common Shares at a conversion factor per share equal to the applicable conversion value divided by the applicable conversion price, as described in the Company's Certificate of Incorporation or in accordance with applicable certificates of designation.
- 2.4 As a result of the Placing, existing Shareholders, including the holders of Preferred Stock assuming Conversion has taken place, will have their interest in the Company diluted by approximately 41.09 per cent. of the Enlarged Share Capital.
- 2.5 The primary legislation under which the Common Shares were created is Delaware General Corporation Law ("DGCL"). The Common Shares are in certificated form and title to such shares may be transferred subject to the US securities laws and transfer restrictions as set out in Part IV of this document. The Registrar is in charge of maintaining the Company's register of Shareholders.
- 2.6 No Common Shares are currently held in treasury by the Company or held by any other person on its behalf.
- 2.7 The Company does not have in issue any shares which do not represent capital.

3. Certificate of Incorporation and Bylaws

- 3.1 The purpose of the Company is to engage in any lawful act or activity for which corporations may be organised under the DGCL.
- 3.2 The Certificate of Incorporation and Bylaws of the Company contain provisions, *inter alia*, to the following effect:

- (a) ***Pre-emption rights***

At Admission, unless determined by Shareholders holding 75 per cent. of the then outstanding Common Shares of the Company, any issue of new securities for cash shall first be offered to existing holders of stock on a preemptive basis pro-rata to existing holdings. The pre-emption rights provisions do not apply to securities allotted for cash where the nominal amount of such stock during any 12 month period does not exceed ten per cent. of the then-outstanding Common Shares of the Company, or to the allotment in connection with Admission or in connection with an issuance to the then Shareholders of the Company on a *pro rata* basis.

- (b) ***Takeover provisions***

At Admission, if a person acquires shares which (taken together with securities held or acquired by persons acting in concert with such person) represent 30 per cent. or more of the shares of the Company, or a person, together with persons acting in concert with such person, holds not less than 30 per cent. but not more than 50 per cent. of shares of the Company and such person, or any person acting in concert with such person, acquires additional securities which will increase his percentage of shares, then any such persons, and any persons acting in concert with such persons must make an offer to the holders of all of the shares of the Company. The obligation

to make such an offer will not apply to any person who holds securities representing between 30 per cent. and 50 per cent. of the shares of the Company and who acquires Common Shares pursuant to the exercise of any options.

(c) ***Restrictions on transfer***

At Admission, to enable the Company to comply with certain US federal laws and trading and economic sanctions enforced by the US Office of Foreign Assets Control and the US Department of Defense, the Bylaws permit the Directors to refuse to register the transfer of any Common Share where: (i) the transferee is not able to certify to the Company or the Registrar that it is not a Prohibited Person; or (ii) as a result of such transfer a non-US Person would have a legal or beneficial interest, directly or indirectly, in the Common Shares representing at least 5 per cent. of the issued Common Shares and such non-US Person does not have in place requisite agreements with the applicable government agency(ies) prohibiting access to classified information and prohibiting the non-US Person from exercising control over or influencing the business or management of the Company.

The Bylaws also provide that where, in the opinion of the Directors, Common Shares are being held or beneficially owned, directly or indirectly, by any holder (a "Disadvantageous Owner"): (i) whose interest in Common Shares is in breach of any law or requirement of any country or jurisdiction; (ii) who is a Prohibited Person; or (iii) who is a non-US Person with an interest in the Common Shares representing at least 5 per cent. of the issued Common Shares and such non-US Person does not have in place requisite agreements with the applicable government agency(ies) prohibiting access to classified information and prohibiting the non-US Person from exercising control over or influencing the business or management of the Company, the Company may direct the Disadvantageous Owner to transfer some or all of his Common Shares to a person who would not, by reason of a transfer, become a Disadvantageous Owner.

To enable the Company to comply with US securities laws, the Bylaws permit the Directors to refuse to register the transfer of any Common Share where: (i) it appears to the Company that the transfer is not made in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act or pursuant to an available exemption from registration under the Securities Act and any applicable state securities laws; or (ii) such transfer might require the Company to register its Common Shares under Section 12 of the US Exchange Act, or would result in the Company becoming subject to the periodic reporting requirements of the US Exchange Act.

(d) ***Voting rights***

At Admission, each Shareholder has one vote for each Common Share. A Shareholder may vote in person, by proxy or by remote communication. Elections of Directors are determined by a plurality of the votes cast and most other matters are decided by a majority of the votes cast by those Shareholders entitled to vote and present in person, by proxy or by remote communication.

(e) ***Amendments to Bylaws***

Prior to Admission, holders of a majority of at least two-thirds of the then-outstanding shares or the Board can amend the Bylaws. After Admission the same shall apply other than in relation to the Bylaw provisions set out in Article XIV of the Bylaws, including the following, which may not be amended unless approved by holders of 75 per cent. of the Common Shares, namely:

- (i) takeover provision;
- (ii) pre-emption rights provision;
- (iii) disclosure of interests in Common Shares provision;
- (iv) restrictions on transfer provision; and
- (v) provisions to amend Article XIV of the Bylaws.

(f) **Directors**

The Board may exercise all powers of the Company, except as provided in the Certificate of Incorporation, the Bylaws or by law expressly conferred upon or reserved to the Shareholders.

The authorised number of Directors is seven. Directors are elected for a term of one year at each annual meeting of Shareholders by a plurality of the votes of Shareholders. If the Company has no directors in office at any time then a special meeting of the Shareholders may be called by any officer of the Company or any holder of 10 per cent. of the then-outstanding Common Shares for the purpose of electing directors to fill the vacancies on the Board.

A Director may be removed only by majority vote of the Shareholders or by the vote of at least two-thirds of the other members of the Board.

A quorum of the Board consists of a majority of the Board unless the Certificate of Incorporation requires a greater number. Each Director has one vote. A vote of the majority of the Directors present at a duly called meeting shall be the act of the Board.

The Board may appoint an Executive Committee consisting of one or more members of the Board to exercise the powers and authority of the Board in the management of the business and affairs of the Company. An Executive Committee is unable to authorise certain matters, such as making a recommendation to Shareholders. The Board may also appoint such other committees as may be permitted by law.

(g) **Dividends and other distributions**

Subject to applicable law, whether there are funds available for the payment of dividends is at the discretion of the Board. Dividends may be declared by the Board at any regular or special meeting, in such amounts, and at such time or times as the Directors may determine in accordance with applicable law. Dividends may be paid in cash, in property or in shares, subject to the Certificate of Incorporation and applicable law.

(h) **Disclosure of interest in Common Shares**

If a Shareholder acquires in aggregate three per cent. or more of the Common Shares, or if a Shareholder who previously owned three per cent. or more of the Common Shares ceases to own in the aggregate at least three per cent. of the Common Shares, such Shareholder is required to notify the Company of such Shareholder's interests in the Common Shares and the change thereto. A Shareholder is also required to notify the Company of such Shareholder's interests in the Common Shares and the change thereto if his or her interest increases or decreases through any single percentage above three per cent.

(i) **Winding up**

There are no provisions in the Bylaws relating to winding up. DGCL and the Certificate of Incorporation govern the winding up and dissolution of the Company. Pursuant to DGCL, the sale, lease or exchange of all or substantially all of the Company's property and assets, and the dissolution of the Company, requires the approval of a majority of the Shareholders. The Company shall continue for three years following dissolution in order to wind up the affairs of the Company.

The Certificate of Incorporation states that the holders of Designated Preferred Stock (as defined in the Certificate of Incorporation) take preference on a liquidation, dissolution or winding up. The amounts that Designated Preferred Stockholders should expect to receive from the assets (subject to equitable adjustment) is set out therein. Any assets available for distribution after payment in full to them will be paid to the holders of Common Shares in proportion to the number of shares held. Upon Admission, no shares of Designated Preferred Stock shall be issued and outstanding.

(j) **Shareholder meetings**

Annual meetings of the Shareholders for the purpose of election of directors and such other business are to be held each year. The date, time and place are designated by the Board.

Special meetings of the Shareholders may be called for any purpose or purposes by the President, Secretary or a majority of authorised directors.

There must be a quorum of the holders of a majority of the Shares present in person, by proxy or by remote communication at any Shareholder meeting.

(k) **Borrowing powers**

DGCL provides that the Company has the full authority to borrow.

4. Directors' interests in the Company

4.1 The beneficial interests of the Directors, their immediate families and the persons connected with them within the meaning of section 252 of the Act, in Common Shares, as at the date of this document and at Admission are and will be as follows:

As at the date of this document

<i>Director</i>	<i>Number of Common Shares*</i>	<i>Percentage of issued Common Shares*</i>
Oussama Salam #	3,555,886	13.3%
Nabil Lawandy	1,758,540	6.6%
Roland Puton	314,514	1.2%

At Admission

<i>Director</i>	<i>Number of Common Shares</i>	<i>Percentage of Enlarged Share Capital</i>
Oussama Salam #	3,555,886	7.9%
Nabil Lawandy	1,758,540	3.9%
Roland Puton	314,514	0.7%
Martin Jaskel	9,960	0.02%

* These figures are based on the premise that the Conversion has taken place as at the date of this document

Including Common Shares held in the name of Galtbury Assets, Inc.

In addition the Directors between them hold options to subscribe for new Common Shares as more particularly described in paragraph 6 of this Part V.

4.2 Save as disclosed in this paragraph 4, none of the Directors, nor any member of their respective immediate families, nor any person connected with them within section 252 of the Act, is or, immediately following Admission, will be interested in any share capital of the Company.

4.3 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors.

4.4 No Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.

5. Major Shareholders

- 5.1 Save as disclosed in this paragraph 5 the Directors are not aware of any person (other than the Directors, as set out in paragraph 4.1 above) who, directly or indirectly, jointly or severally at the date of this document and at Admission is or will be interested in 3 per cent. or more of the Existing Common Shares or the Enlarged Share Capital of the Company.

As at the date of this document

<i>Shareholder</i>	<i>Number of Common Shares*</i>	<i>Percentage of issued Common Shares*</i>
Albany International Corp.	3,160,526	11.9%
Clearwater Capital Group, LLC	1,813,850	6.8%
Newington Assets SA	1,101,355	4.1%
Crane & Co., Inc.	1,068,633	4.0%
Chivers Finances, Inc.	1,043,755	3.9%
H.K. Properties Limited	994,861	3.7%

At Admission

<i>Shareholder</i>	<i>Number of Common Shares</i>	<i>Percentage of issued Common Shares</i>
Albany International Corp.	3,160,526	7.0%
Clearwater Capital Group, LLC	1,813,850	4.0%
Newington Assets SA	1,101,355	2.4%
Crane & Co., Inc.	1,068,633	2.4%
Chivers Finances, Inc.	1,043,755	2.3%
H.K. Properties Limited	994,861	2.2%

* These figures are based on the premise that the Conversion has taken place as at the date of this document

- 5.2 No major Shareholder has any different voting rights than the other holders of Common Shares.
- 5.3 So far as the Directors are aware, the Company is not directly or indirectly controlled by any person.
- 5.4 There are no arrangements known to the Directors or the Company the operation of which may at a subsequent date result in a change of control of the Company.

6. Options

- 6.1 At Admission, the Directors will hold options or warrants to subscribe for Common Shares as follows:

<i>Director</i>	<i>Date of expiry</i>	<i>Exercise price per share</i>	<i>Number of shares under option/ warrant</i>
BJ Penn	14/09/2020	\$0.60	60,000
	14/04/2021	\$0.60	60,000
Nabil Lawandy	31/12/2011	\$1.00	75,000
	01/09/2014	\$0.21	237,500
	08/08/2016	\$0.50	225,000
	09/01/2017	\$0.50	75,000
	13/01/2019	\$0.60	1,477,979
	14/09/2020	\$0.60	71,250
	14/09/2020	\$0.60	200,000
25/07/2021	75.3p	400,000	

<i>Director</i>	<i>Date of expiry</i>	<i>Exercise price per share</i>	<i>Number of shares under option/warrant</i>
Mark Curcio	01/09/2014	\$0.21	9,500
	13/01/2019	\$0.60	60,000
	14/04/2021	\$0.60	60,000
Martin Jaskel	13/01/2019	\$0.60	60,000
	14/04/2021	\$0.60	60,000
Roland Puton	12/02/2012	\$5.25	1,000
	12/02/2012	\$5.25	1,000
	12/02/2012	\$5.25	3,000
	05/09/2013	\$5.50	1,000
	05/09/2013	\$5.50	1,000
	05/09/2013	\$5.50	3,000
	12/03/2014	\$5.50	1,000
	12/03/2014	\$5.50	1,000
	12/03/2014	\$5.50	3,000
	11/03/2015	\$1.00	1,000
	11/03/2015	\$1.00	1,000
	11/03/2015	\$1.00	3,000
	03/03/2016	\$1.00	1,000
	03/03/2016	\$1.00	1,000
	03/03/2016	\$1.00	3,000
Oussama Salam	13/01/2019	\$0.60	60,000
	14/09/2020	\$0.60	3,000
	14/04/2021	\$0.60	60,000
	12/02/2012	\$5.25	1,000
	12/02/2012	\$5.25	3,000
	07/04/2013	\$0.60	275,000
	05/09/2013	\$5.50	1,000
	05/09/2013	\$5.50	3,000
	12/03/2014	\$5.50	1,000
	12/03/2014	\$5.50	3,000
	11/03/2015	\$1.00	1,000
	11/03/2015	\$1.00	3,000
	03/03/2016	\$1.00	1,000
	03/03/2016	\$1.00	1,000
	03/03/2016	\$1.00	3,000
Donald Stanford	13/01/2019	\$0.60	60,000
	14/04/2021	\$0.60	60,000
	14/04/2021	\$0.60	60,000

6.2 At Admission the Company will have options outstanding over a total of 5,798,703 Common Shares, and warrants outstanding over a total of 275,000 Common Shares.

6.3 As at the date of this document, out of a total number of 14,100,000 options that may be granted under the Company's 2007 Incentive Compensation Plan (the "2007 Plan"), options over 5,562,127 Common Shares have been granted. The remaining options have been granted outside the 2007 Plan.

6.4 Upon Admission, WH Ireland will be granted warrants to subscribe for 452,514 Common Shares, representing 1.0 per cent. of the Enlarged Share Capital, pursuant to a warrant agreement, as described in paragraph 10.4 below.

6.5 The terms of the 2007 Plan are as follows:

(a) **General**

In March 2007, the Board adopted the 2007 Plan which provides for the grant of options, stock appreciation rights, restrictive stock purchase rights, stock awards and other stock based awards (such as convertible or exchangeable debt securities and awards of shares contingent on the performance of the Company) (together "Awards") to employees, Directors and officers of the Company or any subsidiary and other persons providing services to the Company. The Board of Directors is responsible for administration of the 2007 Plan. The 2007 Plan has been approved by the Shareholders.

(b) **Shares reserved for issuance under the 2007 Plan**

The 2007 Plan provides that 14,100,000 Common Shares are reserved and available for delivery under the 2007 Plan.

(c) **Eligibility**

Eligible recipients under the 2007 Plan are employees, Directors and officers of the Company or any subsidiary and other persons who provide services to the Company or any of its subsidiaries.

(d) **Grant of awards**

A committee of two or more Directors designated by the Board to administer the Plan ("the Committee") will determine, amongst other things, the term for each Award, the Award exercise price, the number of shares for which each Award is granted and the rate at which each Award is exercisable. The Committee may grant an Award alone or in addition to, in tandem with or in exchange for any other Award. Any action of the Committee shall be final, conclusive and binding on all persons. As of the date of this document, the Committee has not been designated. Rather, the Committee's functions as described herein are fulfilled by the Board.

(i) **Exercise price**

In respect of the grant of options, the exercise price per share purchasable under the option shall be determined by the Committee, but shall not be less than the fair market value of a Common Share on the date of the grant of the option.

In respect of stock appreciation rights, the exercise price is the fair market value of a Common Share on the date of exercise.

(ii) **Term**

The term of each Award shall be determined by the Committee, provided that the term of any option or stock appreciation rights shall not exceed a period of 10 years.

(iii) **Exercisability**

Awards shall be exercisable at such time or times and subject to such terms and conditions as the Committee shall determine. Exercisability may be based on the achievement of performance goals and/or future service requirements. The Committee has full power and discretion to accelerate, waive or modify any term or condition that is not mandatory under the 2007 Plan. The Committee may designate a securities brokerage firm or firms through which all exercises must be effected.

An eligible person in receipt of an Award may be required to enter into a non-competition agreement not to engage in conduct in direct competition with the Company or its subsidiaries for one year after the termination of their employment with the Company and their subsidiaries.

In the event of a change of control such as a merger or consolidation, an Award carrying a right to exercise shall become fully exercisable and vested at the time of the change of control. The restrictions, deferral of settlement and forfeiture conditions applicable to an Award shall lapse and such Awards shall be deemed fully vested at the time of the change of control.

Subject to the terms of the 2007 Plan and any applicable Award agreement, payments made on exercise of the Award may be made in such form as the Committee may determine and may be made in a single payment or instalments. The payment of an Award may be accelerated or deferred and payments may include the payment of reasonable interest.

(iv) **Restrictions**

Awards exercised during the lifetime of the eligible person shall be exercised by the eligible person or their guardian or legal representative only. No Award may be assigned or transferred other than by will or the laws of descent and distribution on the death of an eligible person.

Restricted stock awards are subject to further restrictions. For example, on termination of employment, restricted stock can be forfeited and reacquired by the Company.

(e) **Variations of capital**

In the event that there is a distribution such as a dividend, recapitalisation, merger or consolidation affecting the stock, the Committee shall make an appropriate and equitable adjustment to the number and kind of shares which may be delivered in connection with Awards granted thereafter and the number and kind of shares deliverable under Awards and the exercise price.

(f) **Amendment and termination**

The Board may amend, alter, suspend, discontinue or terminate the 2007 Plan or the Committee's authority to grant Awards under the 2007 Plan without the consent of Shareholders or eligible persons (unless Shareholder approval is required by law). However, the Board may in its discretion decide to submit changes to the 2007 Plan to Shareholders for approval. No Board action may materially and adversely affect the rights of an eligible person under any previously granted Award agreement except as provided for under the 2007 Plan.

The Committee is authorised under the 2007 Plan to make adjustments to the terms and conditions of Awards in recognition of unusual or nonrecurring events affecting the Company or any subsidiary.

The Committee will not allow any option or stock purchase rights under the Plan to be cancelled, substituted for, repriced or terminated and re-granted at an exercise price lower than its initial exercise price at the date of the grant.

6.6 Other than as set out in this document, there are no acquisition rights or obligations over authorised but unissued capital or undertakings to increase the capital.

7. Directors' service agreements/letters of appointment

7.1 Nabil Lawandy

Dr. Lawandy entered into a service agreement with the Company on 16 December 1999, which was supplemented by a memorandum from the Compensation Committee dated 6 August 2006, from time to time by resolutions of the Compensation Committee and by an addendum agreement dated 19 July 2011. The terms of the agreement provide for *inter alia*: (i) a base salary of \$375,000 per annum, (ii) an annual bonus calculated and payable at the absolute discretion of the Board, (iii) options granted each year over 75,000 Common Shares

at the absolute discretion of the Board and (iv) termination on six months' notice by either party or summarily by the Company if Dr. Lawandy is, among other things, guilty of gross misconduct. The agreement provides for Dr. Lawandy to receive 100 per cent. of his then current salary, plus the maximum cash portion of his bonus, upon termination of his employment without cause. Dr. Lawandy is also a party to a deferred compensation agreement with the Company, dated 21 June 2011, pursuant to which the Company, in consideration of services to be rendered by Dr. Lawandy, agreed to pay him deferred compensation on 30 September 2013 in the aggregate amount of \$223,599.99, *provided that* he is employed by the Company as of 1 September 2013. Dr. Lawandy or his estate, as applicable, shall be entitled to a lesser, prorated compensation amount if, prior to 1 September 2013, he is terminated without cause, he dies, is disabled or is terminated in connection with a change in control. Dr. Lawandy also entered into a separate non-competition, nondisclosure and inventions agreement, pursuant to which he is subject to certain restrictive covenants, confidentiality provisions and assignment of inventions provisions.

7.2 **Mark Curcio**

Mr. Curcio was appointed pursuant to a letter of appointment dated 19 July 2011, the terms of which are conditional on Admission. He is paid a fee of \$12,000 annually. Mr. Curcio's appointment is terminable at any time forthwith on notice by either party. Mr. Curcio's appointment may be terminated summarily by the Company if the appointee is, among other things, guilty of gross misconduct or neglecting his duties under his appointment. Mr. Curcio is subject to certain restrictive covenants. The letter of appointment does not provide for any benefits to be given to Mr. Curcio upon termination of his appointment.

7.3 **Martin Jaskel**

Mr. Jaskel was appointed pursuant to a letter of appointment dated 19 July 2011, the terms of which are conditional on Admission. He is paid a fee of \$12,000 annually. Mr. Jaskel's appointment is terminable at any time forthwith on notice by either party. Mr. Jaskel's appointment may be terminated summarily by the Company if the appointee is, among other things, guilty of gross misconduct or neglecting his duties under his appointment. Mr. Jaskel is subject to certain restrictive covenants. The letter of appointment does not provide for any benefits to be given to Mr. Jaskel upon termination of his appointment.

7.4 **B.J. Penn**

Mr. Buddie Joe Penn was appointed pursuant to a letter of appointment dated 19 July 2011, the terms of which are conditional on Admission. He is paid a fee of \$12,000 annually. Mr. Penn's appointment is terminable at any time forthwith on notice by either party. Mr. Penn's appointment may be terminated summarily by the Company if the appointee is, among other things, guilty of gross misconduct or neglecting his duties under his appointment. Mr. Penn is subject to certain restrictive covenants. The letter of appointment does not provide for any benefits to be given to Mr. Penn upon termination of his appointment.

7.5 **Roland Puton**

Mr. Puton was appointed pursuant to a letter of appointment dated 19 July 2011, the terms of which are conditional on Admission. He is paid a fee of \$12,000 annually. Mr. Puton's appointment is terminable at any time forthwith on notice by either party. Mr. Puton's appointment may be terminated summarily by the Company if the appointee is, among other things, guilty of gross misconduct or neglecting his duties under his appointment. Mr. Puton is subject to certain restrictive covenants. The letter of appointment does not provide for any benefits to be given to Mr. Puton upon termination of his appointment.

7.6 **Oussama Salam**

Dr. Salam was appointed pursuant to a letter of appointment dated 19 July 2011, the terms of which are conditional on Admission. He is paid a fee of \$12,000 annually. Dr. Salam's appointment is terminable at any time forthwith on notice by either party. Dr. Salam's appointment may be terminated summarily by the Company if the appointee is, among other

things, guilty of gross misconduct or neglecting his duties under his appointment. Dr. Salam is subject to certain restrictive covenants. The letter of appointment does not provide for any benefits to be given to Dr. Salam upon termination of his appointment.

7.7 **Donald Stanford**

Mr Stanford was appointed pursuant to a letter of appointment dated 19 July 2011, the terms of which are conditional on Admission. He is paid a fee of \$12,000 annually. Mr. Stanford's appointment is terminable at any time forthwith on notice by either party. Mr. Stanford's appointment may be terminated summarily by the Company if the appointee is, among other things, guilty of gross misconduct or neglecting his duties under his appointment. Mr. Stanford is subject to certain restrictive covenants. The letter of appointment does not provide for any benefits to be given to Mr. Stanford upon termination of his appointment.

7.8 There are no arrangements under which any Director has agreed to waive or vary future emoluments nor have there been any waivers or variations of such emoluments during the financial year immediately preceding the date of this document.

7.9 The aggregate remuneration and benefits in kind paid to the Directors for the financial period ending 31 December 2010 was approximately US\$620,000. It is estimated that under the agreements currently in force, the aggregate remuneration and benefits in kind to be paid to the Directors for the financial period ending 31 December 2011 will be US\$530,000.

8. **Additional information on the Board**

8.1 Aside from directorships of the Company the Directors hold or have held the following directorships or been a partner in the following partnerships within the five years prior to the date of this document:

<i>Name of Director</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Nabil Lawandy	Solaris NanoSciences, Inc.	SpectraDisc Corporation
Mark Curcio	Curcio Capital Partners	None
Martin Jaskel	European American Capital Limited European American Capital Services Limited European American Capital Group Limited EAC Emoney Limited	MSJ Associates Limited
B.J. Penn	None	None
Roland Puton	None	None
Oussama Salam	Optima Strategies Corporation Pillar Partners Corporation	Biotech Shares Limited Search Dynamics Corporation
Donald Stanford	None	None

8.2 Martin Jaskel was a director of Global Money Transfer Holdings Limited between 8 November 1999 and 22 May 2002. In September 2002, Global Money Transfer Holdings Limited was placed into administrative receivership with an estimated shortfall to creditors of £4,782,898.

8.3 On 9 May 2002, Martin Jaskel was adjudged bankrupt in the UK by the High Court. Mr. Jaskel was fully discharged from his bankruptcy on 1 April 2005.

8.4 Save as disclosed above, none of the Directors has:

- (a) any unspent convictions in relation to indictable offences;
- (b) had any bankruptcy order made against him or entered into any voluntary arrangements;

- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
- (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (e) been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (f) been publicly criticised by any statutory or regulatory authority (including designated professional bodies);
- (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a Company; or
- (h) had a name other than his existing name.

9. Details of Subsidiaries

The Company does not hold capital in any other undertakings that have a significant effect on the assessment of the Company's assets and liabilities, financial position or profits and losses.

10. Material contracts

The following section contains summaries of the principal terms of material contracts (not being contracts entered into in the ordinary course of business) entered into by the Company within the two years immediately preceding the date of this document and any other contracts (not being contracts entered into in the ordinary course of business) entered into by the Company which contain any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document:

10.1 Placing Agreement

On 19 July 2011 the Company entered into the Placing Agreement with WH Ireland and the Directors pursuant to which WH Ireland has agreed to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. The Placing Agreement is conditional, *inter alia*, on the issued and to be issued Common Shares being admitted to AIM by no later than 31 July 2011.

In consideration of its services in connection with Admission and the Placing, the Company will pay WH Ireland a corporate finance fee of £125,000 and a commission of 5 per cent. on the aggregate subscription price of the Placing Shares at the Placing Price in relation to shares placed with investors introduced by WH Ireland.

The Placing Agreement contains warranties given by the Company and the Directors as to the accuracy of the information contained in this document and other matters relating to the Company and its business. The liability of the Directors under these warranties is limited in time and amount. In addition, the Company has given indemnities to WH Ireland in respect of certain matters. WH Ireland is entitled to terminate the Placing Agreement prior to Admission, principally in the event of a material breach of the Placing Agreement or of any of the warranties contained in it.

10.2 ***Nominated adviser and broker agreement***

On 19 July 2011 the Company entered into an agreement with WH Ireland, pursuant to which the Company appointed WH Ireland to act as nominated adviser and broker to the Company. The agreement may be terminated by either party on the giving of 3 months' notice. In consideration of its services, the Company has agreed to pay WH Ireland an annual retainer of £50,000.

10.3 ***Lock-in undertakings***

Pursuant to undertakings given to the Company and to WH Ireland dated 19 July 2011, the Directors have agreed, save in the certain limited circumstances described below, not to dispose of any Common Shares for a period of 12 months from Admission and, for the next following period of 12 months, not to dispose of any Common Shares other than through the Company's broker from time to time.

Certain disposals are permitted including: (i) the acceptance of a general offer (or an agreement or undertaking to accept such an offer) for the share capital of the Company or the execution of an irrevocable undertaking to accept such an offer; (ii) a transfer to a family member or a trustee of a trust the beneficiaries of which are the relevant Director and/or a member of his family; (iii) in the event of an intervening court order; and (iv) a disposal on death.

Pursuant to an undertaking given to the Company and to WH Ireland dated 19 July 2011, Albany International Corp has agreed, save in the certain limited circumstances described below, not to dispose of any Common Shares for a period of 6 months from Admission.

Certain disposals are permitted including: (i) the acceptance of a general offer (or an agreement or undertaking to accept such an offer) for the share capital of the Company or the execution of an irrevocable undertaking to accept such an offer; and (ii) in the event of an intervening court order.

10.4 ***WH Ireland warrant agreement***

Pursuant to a warrant agreement dated 19 July 2011, the Company created and issued warrants to WH Ireland under Regulation D under the US Securities Act which entitles the holder to subscribe for up to 452,514 Common Shares in cash at the Placing Price at any time from Admission to and including the third anniversary of Admission. The total number of Warrants issued to WH Ireland will be equal to one per cent. of the Enlarged Share Capital.

11. **Litigation**

The Company is not involved in any governmental legal or arbitration proceedings which may have or have had in the 12 months preceding the date of this document a significant effect on the Company's financial position or profitability and, so far as the Directors are aware, there are no such proceedings pending or threatened against the Company.

12. **Working capital**

The Directors are of the opinion, having made due and careful enquiry, that the working capital available to the Company is sufficient for its present requirements, that is for at least 12 months from the date of Admission.

13. **Agreements with related parties**

13.1 On 20 August 2010, the Company entered into a services agreement with Solaris NanoSciences, Inc. ("Solaris"), pursuant to which the Company agreed to provide certain services to Solaris to enable Solaris to provide products and services to a US government agency. Pursuant to the agreement Solaris must pay the Company a monthly fee, which is

based on the amount of time spent by the Company's employees in providing services to Solaris at the respective hourly rates set out in the agreement. The agreement may be terminated by either party on 30 days' written notice.

This agreement is a related party transaction as Nabil Lawandy is a director of Solaris and holds approximately 69 per cent. and the Company holds approximately 10 per cent. of the issued shares in Solaris. As at 30 April 2011, Solaris had paid \$673,826 to the Company in respect of services provided under the agreement.

- 13.2 Save as disclosed in paragraph 13.1 of this Part V and Note 10 to the financial information of the Company in Part III of this document, the Company has not entered into any related party transactions in the last three financial years preceding the date of this document and up to the date of this document.

14. Taxation

UK taxation

The following statements are intended only as a general guide to current UK tax legislation and to the current practice of HM Revenue & Customs ("HMRC") and may not apply to certain classes of Shareholders, such as dealers in securities, insurance companies and collective investment schemes. They relate only to persons who are the absolute beneficial owners of Common Shares, are resident and/or (if individuals) ordinarily resident in the UK for tax purposes (except where stated otherwise) and who hold Common Shares as investments. The tax position of any UK resident tax exempt entity, or an individual who is not UK domiciled, is not dealt with below and specific advice should be sought.

This summary relates only to certain limited aspects of the taxation treatment of owners of Common Shares and should not be relied upon as constituting legal advice. Any person who is in any doubt as to his tax position, or who is subject to tax in any jurisdiction other than the UK, should consult his professional advisers immediately. In addition, the tax position of any Shareholder who together with connected persons holds at least 10 per cent. of the Common Shares of the Company is not dealt with below and specific advice should be sought.

(a) *Tax on chargeable gains*

A disposal of Common Shares by any Shareholder who is (at any time in the relevant UK tax year) resident and/or, in the case of an individual, ordinarily resident in the UK may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains (subject to any available exemptions or reliefs). Special rules may apply to tax gains on disposals made by individuals at a time when they are temporarily neither resident nor ordinarily resident in the UK.

Any chargeable gain (or allowable loss) will be calculated by reference to the consideration received for the disposal of the Common Shares less the allowable cost to the Shareholder of acquiring such Common Shares. For a Shareholder within the charge to UK corporation tax, an indexation allowance (calculated by reference to the UK retail prices index) in respect of the acquisition cost of the Common Shares should be available to reduce the amount of any chargeable gain realised on a subsequent disposal.

(b) *Dividends*

Dividends received on the Common Shares by a Shareholder subject to UK corporation tax will generally be exempt from UK corporation tax, subject to certain specific anti-avoidance rules.

Dividends received on the Common Shares by an individual Shareholder who is resident and/or ordinarily resident in the UK carry an associated notional tax credit of one-ninth of the cash dividend. Such individuals will be liable to UK income tax on the aggregate of the dividend and the associated tax credit at either the ordinary rate of 10 per cent., the higher rate of 32.5 per cent. or the additional rate of 42.5 per cent. Effectively those liable to tax at

the basic rate will have no further liability to income tax in respect of the dividend. Those who are liable to tax at the higher or additional rates will have an additional tax liability (after taking into account the tax credit) of 25 per cent. and 36.11 per cent. respectively.

If any dividend has been subject to United States withholding tax, discussed below (“**Withholding Tax**”), the amount received plus the Withholding Tax will be included in the assessable income of UK resident individual Shareholders. In these circumstances, such Shareholders may be entitled to a credit for the foreign tax paid. UK resident corporate shareholders who are exempt from corporation tax on such dividends will not be able to utilise a credit for Withholding Tax.

(c) *Stamp duty and stamp duty reserve tax (“SDRT”)*

The statements below are intended as a general guide to the current position. They do not apply to certain intermediaries who are not liable to stamp duty or SDRT, or (except where stated otherwise) to persons connected with depositary arrangements or clearance services who may be liable at a higher rate.

Common Shares held in Certificated Form

No stamp duty or SDRT should be payable on the issue of Placing Shares.

No charge to stamp duty will arise on relation to the transfer of Common Shares held in certificated form provided that all instruments relating to the transfer are executed and retained outside the UK and do not relate to matters or actions performed in the UK. However any instrument effecting or evidencing a transfer of Common Shares held in certificated form whether executed in the UK or offshore may not (except in criminal proceedings) be given in evidence or be available for any purpose whatsoever in the UK unless duly stamped. The rate of stamp duty is 0.5 per cent. on the value of the consideration for the relevant transfer, rounded up to the next multiple of £5. Interest on the stamp duty will accrue from 30 days after the date the instrument was executed.

No charge to SDRT will arise in respect of an agreement to transfer Common Shares held in certificated form, provided such shares are not registered in any register kept in the UK by or on behalf of the Company.

US taxation

The following is a general discussion of the material US federal income tax consequences of the ownership and disposition of Common Shares by a non-US holder that acquires these shares pursuant to this offering. The discussion is based on the United States Internal Revenue Code of 1986, as amended (the “IR Code”), applicable Treasury regulations promulgated thereunder and administrative pronouncements, judicial decisions and interpretations of the foregoing, all as of the date hereof. All of the foregoing authorities are subject to change (possibly with retroactive effect) and any such change may result in US federal income tax consequences to a holder that are materially different from those described below. No ruling of the US Internal Revenue Service (“IRS”) or opinion of counsel has been or will be sought with respect to the tax consequences discussed herein. Consequently, the IRS may disagree with or challenge any of the tax consequences discussed herein.

The following discussion does not purport to be a full description of all US federal income tax considerations that may be relevant to a non-US holder in light of such holder’s particular circumstances and only addresses non-US holders who hold Common Shares as “capital assets” within the meaning of Section 1221 of the IR Code.

As used in this discussion, a “non-US holder” means a beneficial owner of Common Shares who is not, for US tax purposes:

- a citizen or individual resident of the United States;

- a corporation or partnership, including any entity treated as a corporation or a partnership for US federal income tax purposes, created or organised in the United States or under the laws of the United States or of any state thereof (including the District of Columbia), other than a partnership treated as foreign under US Treasury regulations;
- an estate, income of which is subject to US federal income taxation regardless of its source;
- a trust (1) if the administration of the trust is subject to the primary supervision of a US court and the trust has one or more US Persons who have the authority to control all substantial decisions of the trust, or (2) that has validly elected to be treated as a US Person for US federal income tax purposes under applicable US Treasury regulations.

This discussion does not consider:

- US federal estate or gift tax consequences, or consequences under the tax laws of any state, local or foreign government that may be applicable to non-US holders of Common Shares;
- specific facts and circumstances that may be relevant to a particular non-US holder's tax position, including, if the non-US holder is a partnership or other entity treated as a partnership for federal income tax purposes, that the US tax consequences of holding and disposing of Common Shares may be affected by certain determinations made at the partner level;
- the tax consequences for the stockholders, partners or beneficiaries of a non-US holder;
- special tax rules that may apply to particular non-US holders, such as financial institutions, insurance companies, tax-exempt entities, certain trusts, hybrid entities, certain former citizens or residents of the United States, holders subject to US federal alternative minimum tax, broker-dealers, traders in securities, pension plans and regulated investment companies; or
- special tax rules that may apply to a non-US holder that holds Common Shares in connection with a hedging transaction, "straddle," "conversion transaction," "synthetic security" or other integrated transaction.

Prospective Investors are urged to consult with their own tax advisors regarding the US federal, state, local tax consequences of owning and disposing of Common Shares in light of their particular situations, as well as any consequences arising under the laws of any other taxing jurisdiction or under any applicable tax treaty.

(d) *Dividends*

The Company may, in its discretion and subject to applicable laws, pay dividends on its Common Shares. When the Company does make distributions on the Common Shares, those payments will constitute dividends for US federal income tax purposes to the extent paid from the current or accumulated earnings and profits of the Company, as determined under US federal income tax principles. To the extent those distributions exceed the Company's current and accumulated earnings and profits, the excess will constitute a return of capital and first reduce the holder's basis, but not below zero, and then will be treated as gain from the sale of stock. In the event such distributions are made, the Company will have to withhold US federal income tax at a rate of 30 per cent., or a lower rate under an applicable income tax treaty, of the gross amount of the dividend paid to a non-US holder, unless the dividend is effectively connected with the conduct of a US trade or business of the non-US holder or, if an income tax treaty applies, attributable to a permanent establishment or fixed base of the non-US holder within the United States. Under applicable US Treasury regulations, a non-US holder, including, in certain cases of non-US holders that are entities, the owner or owners of such entities, will be required to satisfy certain certification requirements in order to claim a reduced rate of withholding pursuant to an applicable income tax treaty. Non-US holders should consult with their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

Dividends that are effectively connected with a non-US holder's conduct of a trade or business in the United States and, if an income tax treaty applies, attributable to a permanent establishment or fixed base of the non-US holder within the United States, are taxed on a net income basis at regular graduated US federal income tax rates in the same manner as if the non-US holder were a resident of the United States. In such cases, the Company will not have to withhold US federal income tax if the non-US holder complies with applicable certification and disclosure requirements. In addition, a "branch profits tax" may be imposed at a rate of 30 per cent., or a lower rate under an applicable income tax treaty, on dividends received by a foreign corporation that are effectively connected with the conduct of a trade or business in the United States. Non-US holders that are engaged in a US trade or business or that are subject to similar taxation rules under an income tax treaty should consult their tax advisors regarding the taxation of dividends they may receive.

In order to claim the benefit of an income tax treaty or to claim exemption from withholding because the income is effectively connected with the conduct of a trade or business in the United States, the non-US holder must provide a properly executed IRS Form W-8BEN, for treaty benefits, or W-8ECI, for effectively connected income, respectively, or such successor forms as the IRS designates prior to the payment of dividends. These forms must be periodically updated. A non-US holder that is eligible for a reduced rate of US federal withholding tax under an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for a refund together with certain required information with the IRS.

(e) *Gain on sale or other disposition of Common Shares*

A non-US holder generally will not be subject to US federal income tax or withholding tax with respect to gain realised on a sale or other disposition of Common Shares unless one of the following applies:

- the gain is effectively connected with the non-US holder's conduct of a trade or business in the United States and, if an income tax treaty applies, is attributable to a permanent establishment or fixed base maintained by the non-US holder in the United States; in these cases, the non-US holder will generally be taxed on its net gain derived from the disposition in the manner and at the regular graduated US federal income tax rates applicable to United States persons, as defined in the IR Code, and, if the non-US holder is a foreign corporation, the "branch profits tax" described above may also apply;
- the non-US holder is a non-resident alien individual who is present in the United States for 183 days or more in the taxable year of the disposition and meets certain other requirements; in this case, the non-US holder will be subject to a 30 per cent. tax on the gain derived from the disposition which maybe offset by US-source capital losses of the non-US holder, if any; or
- the Company's Common Shares constitute a United States real property interest by reason of the Company's status as a "United States real property holding corporation" ("USRPHC") for US federal income tax purposes at any time during the shorter of the 5-year period ending on the date of such disposition or the period that the non-US holder held the Company's Common Shares. Because the future determination of whether the Company is a USRPHC will depend on the fair market value of the Company's United States real property interests relative to the fair market value of the Company's other business assets at such time, there can be no assurance that the Company will not become a USRPHC in the future. As long as the Company's Common Shares are "regularly traded on an established securities market" within the meaning of Section 897(c)(3) of the IR Code, however, such Common Shares will be treated as United States real property interests only if a non-US holder owned directly or indirectly more than 5 per cent. of such regularly traded Common Shares during the shorter of the 5-year period ending on the date of disposition or the period that

the non-US holder held Common Shares and the Company was a USRPHC during such period. If the Company is or were to become a USRPHC and a non-US holder owned directly or indirectly more than 5 per cent. of the Company's Common Shares during the period described above or the Company's Common Shares were not "regularly traded on an established securities market," then a non-US holder would generally be subject to US federal income tax on its net gain derived from the disposition of the Company's Common Shares at the regular graduated US federal income tax rates applicable to United States persons, as defined in the IR Code.

(f) *Information reporting and backup withholding tax*

Under US Treasury regulations, the Company must report annually to the IRS and to each non-US holder the gross amount of the distributions paid to that holder and the tax withheld with respect to those distributions. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable income tax treaty or withholding was not required because the distributions were effectively connected with the non-US holder's conduct of a US trade or business. Copies of the information returns reporting those distributions and withholding may also be made available under the provisions of an applicable income tax treaty or agreement to the tax authorities in the country in which the non-US holder is a resident or incorporated. Under some circumstances, US Treasury regulations require backup withholding and additional information reporting on reportable payments on Common Shares.

The gross amount of dividends paid to a non-US holder that fails to certify its non-US holder status in accordance with applicable US Treasury regulations generally will be reduced by backup withholding at the applicable rate, currently 28 per cent. Dividends paid to non-US holders subject to the US withholding tax at a rate of 30 per cent., described above in "Dividends," generally will be exempt from US backup withholding.

The payment of the proceeds of the sale or other disposition of Common Shares by a non-US holder effected by or through the US office of any broker, whether or not the broker is a US Person, generally will be reported to the IRS and reduced by backup withholding unless the non-US holder either certifies its status as a non-US holder under penalties of perjury or otherwise establishes an exemption and the broker has no actual knowledge, or reason to know, to the contrary. However, the payment of the proceeds of the sale or other disposition of Common Shares by a non-US holder effected by or through a non-US office of a broker that is not a US Person generally will not be reported to the IRS or reduced by backup withholding unless the broker has certain enumerated connections with the United States. The payment of proceeds from the sale or other disposition of Common Shares effected by or through a non-US office of a broker that is a US Person or that has certain enumerated connections with the United States will be reported to the IRS and may be reduced by backup withholding unless the broker receives a statement from the non-US holder that certifies its status as a non-US holder under penalties of perjury or the broker has documentary evidence in its files that the holder is a non-US holder.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-US holder can be refunded or credited against the non-US holder's US federal income tax liability, if any, provided that the required information is furnished to the IRS in a timely manner. These backup withholding and information reporting rules are complex and non-US holders are urged to consult their own tax advisors regarding the application of these rules to them.

The foregoing discussion of US federal income tax considerations is not tax advice and is not based on an opinion of counsel. Accordingly, prospective non-US holders of Common Shares should consult their own tax advisors with respect to the US federal, state, local and non-US tax consequences of the ownership and disposition of Common Shares.

15. Effects of US domicile

The Company is incorporated in the State of Delaware, United States. There are a number of differences between the corporate structure of the Company and that of a public limited company incorporated in England under the Act. Whilst the Directors consider that it is appropriate to retain the majority of the usual features of a US corporation, they intend to take certain actions whenever practicable to meet UK standard practice adopted by companies under English law and admitted to AIM. Set out below is a description of the principal differences and, where appropriate, the actions the Board intends to take.

(a) *Pre-emption rights*

Shareholders do not have pre-emption rights under Delaware law over further issues of shares of the Company and the Company shall have no obligation to provide any pre-emptive rights to its Shareholders.

However, the Bylaws have been amended to provide that upon Admission, unless otherwise determined by Shareholders of the Company holding 75 per cent. of the then outstanding shares of the Common Shares, each Shareholder shall have a pre-emption right to purchase its *pro rata* share of any shares of any kind, class or series of the Company (with certain exceptions) that the Company may, from time to time, propose to sell and issue wholly for cash and that will be admitted to trading on either AIM or the Main Market of the London Stock Exchange, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in its exclusive discretion to deal with fractional entitlements or legal or practical problems under the laws of any country, territory or political subdivision thereof, or the requirements of any regulatory authority or stock exchange in any jurisdiction. The Company may, at any time and from time to time upon approval by the Board, disapply the pre-emption provisions, provided that such disapplication is limited to the allotment for cash of shares where the nominal amount of such shares during any 12 month period does not exceed in the aggregate, ten per cent. of the outstanding shares from time to time. These pre-emption rights will cease to apply if the Company becomes a reporting company under the US Exchange Act.

(b) *Inapplicability of the Takeover Code and anti-takeover effects of the Bylaws, Certificate of Incorporation and other relevant law*

The Company is not subject to the Takeover Code because its registered office and its place of central management are outside the UK, the Channel Islands and the Isle of Man. As a result, certain of the protections which are afforded to Shareholders under the Takeover Code, for example in relation to a takeover of a company or certain shareholding activities by Shareholders, do not apply to the Company. However, the Bylaws contain similar procedures to the Takeover Code, effective upon Admission, in the event of any party (or parties acting in concert) obtaining 30 per cent. or more of the voting rights attaching to the issued Common Shares of the Company. See paragraph 3 of this Part V above for more details.

(c) *Disclosure of interests in Common Shares*

The Company's Bylaws provide that, any time following Admission, where a Shareholder either (i) to his knowledge acquires an aggregate nominal value of a class, or series, of shares in which his interest is equal to or more than three per cent. of the aggregate outstanding shares of that class of shares (a "**Notifiable Interest**"); (ii) ceases to have a Notifiable Interest; or (iii) becomes aware that he has acquired a Notifiable Interest, or that he has ceased to have a Notifiable Interest in which he was previously interested, he shall notify the Company of his interest. This obligation also arises where there is an increase or decrease in the level of a Shareholder's Notifiable Interest through any single percentage.

It should be noted that the provisions regarding notification of interests in shares contained in the Disclosure and Transparency Rules of the FSA do not apply to the Company, therefore, the Company is not able to rely on such rules for the purpose of satisfying its obligations to publish notifications of relevant changes to its significant Shareholders in accordance with Rule 17 of the AIM Rules.

(d) **Employment law differences**

Unlike in the UK, most of the US employees of the Company are employed “at will”, as is customary in the US. Consequently, the Company can impose no contractual terms that require a US employee to give to the Company more than nominal notice when the employee voluntarily terminates his or her employment with the Company.

In addition, in the US, unlike in the UK, an executive Director can be terminated for cause as an employee by the Company, but may remain on the Board until he either resigns from the Board, fails to be elected annually by the Shareholders or is removed from the Board by a valid resolution of the Shareholders.

16. Consents

16.1 RSM Tenon Audit Limited has given and not withdrawn its consent to the issue of this document with inclusion herein of its reports and letters and references to its name in the form and context in which they are included and have accepted responsibility for such reports and letters.

16.2 WH Ireland has given and not withdrawn its consent to the issue of this document with inclusion herein of references to its opinion and name in the form and context in which they are included.

17. No significant change

There has been no significant change in the trading or financial position of the Company since 31 December 2010 (being the date to which the last audited accounts of the Company were prepared).

18. Other information

18.1 There are no specific dates on which entitlement to dividends or interest thereon on Common Shares arises and there are no arrangements in force for the waiver of future dividends.

18.2 The total costs and expenses payable by the Company in connection with or incidental to the Placing and Admission are estimated to be £1.2 million (exclusive of VAT). The gross sum expected to be raised by the Placing is £14 million and the net proceeds of the Placing (after the deduction of expenses excluding VAT) are estimated to be £12.8 million.

18.3 The accounting reference date of the Company is currently 31 December.

18.4 The accounts of the Company for the period covered by the historical financial information contained in this document have been audited by Miller Wachman LLP of 100 Cambridge Street, 13th Floor, Boston, MA, USA. Miller Wachman LLP is a Certified Public Accountant.

18.5 Save as disclosed in this document, as far as the Directors are aware:

- (a) there are no environmental issues that may affect the Company’s utilisation of its tangible fixed assets;
- (b) there are no known trends, uncertainties, demands or events that are reasonably likely to have a material adverse effect on the Company’s prospects for at least the current financial year;
- (c) the Company is not dependent on any other patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are of fundamental importance to its business or profitability; and
- (d) there are no exceptional factors that have influenced the Company’s activities.

- 18.6 Save as disclosed in this document, no person (excluding professional advisers and trade suppliers) has received directly or indirectly from the Company within the 12 months preceding the Company's application for Admission and no persons have entered into contractual arrangements to receive:
- (a) fees totalling £10,000 or more;
 - (b) securities in the Company with a value of £10,000 or more; or
 - (c) any other benefit with a value of £10,000 or more at the date of Admission.
- 18.7 Save as disclosed in this document, the Company does not hold a proportion of the capital of any undertaking likely to have a significant effect on the assessment of the Company's assets and liabilities, financial position or profits and losses.
- 18.8 Save as disclosed in this document, the Company has no principal investments for the period covered by the historic financial information contained in this document and has no principal investments in progress and no principal future investments in relation to which it has made a firm financial commitment.
- 18.9 Where information has been sourced from a third party, it has been accurately reproduced and as far as the Directors are aware and able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

19. Copies of this document

Copies of this document will be available, free of charge, at the offices of WH Ireland at 24 Martin Lane, London EC4R 0DR from the date of this document during normal business hours of any weekday, Saturdays and public holidays excepted, for one month from the date of Admission.

Dated: 19 July 2011



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