ShieldLiner Limited
ACN 096 870 978

National Power Services Facility
Lot 1003 Prinsep Road
Jandakot WA 6164

Phone: 08 9315 3131
Facsimile: 08 9316 0920

Postal: PO Box 1129
Canning Bridge
Applecross
Western Australia 6153

www.shieldliner.com

4 August 2004

Mr Nicholas Ong
Companies Adviser
Australian Stock Exchange Limited
2 The Esplanade
Perth, WA 6000
Australia

Dear Mr Ong

Listing Application – ShieldLiner Limited
Employment Contract Disclosures – John Witford Hassen

We refer to your letter of 4 August 2004 seeking additional disclosures in relation to the remuneration, termination benefits and performance bonuses payable pursuant to the employment contract between the Company and its Managing Director, John Witford Hassen

The Board established a committee comprising the writer and Mr Julian Land ("the Committee") to negotiate the terms of Mr Hassen's employment contract. The principal terms of that contract including remuneration, termination benefits and performance bonuses payable were disclosed to shareholders pursuant to a comprehensive Information Memorandum accompanying a Notice of Meeting of shareholders at which shareholder approval was sought and obtained on 13 April 2004 to enter into the employment contract with Mr Hassen.

The following statements have been extracted from that Information Memorandum and address the issues raised in your letter;

Mr Hassen was instrumental in establishing the Company in 2001 and has, since April 2003, committed to working for the Company on a full time basis as Managing Director. Mr Hassen made a commitment to work for the Company at a time when the Company was not in a position to offer him long term employment and he has been engaged on a monthly consultancy basis on a retainer of between $6,000 and $8,000 per month.

One of the major factors in attracting capital and influencing investors to invest in early stage companies such as ShieldLiner, is the Company's management expertise and the expertise and commitment of its Chief Executive.

ShieldLiner is fortunate to have been able to secure the services of someone with Mr Hassen's background and experience and the Committee is confident that he has the necessary skills, focus and dedication to take the Company forward to further develop and commercialise the ShieldLiner system. As part of the prospectus preparation process and in the interests of both the Company and Mr Hassen, it was considered essential that the employment arrangements with Mr Hassen were both well documented and transparent.

*Accordingly the Company has agreed to enter into a formal Employment Agreement ("**Agreement**") with Mr Hassen setting out the terms and conditions of his appointment as Managing Director.*

In negotiating the terms and conditions of the Agreement one of the key objectives of the Committee was to ensure that payments and benefits under the Agreement were linked to the performance of the Company and Shareholder returns. The Committee was also cognisant of the need to ensure the Company retained, motivated and provided appropriate incentives to the Managing Director and to ensure his package was commensurate with payments made to chief executives of similar sized, publicly listed companies with essentially a start up business.

*The Agreement contains provisions which allow Mr Hassen to receive certain financial benefits in connection with his retirement or removal from the position of Managing Director of the Company ("**Benefits**").*

The following table sets out the key terms of the Agreement (other than those relating to the Benefits, which are summarised later in this section):

Condition Precedent	*The obligation of the Company to pay termination benefits to Mr Hassen do not come into effect unless the Company raises at least $2,400,000 between 4 March 2004 and 31 December 2004 through the issue of Shares at an issue price in excess of 20 cents per Share. The Agreement is also conditional upon Shareholders approving the entering into of the Agreement with respect to the Benefits.*
Term	*The Agreement provides for an initial term of three years, which is automatically extended for additional, successive one year periods unless either Mr Hassen or the Company gives notice of non-renewal. Ninety days notice of any non-renewal is required.*
Accountability	*Mr Hassen will report to the Chairman of the Company or such other person(s) as the Board may nominate*
Base Salary	*Mr Hassen's proposed remuneration package at the commencement of the term incorporates an Annual Base Salary of $120,000, a motor vehicle allowance of $8,400 and superannuation of $11,556. The initial total annual package before bonuses is $139,966. The total package is to be reviewed annually with effect from 1 January each year. As an executive director of the Board, Mr Hassen does not receive director fees.*

Annual Discretionary Performance Linked Bonus	*Mr Hassen will be eligible to receive an annual discretionary performance linked bonus of up to 100% of his Annual Base Salary ("**Bonus**"). The Bonus may be earned for Mr Hassen's performance during each financial year ending 30 June but will be finally determined and paid following the closing of the books and records of the Company for the financial year, and review by the Board and the Company's independent auditors. The amount of any Bonus will be determined by the Board after taking into account the degree of achievement by Mr Hassen of agreed upon budgets and targets. The determination of budgets and targets will be negotiated and agreed with Mr Hassen on an annual basis and will include objectives in terms of meeting capital raising requirements, market capitalisation growth, sales and technology licensing objectives, cost control and both the timely and cost effective delivery of development programs.*
Employee Share Option Scheme	*Subject to Shareholder approval from time to time, Mr Hassen will be eligible to participate in the Scheme at a level commensurate with his position in the Company and as determined by the Board.*
Non-Compete Provisions	*The Agreement imposes comprehensive non-compete restrictions on Mr Hassen of between one and two years, depending on the termination arrangements.*
Other Provisions	*The Agreement contains standard provisions dealing with leave entitlements, expense reimbursements, indemnity arrangements, directors and officers insurance, mediation, confidentiality and intellectual property ownership and rights. None of which are considered by the Committee to be either unreasonable or excessive to the Company.*

In determining Mr Hassen's remuneration package, the Committee was cognisant of the need to provide remuneration at a level necessary to attract and retain a person with Mr Hassen's background and experience to enable the Company to operate in a listed environment. At the same time, the Committee recognised that the Company should not pay more than was necessary for such a position, and has structured Mr Hassen's remuneration package in a manner which links rewards to both corporate and individual performance. It was also noted by the Committee that in addition to being Managing Director, Mr Hassen had also agreed to continue discharging company secretarial and finance director roles to the Company until such time as the size and operational demands of the Company were such that alternative appointments or arrangements to undertake these roles was necessary and justified.

In determining Mr Hassen's remuneration package and employment contract provisions, the Committee considered that the major principles to meet were:

- *to provide a package that was competitive in the marketplace given Mr Hassen's roles and duties;*
- *to attract and retain an executive capable of achieving the Company's objectives;*
- *to align the interests of the Managing Director with the interests of Shareholders and thus incorporate appropriate incentives and equity participation; and*
- *to ensure reasonableness to both the Company and Mr Hassen in a range of termination situations.*

The Committee was of the view that for resignation initiated by Mr Hassen without any breach by the Company or other good reason, there should be no special termination benefits payable to him, and accordingly, in these circumstances the Agreement provides that no termination payments are payable other than the payment of any accrued but unpaid entitlements (such as long service leave, annual leave etc).

On completion of a fixed term employment contract that is not renewed, it could be argued that there should be no termination benefits. However, in order to ensure that the Managing Director remains focused and committed to the Company, it was considered reasonable to incorporate a provision for a termination payment to be made if the Company elects to terminate Mr Hassen's contract for reasons other than lack of performance, sickness or substantial breach of the Agreement or his duties at law to the Company.

The Committee considers that it is undesirable (on both perception and internal company grounds) to have a Managing Director move directly to a competitor, even on completion of a contract, and for this and the aforementioned reasons, the Agreement contains a non compete clause which would prevent Mr Hassen from working for a company which was in competition with ShieldLiner for a period of up to two years and the payment of a non-renewal termination benefit equal to 6 months of his then Annual Base Salary plus a further 50% of that amount in lieu of any Bonus that would otherwise be payable.

For termination of the Agreement initiated by the Company without good reason, the Committee considered that it was highly desirable to have a defined set of provisions which ensure that both the Company and the individual can "move on". In the Committee's view, this reasonably requires payment of a benefit to the Managing Director. To allow for a reasonable job-hunting opportunity and for both parties to move on in a non-litigious manner the Agreement provides for Mr Hassen to be paid, as a termination payment, an amount of 12 months of his then Annual Base Salary plus a further 50% of that amount in lieu of any Bonus that would otherwise be payable.

Because the Agreement provides for a potential Bonus of up to 100% of Mr Hassen's Annual Base Salary, it was considered simpler to link any termination payment as a multiple of Annual Base Salary so as to avoid any dispute as to the degree of achievement or otherwise of Bonus entitlements on termination. An amount of 50% of the then prevailing Annual Base Salary was considered by the parties as being reasonable.

*The Agreement in dealing with termination provisions refers to termination events as being with and without Cause and with and without Good Reason. The term "**Cause**" when used in connection with the termination of employment with the Company, means the termination by reason of Mr Hassen's;*

(i) conviction of a crime involving moral turpitude;

(ii) proven act of fraud upon the Company;

(iii) wilful and proven misappropriation of any funds or property of the Company;

(iv) wilful, continued and unreasonable failure to perform material duties assigned after reasonable notice and opportunity to cure such performance has been given by the Company;

(v) knowing engagement in any direct, material conflict of interest with the Company without compliance with the Company's conflict of interest policy, if any, then in effect;

(vi) knowing engagement, without the written approval of the Board of Directors of the Company, in any activity which competes with the business of the Company; or

(vii) knowing engagement in any activity which would constitute a material violation of the provisions of the Company's Insider Trading Policy or Business Ethics Policy, if any, then in effect.

*The term "**Good Reason**" when used in connection with the termination of employment with the Company, includes amongst other reasons, the termination by reason of:*

(i) Mr Hassen being assigned duties, taken as a whole, that are materially inconsistent with, or materially diminished from duties, responsibilities and status with the Company immediately prior to such action, or status, reporting responsibilities, titles or offices being materially diminished from those in effect immediately prior to such action, or duties and responsibilities being materially increased without a corresponding reasonable increase in compensation

(ii) Mr Hassen's Annual Base Salary is reduced from that which was in effect prior to such action unless such reduction is part of a general reduction in compensation within the officer ranks due to economic or company-wide considerations; or

(iii) the Company requires Mr Hassen at any time to relocate more than 30 kilometres from where Employee's principal office was located immediately prior to such event; or

(iv) the Company violating or breaching any obligation of the Company to indemnify Mr Hassen against any claim, loss, expense or liability sustained or incurred by Mr Hassen by reason, in whole or in part, of the fact that Mr Hassen is or was an officer or director of the Company; or

(v) the Company failing to keep in force directors' and officers' insurance coverage in amounts and scope as stipulated in the Deed of Access, Insurance and Indemnity and the Deed of Extension to Deed of Access, Insurance and Indemnity entered into by the Company and Mr Hassen; or

(vi) The Company notifying Mr Hassen of the Company's intention not to observe or perform one or more of the material obligations of the Company under the Agreement.

In the event of Cause, Mr Hassen's employment may be immediately terminated, and in such circumstances Mr Hassen has no right to any termination pay-out entitlements.

If Mr Hassen resigns without Cause or Good Reason, he has no right to any termination pay-out entitlements.

After three years and annually thereafter, the Company can terminate the Agreement by giving ninety days notice to Mr Hassen, and in this event, Mr Hassen will be paid, as a termination payment, an amount equal to 6 months of his then Annual Base Salary plus a further 50% of that amount in lieu of any Bonus that would otherwise be payable. This is considered a non-renewal termination benefit.

If the Company terminates the Agreement without Cause and other than by not renewing the Agreement, or Mr Hassen terminates the Agreement with Good Reason then Mr Hassen will be paid, as a termination payment, an amount of 12 months of his then Annual Base Salary plus a further 50% of that amount in lieu of any Bonus that would otherwise be payable.

Depending on the timing of any payment of termination benefits to Mr Hassen, they may well fall within the payment limits set out in sections 200G(2) and (3) of the Corporations Act and Listing Rule 10.19, in which case Shareholder approval would not be required. However, as at the date of entering into the Agreement, the termination payment provisions of the Agreement are such that if Mr Hassen's employment was terminated by the Company, the termination payment would currently fall outside the payment limits, and accordingly, Shareholder approval is being sought to enter into the Agreement.

If Mr Hassen's employment is terminated by the Company without Cause prior to the expiration of the first year of the term, the minimum termination payment payable to Mr Hassen pursuant to the Agreement would be $180,000 (being the Annual Base Salary of $120,000 and a Bonus entitlement of a further 50% of that amount, namely $60,000. It is not possible to ascertain a minimum or maximum termination payment for any period after the first year of the term, as Mr Hassen's Annual Base Salary is reviewed on an annual basis.

It is not possible to ascertain a minimum or maximum termination payment for any period after the third year of the term, as Mr Hassen is entitled to a review of the Annual Base Salary on an annual basis. However, if Mr Hassen is entitled to receive a termination payment after the third year of the term, the termination payment will not exceed an amount which is 6 months of his then Annual Base Salary together with 50% of that amount in lieu of any Bonus entitlement.

Not withstanding shareholder approval of the termination benefit arrangements has already been approved by shareholders, Mr Hassen agreed pursuant to a letter dated 29 July 2004 to limit his termination entitlements, if any, pursuant to his employment contract, to amounts determined in accordance with Listing Rule 10.19 on the express undertaking that the Company will, as a listed entity, seek at the first available opportunity shareholder approval of termination payment arrangements as stipulated in Clause 8 of his employment contract executed on 3 May 2004.

Yours sincerely

TA Gosatti
Director