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Private and confidential

Dr Robert Rankin
Chairman
Securency International Pty Ltd
PO Box 223
Craigieburn
VIC 3064

Our ref Securency Engagement Letter
230709

23 July 2009

Dear Bob

Assistance with enquiries into matters relating to dealings with agents in overseas territories

I refer to our meeting on Monday 6 July and subsequent discussion during which you invited KPMG Forensic to provide forensic services to Securency International Pty Ltd ("Securency") in connection with enquiries into matters relating to dealings with agents in overseas territories.

This Engagement Letter, together with the attached appendices, sets out the terms of the engagement, which also apply to any work conducted prior to the date of this letter.

Background

The Board of Securency Ltd is pursuing lines of investigation on a broad front to decide:

- Whether the law or the company's processes or procedures have been contravened;
- If it can continue to feel confident in the information being provided by management;
- Where improvements can be made to the company's procedures and processes.

At the request of Securency, the Australian Federal Police ("AFP") is investigating the possible commission of criminal offences related to bribery of foreign government officials. The AFP is also expected to report on whether there have been fraudulent breaches of company policy by staff or agents, in respect of bribery and also in respect of the security of the company's information.



Objectives and scope of work

There is additional investigative work which the Board wishes undertaken in pursuit of its objectives. This is intended to complement the investigation by the AFP. This work, to be undertaken by KPMG under the terms of this letter, will focus on three main areas of interest:

- Securrency's policies and procedures relating to the appointment and remuneration of agents and its monitoring of their behaviour;
- Securrency's code of conduct and ethics and compliance by its staff and agents with the code; and
- Securrency's policies and procedures for bringing information to the attention of management and the Board.

While the Board believes that management has kept directors fully informed in the past with respect to the risks and potential exposures in the company's use of agents, this review will indicate whether there are areas for improvement in this respect.

The specific issues to be reviewed as part of the work are:

- 1 Identify whether Securrency's policies and procedures regarding agents be viewed as best practice? If not, where should they be modified or strengthened?
- 2 Identify what might be done to improve the process of due diligence prior to appointment of an agent, including what additional checks can be included.
- 3 Identify what might be done to improve Securrency's standard agency agreement.
- 4 Identify whether the abovementioned policies and procedures can be strengthened to ensure payments to agents are not made to inappropriate bank accounts or locations (defined as accounts and locations not compliant with relevant Australian and international codes on taxation arrangements, or subject to sanctions relevant to the company).
- 5 Identify the pros and cons of Securrency's chosen model of engaging agents on a commission-only basis – i.e. not reimbursing expenses.
- 6 Identify what are, given Securrency's chosen model, typical levels of commissions in comparable industries and territories.
- 7 Identify what ways have been employed by other companies operating in similar markets to identify patterns of behaviour by agents or in payments by or to agents which might provide



early warning to management and the Board of a potential breach of procedures, including but not limited to concerns about bribery.

- 8 Identify whether Securency's code of conduct and ethics can be strengthened, and how Securency could enhance the culture of compliance with appropriate standards by staff and agents.
- 9 Identify whether Securency's whistleblower policy can be strengthened.
- 10 Identify whether Securency's procedures for severance are sufficient, including providing opportunities for airing grievances and complaints.
- 11 Identify whether Securency's information security arrangements can be strengthened.

Our approach

We envisage our work being split into three phases:

Phase 1 – Understanding the concerns and confirming scope

The first phase of our work will be an exercise in understanding the issues and actions taken to date and confirming the detailed for the next phase. We anticipate that much of the work in this phase will be conducted onsite at Securency's premises in Melbourne. Subject to our starting work on 24 July 2009, we commit to completing this phase by 7 August 2009. During this period we will:

- Review relevant policy and procedure documents relating to the appointment and remuneration and of agents and monitoring of their behaviour, and the company's code of conduct and ethics documentation;
- Hold discussions with yourself and other senior Securency personnel; and
- Hold preliminary discussions with the Australian Federal Police ("AFP") regarding the status of their investigation, and establishing a protocol for liaising with them during their investigation.

Phase 1 Deliverable

At the conclusion of Phase 1 we will be in a position to provide a short written report and oral briefing which will outline our findings to date and will principally serve to inform discussions with yourself regarding the full scope of work that KPMG should conduct during Phases 2 and 3. This briefing will also outline the anticipated timeframe and associated cost of this further work.



Phase 2 – Review and investigation

At this stage we anticipate that the likely activities during Phase 2 will include:

- Further review of relevant documentation, including testing, on a sample basis of primary records relating to the appointment and remuneration of agents;
- Further interviews with relevant individuals identified during Phase 1 as being of relevance to our scope of work. At this stage we do not anticipate this including individuals located outside Australia; and
- Providing Information Technology advisory assistance to assist Securrency in ensuring that information security arrangements are appropriate and effective.

Phase 2 Deliverable

At the conclusion of Phase 2 we will provide you with a written report of our findings, observations and recommendations. We understand that you will require a progress report from us prior to 14 August 2009 and we will provide an oral briefing or a preliminary summary of our findings to you prior to this date.

We do not warrant or guarantee that our review will uncover all relevant information pertaining to the subject matter of the review or make all necessary recommendations.

Any reports are prepared for Securrency and are solely for the purpose set out in the ‘Objectives & scope of our work’ section of this Engagement Letter and for Securrency’s information. We understand that our report may be made available to third parties and we will require appropriate agreements, such as “hold harmless agreements”, to be put in place to mitigate risk to KPMG as a result of this. KPMG disclaims any assumption of responsibility to any person other than Securrency, or for any purpose other than that for which the reports are prepared.

Phase 3 – Further work

Subject to our findings in Phases 1 and 2 and agreement with you, there is the potential for KPMG to be engaged to perform further work, which would constitute Phase 3.

This further work may include:

- Further investigation and follow-up of any matters uncovered in the AFP investigation, and the potential for there to be adverse consequences for Securrency in foreign jurisdictions; and



- A consideration of the potential international implications of the practices currently under investigation by the AFP. This might include the impact of foreign legislation such as the US Foreign and Corrupt Practices Act ("FCPA") and relevant Anti-money laundering and Counter-terrorism financing legislation.

At this stage this Engagement Letter defines the agreed scope of work and fixed fee for Phase 1 of our work. The precise scope and fees for Phase 2 will be agreed following the completion of Phase 1 and will be documented as a variation to the scope of our work documented in this letter, which equally will need to be signed by duly authorised representatives of KPMG and Securrency, and will be subject to the terms set out in this letter. Similarly, the precise scope and fees for any Phase 3 work will be agreed following the completion of Phase 2 and/or the AFP investigation.

Conflicts of Interest

Timetable

KPMG Forensic resources



Securrency International Pty Ltd
Assistance with enquiries into matters relating to
dealings with agents in overseas territories
23 July 2009

Fees

KPMG Terms and Conditions of Business



*Securency International Pty Ltd
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Acknowledgement

I would be grateful if you will sign and return a copy of this letter to me to confirm your agreement to and acceptance of its terms on behalf of Securency. If you have any questions or need any further information, please contact either [redacted] or me.

Yours sincerely

Enclosures:

Appendix 1 - KPMG Terms and Conditions of Business

Appendix 2 - Forensic Investigation Terms



Securrency International Pty Ltd
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23 July 2009

I have read and understood the terms and conditions of this letter and attachments and I agree to accept them.

Signed

Position:

Name:

Duly authorised, for and on behalf of Securrency International Pty Ltd

Date:



KPMG Terms and Conditions of Business



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Dr Robert Rankin
Chairman
Securrency International Pty Ltd
PO Box 223
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VIC 3064

Our ref Addendum to Engagement Letter

20 August 2009

Dear Bob

Phase 2 – Addendum to Engagement Letter dated 23 July 2009 regarding assistance with enquiries into matters relating to dealings with agents in overseas territories

Securrency International Pty Ltd (“Securrency”) engaged KPMG Forensic to provide assistance in connection with enquiries into matters relating to dealings with agents in overseas territories under the terms of an engagement letter dated 23 July 2009 (“the Engagement Letter”). I refer to our meeting on Tuesday 11 August, during which we discussed the outcomes of our Phase 1 procedures and the proposed scope of our Phase 2 procedures.

This Addendum is to confirm the scope, timing and deliverable of our Phase 2 work and, unless otherwise stated, is subject to the terms and conditions of the Engagement Letter.

Scope of Phase 2 work

The specific issues to be reviewed as part of the work are:

- 1 Identify whether Securrency’s policies and procedures regarding agents be viewed as best practice? If not, where should they be modified or strengthened?
- 2 Identify what might be done to improve the process of due diligence prior to appointment of an agent, including what additional checks can be included.
- 3 Identify what might be done to improve Securrency’s standard agency agreement.
- 4 Identify whether the abovementioned policies and procedures can be strengthened to ensure payments to agents are not made to inappropriate bank accounts or locations (defined as accounts and locations not compliant with relevant Australian and international codes on taxation arrangements, or subject to sanctions relevant to the company).



- 5 Identify the pros and cons of Securency's chosen model of engaging agents on a commission-only basis – i.e. not reimbursing expenses.
- 6 Identify what are, given Securency's chosen model, typical levels of commissions in comparable industries and territories.
- 7 Identify what ways have been employed by other companies operating in similar markets to identify patterns of behaviour by agents or in payments by or to agents which might provide early warning to management and the Board of a potential breach of procedures, including but not limited to concerns about bribery.
- 8 Identify whether Securency's code of conduct and ethics can be strengthened, and how Securency could enhance the culture of compliance with appropriate standards by staff and agents.
- 9 Identify whether Securency's whistleblower policy can be strengthened.
- 10 Identify whether Securency's procedures for severance are sufficient, including providing opportunities for airing grievances and complaints.
- 11 Identify whether Securency's information security arrangements can be strengthened.
- 12 Identify, through testing on a sample basis, whether Securency's policies and procedures in respect of the timing of production of substrate are operating effectively, in order to mitigate any commercial exposure.
- 13 Assist Securency with the implementation of KPMG's FairCall whistle-blowing service.

Our approach

Ref	Scope	Priority	Further procedures
1	Identify whether Securency's policies and procedures regarding agents are viewed as best practice? If not, where should they be modified or strengthened?		



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Phase 2 – Addendum to Engagement Letter dated 23
July 2009 regarding assistance with enquiries into
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20 August 2009*

Ref	Scope	Priority	Further procedures
2	Identify what might be done to improve the process of due diligence prior to appointment of an agent, including what additional checks can be included.		



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Ref	Scope	Priority	Further procedures
3	Identify what might be done to improve Securrency's standard agency agreement.		
4	Identify whether the abovementioned policies and procedures can be strengthened to ensure payments to agents are not made to inappropriate bank accounts or locations (defined as accounts and locations not compliant with relevant Australian and international codes on taxation arrangements, or		



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Ref	Scope	Priority	Further procedures
	subject to sanctions relevant to the company).		
5	Identify the pros and cons of Securrency's chosen model of engaging agents on a commission-only basis – i.e. not reimbursing expenses.		
6	Identify what are, given Securrency's chosen model, typical levels of commissions in comparable industries and territories.		
7	Identify what ways have been employed by other companies operating in similar markets to identify patterns of behaviour by agents or in payments by or to agents which might provide early warning to management and the Board of a potential breach of procedures, including but not limited to concerns about bribery.		



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Ref	Scope	Priority	Further procedures
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Ref	Scope	Priority	Further procedures
12	Identify whether Securrency's policies and procedures are being consistently applied in relation obtaining sufficient contractual documentation (contracts, letters of credit) prior to manufacturing substrate.		
13	Assist Securrency with the implementation of KPMG's FairCall whistle-blowing service.		

Phase 2 Deliverable

We will report our progress in respect of Phase 2 to you verbally on a weekly basis. This reporting will cover our progress against the procedures documented above and our recommendations for further work or the cessation of work in a particular area.

At the conclusion of Phase 2, we will provide you with a written report of our findings, observations and recommendations.

Warranties & Disclaimers



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Timetable

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Yours sincerely

I have read and understood the terms and conditions of this letter and attachments and I agree to accept them.

Signed

Position:

Name:

Duly authorised, for and on behalf of Securrency International Pty Ltd

Date: