

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek advice from your solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or transferred all of your ordinary shares of 0.1 pence each in the capital of Cloudtag Inc. ("**Company**") ("**Ordinary Shares**"), please send this document, including the Notice of Extraordinary General Meeting and the accompanying Form of Proxy or Form of Instruction, as soon as possible, to the purchaser or transferee or to the stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.



CLOUDTAG INC.

*(incorporated in the Cayman Islands under the Companies Law (2012 Revision)
of the Cayman Islands with registered number 242424)*

**Issue of Loan Notes
Director Fee Shares
and
Notice of Extraordinary General Meeting**

This document should be read in its entirety. Your attention is drawn to the recommendation of the board of directors of the Company ("**Board**" or "**Directors**") which is set out in this document and which recommends that you vote in favour of the resolutions set out in the Notice of Extraordinary General Meeting referred to below ("**Resolutions**").

The Directors, whose names appear on page 2 of this document, accept individual and collective responsibility for all the information contained in this document. To the best of the knowledge and belief of 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.

This document is not for distribution outside the United Kingdom except to the extent that it would be lawful to do so. The distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions.

Notice of an Extraordinary General Meeting ("EGM") of the Company, to be held at the offices of Collas Crill, 40 Don Street, St Helier, Jersey JE1 4XD at 11.30 a.m. on 12 December 2016, is set out at the end of this document. All Shareholders are urged to complete, sign and return the enclosed Form of Proxy or Form of Instruction, as applicable, whether or not they intend to be present at the meeting, in accordance with the instructions printed thereon. To be valid, Forms of Proxy or Forms of Instruction, as applicable, and any power of attorney or other authority under which they are signed must be lodged with Computershare Investor Services plc, The Pavilions, Bridgewater Road, Bristol BS99 6ZY by no later than 11.30 a.m. on 9 December 2016 in the case of a Form of Proxy and by no later than 11.30 a.m. on 8 December 2016 in the case of a Form of Instruction. Completion and return of a Form of Proxy or Form of Instruction will not preclude members of the Company or Depositary Interest Holders, as appropriate, from attending and voting at the EGM should they so wish. Depositary Interest Holders wishing to attend the EGM should contact the Depositary as per the instructions on the Form of Instruction. A summary of the action to be taken by Shareholders is set out on page 5 and in the Notice of Extraordinary General Meeting set out at the end of this document.



CLOUDTAG INC.

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of the Cayman Islands with registered number 242424)*

Directors:

Anthony Reeves (Non-Executive Chairman)

John Wakely (Finance Director)

Amit Ben-Haim (Chief Executive Officer)

Gerald Bereika (Non-Executive Director)

24 November 2016

To all holders of existing Ordinary Shares ("Shareholders") and, for information purposes only, the holders of options or warrants over Ordinary Shares

Dear Shareholder,

**Issue of Loan Notes
Director Fee Shares
and
Notice of Extraordinary General Meeting**

1. Introduction

CloudTag Inc. announced on 7 November 2016 that the Company has conditionally agreed with an overseas Institutional Investor, L1 Capital Global Opportunities Master Fund ("**L1**"), to issue up to £4,500,000 Senior Unsecured Zero Coupon Convertible Notes to raise gross proceeds of up to £4.05 million ("**Fundraising**"). The Company will issue L1 with one warrant for each conversion share with a three year exercise period. Pursuant to this, on the 10 November 2016, the Company announced that it had issued £2.5 million of loan notes of nominal value to L1, subsequently £1.3 million of loan notes were converted into 13,684,212 new ordinary shares and L1 were issued with 13,684,212 warrants.

As announced on the 7 November 2016, a second tranche of loan notes may be issued 40 days following the issue of the first tranche. In order to facilitate this issue the Board is seeking the approval of Resolution 1 (as set out in the Notice of EGM which is set out at the end of this document ("**Notice**")) to authorise the Company to dis-apply the pre-emption rights in the Articles in respect of the allotment and issue of new Ordinary Shares in respect of conversion rights and the associated warrants.

The Board is also seeking approval of Resolution 2 to authorise the Company to dis-apply the pre-emption rights in the Articles in respect of the allotment and issue of shares to certain directors of the Company pursuant to their service agreements ("**Director Fee Shares**").

The purpose of this document is to provide an operational and commercial summary, information on the proposed loan notes and on the Director Fee Shares and convene the EGM for 12 December 2016, notice of which is set out at the end of this document, at which the Resolutions will be proposed in order to facilitate the above.

2. Operational & Commercial Summary

The Board confirms that its strategy is to launch products initially in the USA, Canada, the UK, Germany and France and the Company continues its activities with the distribution and sales partners in those territories.

Europe

CloudTag reports that it received an indicative, non-binding purchase order on 24 October 2016 from Second Chance Limited ("**SC**") for the Company's first product (the Cloudtag Track). This order, which is subject to, *inter alia*, manufacturing and a delivery date being agreed would, if finalised, have a value of £880,000.

North America

As announced on the 8 August 2016, the Company entered into binding Head of Terms with Cities Market Studios ("**Cities**") in relation to the sale and marketing of Cloudtag's product in the USA and Canada. This Heads of Terms is for an initial period of 1 year from the date of signature of a final form agreement ("**Final Agreement**"). The Final Agreement is currently being finalised with Cities. Whilst it is hoped that this will be concluded in the coming weeks the timing of entering into the Final Agreement is not yet certain and a further update will be made in due course.

Cities is one of the largest commercialisation and distribution service providers in North America with over 30 years' experience. Subject to entering into the Final Agreement and product samples being available, CloudTag and Cities intend to execute a go-to market strategy initially targeting two major consumer electronics e-tailers in the USA.

The Company intends to continue recruiting key executives to join the Cloudtag team. The Company is looking to establish operations in the USA in 2017 and it is anticipated that the new individuals recruited will form part of the management team based in the USA. It is expected that the role of the USA office will primarily focus on building commercial opportunities for consumer sales as well as B2B and enterprise partnerships.

Manufacturing

CloudTag has now commenced production of its wearable device with its manufacturer in Malaysia.

B2B & Enterprise

The Company has appointed Yuval Lange as Chief Business Development Officer to drive forward the Company's B2B and enterprise strategies. Yuval's strategy is to target different enterprises and industries in the USA, UK and certain European countries including but not limited to multinational healthcare aggregators, leading sports, footwear and equipment manufacturers, corporate wellness providers, government and private healthcare providers and health insurance companies.

Intellectual Property Estate

Earlier this year in January 2016, the Company announced that it had submitted a number of new patent applications relating to the proprietary designed sensors and communications package utilising the signal processing algorithm. Further, a preliminary filing was submitted in July 2016, covering technological innovations, including, but not limited to, motion sensors and the next generation of new products. The Company continues to monitor its technological innovations and intends to apply for design patents and registered designs in the USA and EU before the year end and the exhibition at CES 2017.

These patent applications are in addition to the exclusive worldwide license granted to CloudTag by Imec for the algorithms developed for use in the Company's hardware devices. Source code relating to a mobile application, Cloud analytics and user dynamic feedback loop, have largely been developed in-house by the Company.

CES & ISPO 2017

CloudTag is pleased to confirm that it will be exhibiting the CloudTag Track along with other new products and features at CES January 2017 in Las Vegas USA and ISPO Munich in February 2017. For CES, the Company has reserved a stand in the centre of the wearable technology sector.

3. Loan Notes

On 7 November 2016, the Company announced that it had agreed to issue senior unsecured zero coupon convertible notes with a term of 12 months ("**Notes**"), to L1 Capital Global Opportunities Master Fund ("**L1**") to raise up to £4.05 million (before expenses). The Notes have an aggregate nominal value of up to £4.5 million and have and will be issued at a 10% discount to nominal value in up to two tranches. Upon conversion of the Notes into new ordinary shares in the Company ("**Conversion Shares**"), the Company will also issue L1 with one warrant ("**Warrant**") for each Conversion Share, which are governed by the terms of a Warrant Instrument. The Notes and the Warrant Instrument are referred to herein as the "**Conditional Subscription Agreements**".

As announced on 10 November 2016, the first tranche of up to £2.5 million in nominal value of Notes has been issued to L1 at a total subscription price of £2.25 million (before expenses) ("**Tranche 1 Notes**"). The Company confirms that it has received £1.44 million (net of expenses and the Escrow Amount herein described) pursuant to this issue and £637,500 has been placed in escrow ("**Escrow Amount**") until 17 December 2016 (the "**Escrow Period**"). The Escrow Amount is expected to be released to the Company subject to L1 notifying the Company in writing that the "Escrow Release Condition" has been met. The Escrow Release Condition shall be satisfied on the earlier of: (i) an announcement that the Company has sufficient share authority, approved by Shareholders at a general meeting, to issue at least 70,000,000 Ordinary Shares (free from pre-emptive or other preferential rights or restrictions) or (ii) the volume weighted average price of the Company's ordinary shares having exceeded 14 pence per share for any five consecutive trading days.

The Company announced on 14 November 2016 that £700,000 of Tranche 1 Notes (based on the nominal value of such notes) had been converted into 7,368,422 new ordinary shares of the Company and that 7,368,422 warrants had been issued to L1 with an exercise price the lower of a) 90% of the closing bid price per ordinary share on the day immediately prior to the date of exercise of such warrants or b) 11.25 pence per share.

The Company further announced on 23 November 2016 that £600,000 of Tranche 1 Notes (based on the nominal value of such notes) had been converted into 6,315,790 new ordinary shares of the Company and that 6,315,790 warrants had been issued to L1 with an exercise price the lower of a) 90% of the closing bid price per ordinary share on the day immediately prior to the date of exercise of such warrants or b) 13.125 pence per share. Application for admission of 6,315,790 new ordinary shares to trading on AIM has been made and is expected to occur on or around 28 November 2016.

The issue of the proposed second tranche of £2.0 million in nominal value of Notes ("**Tranche 2 Notes**") (for which the subscription price is £1.80 million) is conditional upon, *inter alia*, the Company obtaining sufficient authorities from Shareholders to disapply pre-emption rights such that the Company may issue the Conversion Shares (the "**Shareholder Approvals**"). The Issue of the Tranche 2 Notes is also conditional upon (i) no event of default or potential event of default having occurred under the terms of the Notes; (ii) certain repeating representations and warranties given by the Company remaining correct (including that no event has occurred which has had or would be likely to have a material adverse effect on the Company); (iii) the value of the outstanding Tranche 1 Notes and the proposed Tranche 2 Notes does not exceed 7.5% of the Company's market capitalisation and the Escrow Amount having been released and there being no changes to the capital structure of the Company. The date for the issue of the Tranche 2 Notes may be extended to the date (the "**Extension Date**") which is 90 days following the date of issue of the Tranche 1 Notes (or such later date as the Company and the Investor may agree) subject to certain conditions, including (in addition to those set out above) that the market price of the Company's shares does not drop below 10 pence per Share during the extended period, and that the value of the outstanding Tranche 1 Notes and the proposed Tranche 2 Notes has not exceeded 5% of the Company's market capitalisation during any three consecutive trading days.

Further detail on the terms and conditions of the Notes and the Warrants are set out in the Company's announcement dated 7 November 2016. Following the two conversions of the Tranche 1 Notes to date the remaining nominal balance of the outstanding Tranche 1 Notes held by L1 is £1.2 million.

Warrant Issue

The terms of the Note provides for one Warrant to be issued for each Conversion Share issued on each conversion (in whole or in part) of the Notes. Each Warrant may be exercised within three years from the date of issue at the lesser of (a) 90% of the closing bid price per Share on the day immediately prior to the date of exercise or (b) 125% of the closing bid price per Share on the day immediately preceding the date of issue of

the relevant conversion notice in relation to conversion of either the Tranche 1 Notes or the Tranche 2 Notes as the case may be.

The exercise price of the Warrants and the number of Shares arising on exercise of such Warrants shall be adjusted to neutralise the impact of future capital changes.

As noted above, following the issue of the Tranche 1 Notes, 13,684,212 warrants have to date been issued to L1.

4. Director Fee Shares

Messrs Wakely, Bereika and Ben-Haim, all directors of the Company, have agreed to be paid all or part of their remuneration in new ordinary shares with the most recent share payments to them having been announced on 29 April 2016. Mr Ben-Haim is paid a combination of cash and shares. A payment for the interim period to 30 September 2016 will be made to them if Resolution 2 is approved. Looking forward, payments are expected to be made immediately following the end of each calendar quarter except if the Company is in a Close Period at that time ("**Director Fee Shares**"). Historically, the Company has utilised its authority granted at the 2016 AGM (Resolution 7c) to issue shares such as this in relation to fees to directors, employees and certain third party contractors. The Directors will not use this existing authority for directors fees in the future but will retain said authority where possible for the issue of shares for the settlement of third party invoices for general working capital purposes. Accordingly, it is proposed in resolution 2, that a specific authority to disapply pre-emption rights be sought in respect of the Director Fee Shares.

5. Extraordinary General Meeting

A notice of EGM is set out at the end of this document convening the EGM to be held at the offices of Collas Crill, 40 Don Street, St Helier, Jersey JE1 4XD at 11.30 a.m. on 12 December 2016, at which the following resolutions ("**Resolutions**") will be proposed:

- (Resolution 1) to approve the disapplication of pre-emption rights in the Company's articles of association in connection with the Conditional Subscription Agreements, up to an aggregate nominal value of £110,000.00;
- (Resolution 2) to approve the disapplication of pre-emption rights in connection with the issue of shares in relation to the Director Fee Shares up to an aggregate nominal value of £10,000.00.

6. Action to be taken

A Form of Proxy or a Form of Instruction is enclosed for use, as applicable, in connection with the EGM. Whether or not you intend to be present at the meeting, you are requested to complete, sign and return the Form of Proxy or Form of Instruction in accordance with the instructions printed thereon, as applicable, to the Company's registrars, Computershare Investor Services plc, The Pavilions, Bridgewater Road, Bristol BS99 6ZY as soon as possible and, in any event, so as to be received not later than 11.30 a.m. on 9 December 2016 in the case of a Form of Proxy and not later than 11.30 a.m. on 8 December 2016 in the case of a Form of Instruction. The completion and return of a Form of Proxy or Form of Instruction will not preclude you from attending the meeting and voting in person should you subsequently wish to do so.

7. Recommendation

The Directors believe that the Resolutions are in the best interests of the Company and Shareholders as a whole and accordingly recommend that Shareholders vote in favour of the Resolutions, as they intend to do so in respect of their aggregate holding of 30,725,507 Ordinary Shares, representing approximately 7.97% of the current issued share capital of the Company (assuming the 6,315,790 new ordinary shares are admitted to trading on AIM pursuant to the conversion of £600,000 of Tranche 1 Notes by L1 announced on 23 November 2016).

Yours faithfully,

Anthony Reeves

Chairman

NOTICE OF EXTRAORDINARY GENERAL MEETING



CLOUTAG INC.

*(incorporated in the Cayman Islands under the Companies Law (2012 Revision)
of the Cayman Islands with registered number 242424)*

Notice is given that an extraordinary general meeting of the members of Cloudtag Inc. ("**Company**") will be held at the offices of Collas Crill, 40 Don Street, St Helier, Jersey JE1 4XD on 12 December 2016 at 11.30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions.

ORDINARY RESOLUTIONS

1. THAT, without prejudice to any existing authorities, the directors of the Company be authorised to dis-apply the pre-emption rights set out in article 17 of the Company's articles of association in respect of the allotment of equity securities up to an aggregate nominal value of £110,000.00 pursuant to the Conditional Subscription Agreements (as more particularly described in the Company's Circular to Shareholders dated 24 November 2016 ("**Circular**")), such authority to expire on the later of the date of redemption or conversion of all of the Loan Notes or the date of exercise of all of the Warrants. In this notice "equity securities" means any shares in the capital of the Company and the grant of any right to subscribe for, or to convert any security into, shares in the capital of the Company.
2. THAT, without prejudice to any existing authorities, the directors of the Company be authorised to dis-apply the pre-emption rights set out in article 17 of the Company's articles of association in respect of the allotment of equity securities up to an aggregate nominal value of £10,000.00 in connection with the Director Fee Shares.

Anthony Reeves

Chairman

Registered office: 122 Mary Street, Zephyr House, P.O. Box 709, KY1-1107 Grand Cayman, Cayman Islands

Date: 24 November 2016

Notes to the Notice of Extraordinary General Meeting:

1. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote in his place. A proxy need not be a member of the Company.
2. To be effective, a completed and signed proxy (and any power of attorney or other authority under which it is signed) must be delivered to the offices of the Company's registrars, Computershare Investor Services plc, The Pavilions, Bridgewater Road, Bristol BS99 6ZY, not less than 48 hours before the time fixed for the meeting or any adjourned meeting. You may also deliver by hand to this address during normal business hours.
3. Completion of a Form of Proxy will not prevent a member from attending and voting in person.
4. Members will be entitled to attend and vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjourned meeting.
5. In the case of joint holders of shares in the Company, the vote of the senior holder shall be accepted to the exclusion of the votes of the other joint holder(s). For this purpose, seniority will be determined by the order in which the names appear in the Company's register of shareholders (or the Company's registrars' records).
6. In the case of holders of Depositary Interests representing ordinary shares in the capital of the Company, a Form of Instruction must be completed in order to instruct Computershare Company Nominees Limited, as custodian and the registered shareholder of Cloudtag Inc. Ordinary Shares represented by Depositary Interests, to vote on the holder's behalf at the meeting, or if the meeting is adjourned, at any adjourned meeting. To be effective, a completed and signed Form of Instruction must be delivered to the Company's transfer agent, Computershare Investor Services plc, The Pavilions, Bridgewater Road, Bristol BS99 6ZY, by no later than 72 hours before the time fixed for the meeting or any adjourned meeting.
7. As at 5 p.m. on 23 November 2016, the Company's issued share capital comprised 385,611,752 Ordinary Shares of 0.1p each (assuming the 6,315,790 new ordinary shares are admitted to trading on AIM pursuant to the conversion of £600,000 of Tranche 1 Notes by L1 announced on 23 November 2016). Each Ordinary Share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5 p.m. on 23 November 2016 is 385,611,752.
8. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID: 3RA50) by 11.30 a.m. on 9 December 2016. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
10. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such actions as are necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (SI 2001/3755).

