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**BTC HEALTH LIMITED**

**A.B.N. 45 091 979 172**

**Notice of Extra-Ordinary General  
Meeting and Explanatory Statement**

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**Time:** 2:00pm

**Date:** Tuesday 17 April 2018

**Place:** Chartered Accountants Australia and New Zealand, Level 18,  
Bourke Place, 600 Bourke Street, Melbourne VIC 3000

This Notice of Meeting and Explanatory Statement should be read in its entirety. If shareholders are in doubt as to how they should vote, they should seek advice from their professional advisors prior to voting.



## Notice of Extra-Ordinary General Meeting and Explanatory Statement

The Extra-Ordinary General Meeting of BTC health Limited (**Company**) will be held at Chartered Accountants Australia and New Zealand, Level 18, Bourke Place, 600 Bourke Street, Melbourne, at 2:00 pm on Tuesday, 17 April 2018.

### Agenda

#### RESOLUTION 1: APPROVAL OF THE SALE OF BIOINTELECT PTY LTD

To consider and if thought fit to pass the following resolution as an ordinary resolution:

**“That, for the purpose of Listing Rule 10.1 and for all other purposes, approval is given for the sale of Biointelect Pty Ltd to Windarri Investments Pty Ltd as trustee of the Herz Family Trust a related party of Jennifer Herz a director of BTC health Limited.”**

Moore Stephens has provided an Independent Expert Report and has determined the transaction is **fair and reasonable** to BTC Shareholders. The Directors, with Jennifer Herz and Richard Treagus abstaining, unanimously recommend that you vote in favour of this resolution.

### Proxies

If you are unable to attend and vote at the meeting and wish to appoint a person who will attend as your proxy, please complete the enclosed form of proxy.

To be valid, the proxy form and the power of attorney (if any) under which it is signed (or a certified copy of it) must be received **not less than 48 hours** before the time for holding the meeting at the Company's share registry by:

- (i) Online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)
- (ii) By Mail  
BTC health Limited  
C/- Link Market Services  
Locked Bag A14  
Sydney South NSW 1235
- (iii) By Fax +61 2 9287 0309.

A member entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specific proportion of the member's voting rights. A proxy need not be a member of the company.

The Board has determined that for the purposes of the meeting, shares will be taken to be held by the persons who are registered holders at 7:00pm (AEDT) on 13 April 2018. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

By Order of the Board

**Stuart Jones**  
Company Secretary

16 March 2018

## EXPLANATORY STATEMENT

### RESOLUTION 1: APPROVAL OF THE SALE OF BIOINTELECT PTY LTD

ASX Listing Rule 10.1 states that approval is required for disposal of substantial assets to a related party of the entity. Jennifer Herz is a related party to BTC health Limited as a non-executive director. Biointelect is classified as a substantial asset of BTC health as its value in the accounts of BTC health in the latest financial accounts is greater than 5% of the equity interests in accordance with ASX listing rule 10.2.

On 22 January 2018, the company announced it has agreed to sell all interests in its wholly-owned consulting business Biointelect Pty Ltd (Biointelect).

Under the terms of a Sale Agreement between BTC health and the Herz Family Trust, a related party of Jennifer Herz, Biointelect is to be sold for cash consideration of \$700,000, subject to obtaining BTC health shareholder approval.

In determining the sale price, the BTC health Board has reviewed the current financial performance of the Biointelect business, made a reasonable estimation of future returns on capital employed and considered the realisable value of the investment. BTC health has recorded a once-off impairment charge of approximately \$790,000 and a charge for a non-recoverable loan of \$280,000. Immediately on completion BTC health will receive a payment of \$700,000, which will increase the cash position of the group.

The purchase consideration for Biointelect will be funded through a separate agreement between Windarri Investments Pty Ltd ATF the Herz Family Trust and BTC health's Executive Chairman Richard Treagus, whereby 5,000,000 BTC health ordinary shares will be sold by the Herz Family Trust and purchased by Richard Treagus or his nominees for a price of \$0.20 per share.

Biointelect was acquired by BTC health in April 2016 from the Herz Family Trust, a related party of Jennifer Herz, who is the founder and Managing Director of Biointelect. Under the Sale Agreement, Jennifer Herz will resign as a non-executive director of BTC health and options to acquire 2 million BTC health ordinary shares that were granted to Jennifer Herz and Karl Herz on 4 April 2016 will be cancelled.

BTC health has commissioned a report, which is attached to this notice of meeting, from an independent expert in relation to this transaction in accordance with ASX listing rules 10.10. The report has determined the abovementioned transaction is **fair and reasonable** to BTC Shareholders. The independent expert report can also be found on BTC health's website at <https://www.btchealth.com.au/asx-announcements/>

#### Voting Exclusion

-The Company will disregard any votes cast on this resolution by the Herz Family Trust, Jennifer Herz, Richard Treagus or their closely related parties.

The Chair intends to vote all undirected proxies in favour of Resolution 1.



### ***Voting Exclusion Statements***

For the purposes of the voting exclusion statements:

**“closely related parties”** means: (a) a spouse or child of the KMP; (b) a child of the KMP’s spouse; (c) a dependent of the KMP or the KMP spouse; (d) anyone else who is one of the KMP’s family and may be expected to influence the KMP, or be influenced by the KMP, in the KMP’s dealing with the Company; (e) a company the KMP controls; or (f) a person otherwise prescribed by the regulations.

Where the Chair is appointed as a proxy, the Chair will vote all undirected proxies in favour of all Resolutions. If you appoint the Chair as your proxy, and you check the box consenting to the Chair voting undirected proxies, then unless you include an express voting direction on your proxy form, you will be directing, and expressly consenting to the Chair to vote in favour of all Resolutions.

## LODGE YOUR VOTE

 **ONLINE**  
www.linkmarketservices.com.au

 **BY MAIL**  
BTC health Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235 Australia

 **BY FAX**  
+61 2 9287 0309

 **BY HAND**  
Link Market Services Limited  
1A Homebush Bay Drive, Rhodes NSW 2138; or  
Level 12, 680 George Street, Sydney NSW 2000

 **ALL ENQUIRIES TO**  
Telephone: +61 1300 554 474



X99999999999

## PROXY FORM

I/We being a member(s) of BTC Health Limited and entitled to attend and vote hereby appoint:

### APPOINT A PROXY

the Chairman of the Meeting (mark box)

**OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

STEP 1

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Extraordinary General Meeting of the Company to be held at **2:00pm on Tuesday, 17 April 2018 at Chartered Accountants Australia and New Zealand, Level 18, Bourke place, 600 Bourke Street, Melbourne VIC 3000 (the Meeting)** and at any postponement or adjournment of the Meeting.

**The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.**

### VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an

#### Resolutions

For Against Abstain\*

1 Approval of the sale of Biointelect Pty Ltd

|                          |                          |                          |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------|--------------------------|--------------------------|

STEP 2



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

### SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

STEP 3

BTC PRX1801A



## HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

### YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

### DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

### VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

### SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

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

### CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au).

### LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **2:00pm on Sunday, 15 April 2018**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



#### ONLINE

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



#### BY MAIL

BTC health Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



#### BY FAX

+61 2 9287 0309



#### BY HAND

delivering it to Link Market Services Limited\*  
1A Homebush Bay Drive  
Rhodes NSW 2138  
or  
Level 12  
680 George Street  
Sydney NSW 2000

\* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.  
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**



MOORE STEPHENS

[www.moorestephens.com.au](http://www.moorestephens.com.au)

Serious about Success®

**BTC health LIMITED  
DIVESTMENT OF BIOINTELECT PTY LTD TO  
HERZ FAMILY TRUST**

**Independent Expert's Report  
Proposed Disposal of Substantial Asset to Related Party**

5 MARCH 2018

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## Glossary

| Abbreviated Term      | Definition  |
|-----------------------|---|
| AFSL                  | Australian Financial Services Licence   |
| APES 225              | Accounting Professional and Ethical Standards Board professional standard 225 - Valuation Services  |
| ASIC                  | Australian Securities and Investment Commission   |
| Asset Based Approach  | The asset-based approach involves separating the business into components that can be readily sold or represented individually  |
| ASX                   | Australian Securities Exchange  |
| AU\$                  | Australian Dollar   |
| Book Value            | The value of a security or asset as entered on a firm's statement of financial position (also referred to as Carrying Value)  |
| BTC Options           | Options to acquire 2 million BTC health Shares that were granted to Jennifer Herz and Karl Herz on 4 April 2016 and will be cancelled as per the Proposed Transaction |
| CME                   | Capitalisation of Maintainable Earnings   |
| Company or BTC        | BTC health Limited  |
| Directors             | Directors of the Company  |
| EBIT                  | Earnings Before Interest and Tax  |
| EBITDA                | Earnings Before Interest, Tax, Depreciation and Amortisation  |
| EGM                   | Extraordinary General Meeting   |
| EV                    | Enterprise Value  |
| Moore Stephens        | Moore Stephens (Vic) Pty Ltd - AFSL Holder 247362   |
| NAV                   | Net Asset Value   |
| NTA                   | Net Tangible Asset  |
| NOM                   | Notice of Meeting   |
| Shareholders          | BTC shareholders  |
| NPAT                  | Net Profit After Tax  |
| Pre-announcement Date | 21 January 2018   |

| Abbreviated Term       | Definition  |
|------------------------|---|
| Proposal               | The proposed transaction the subject of this IER  |
| Proposed Transaction   | Sale of 100% equity interest in Biointelect to Herz Family Trust for cash consideration of \$700,000, loan forgiveness of up to \$280,000 and cancellation of BTC Options |
| Proposed Consideration | Cash consideration of \$700,000 and cancellation of BTC Options   |
| Proposed Divestment    | Sale of 100% equity interest in Biointelect and loan forgiveness of up to \$280,000   |
| QMV / QMP              | Quoted Market Value/Price   |
| Report                 | This Independent Expert Report prepared by Moore Stephens in relation to the Proposal   |
| RG 74                  | ASIC Regulatory Guide 74 - Acquisitions Approved by Members   |
| RG 111                 | ASIC Regulatory Guide 111 - Content of Experts Reports  |
| RG 112                 | ASIC Regulatory Guide 112 - Independence of Experts   |
| RG 170                 | ASIC Regulatory Guide 170 - Prospective Financial Information   |
| Shares                 | Fully paid ordinary shares in the Company   |

Moore Stephens (Vic) Pty Ltd

Level 18, 530 Collins Street  
Melbourne Victoria 3000

**T** +61 (0)3 9608 0100  
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[www.moorestephens.com.au](http://www.moorestephens.com.au)

5 March 2018

The Directors  
BTC health Limited  
Suite 201  
697 Burke Road  
CAMBERWELL VIC 3124

Dear Sirs,

## INDEPENDENT EXPERT'S REPORT

### PROPOSED DISPOSAL OF SUBSTANTIAL ASSET TO RELATED PARTY – INDEPENDENT EXPERT'S REPORT

As Directors of BTC health Limited (**BTC health**, **BTC** or the **Company**) you have requested Moore Stephens (Vic) Pty Ltd (**Moore Stephens**) to prepare an Independent Expert's Report (**Report**) in relation to the proposed sale of the Company's 100% equity interest in Biointelect Pty Ltd (**Biointelect**) to Windarri Investments Pty Ltd as trustee of the Herz Family Trust (**Herz Family Trust**) a related party of Jennifer Herz, a Non-Executive Director of BTC health.

The Proposal (as described in Section 1.1 below) will be presented to BTC health Shareholders for approval at an Extraordinary General Meeting to be held on or about 17 April 2018 (**EGM**).

You have requested Moore Stephens to provide an opinion on whether the Proposal, the subject of Resolution 1 in the Notice of Meeting (**NOM**), is fair and reasonable to the shareholders of the Company (**BTC health Shareholders**).

Unless otherwise specified, all dollar amounts in the Report are in Australian Dollars (**AUD**) and all terms have the same meaning as in the NOM.

## 1. INTRODUCTION

### 1.1 Background

1. BTC health is a Pooled Development Fund, registered under the Pooled Development Funds Act 1992. The Company states it seeks investment opportunities in entities operating in the biotechnology and life-science sectors and is listed on the Australian Stock Exchange (**ASX: BTC**).
2. On 22 January 2018, BTC health announced that it had entered into a Share Sale Agreement (**Share Sale Agreement**) to sell its 100% equity interest in Biointelect Pty Ltd to Windarri Investments Pty Ltd as trustee of the Herz Family Trust (**Windarri Investments**), a related party of Jennifer Herz, a Non-Executive Director of BTC health.
3. Jennifer Herz is the founder and Managing Director of Biointelect, which provides a range of professional, advisory and consulting services to biotechnology, medical technology and pharmaceutical companies.
4. Under the Share Sale Agreement,
  - BTC health will sell its 100% equity interest in Biointelect to Windarri Investments for cash consideration of \$700,000; and

- BTC health will forgive a \$280,000 loan owed to it by Biointelect;
- Jennifer Herz will resign as a Non-Executive Director of BTC health; and
- Options to acquire 2 million BTC health Shares that were granted to Jennifer Herz and Karl Herz on 4 April 2016 (**BTC Options**) will be cancelled.

The transactions are interdependent and together constitute the **Proposed Transaction** or the **Proposal**.

5. Completion of the Proposal is conditional on obtaining Shareholder approval from BTC health Shareholders at a forthcoming EGM. Details of the Proposal will be communicated to existing investors by way of the **NOM** and an Explanatory Memorandum.

## 2. PURPOSE AND SCOPE OF THIS REPORT

6. BTC health Limited is an ASX-listed public company and accordingly is subject to the ASX Listing Rules (**Listing Rules**).
7. Chapter 10 of the Listing Rules contains certain provisions in relation to transactions between an entity and 'persons in a position of influence'. Listing Rule 10.1 provides that a listed entity must not acquire or dispose of a 'substantial asset' from or to a related party, a substantial holder, an associate to any of those persons or any person whose relationship is to the listed entity, without the approval of holders of the entity's ordinary securities.
8. An asset is deemed to be substantial if its value, or the value of the consideration for it, is 5% or more of the equity interests of the entity in the latest accounts lodged with ASX. As the carrying value of Biointelect at 31 December 2017 is \$630,000 compared to BTC health's net assets of \$3,036,042 the Proposal constitutes a substantial asset disposal by the Company.
9. Jennifer Herz is a related party to Windarri Investments and is also a Non-Executive Director of BTC health and, accordingly, Listing Rule 10.1 will apply to the Proposal.
10. Where Listing Rule 10.1 is breached, Listing Rule 10.10.2 requires a report on the proposed transaction from an independent expert. The report must state the expert's opinion as to whether the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded. Approval sought under Listing Rule 10 will also likely meet any requirements for approval under Chapter 2E of the Corporations Act 2001 (Act) concerning financial benefits provided to related parties.
11. In accordance with Listing Rule 10.10.2, the Directors of BTC health have engaged Moore Stephens to prepare an Independent Expert's Report for BTC health Shareholders (**Report**) to comment on the fairness and reasonableness of the sale of the Company's 100% equity interest in Biointelect to Windarri Investments under the Proposal, to be included in the Explanatory Memorandum to be issued to BTC health Shareholders.

## 3. EXECUTIVE SUMMARY OPINION

### 3.1 General

12. Our Report has been prepared having regard to ASIC Regulatory Guide 74 'Acquisitions Approved by Members' (**RG 74**), Regulatory Guide 111 'Content of Expert's Reports' (**RG 111**), and Regulatory Guide 112 'Independence of Experts' (**RG 112**).

13. In forming our view of the Proposal we have compared the fair value of the Proposed Divestment with the fair value of the Proposed Consideration (i.e. 'Fairness' / quantitative assessment) and other qualitative aspects (i.e. 'Reasonableness') of the Proposal for BTC shareholders.
14. In respect of our 'Fairness' assessment, this assignment is also a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' (APES 225).
15. We have considered the terms of the Proposal as outlined in the Notice of Meeting and in this Report and as a result of our review and considering all the factors we are of the opinion that the Proposal is **fair and reasonable** to BTC Shareholders.

**3.2 Fairness (quantitative assessment)**

16. In determining whether the Proposed Transaction is fair and reasonable we have given consideration to the views expressed by ASIC in Regulatory Guide 111 'Content of Expert's Reports' (RG 111) and Regulatory Guide 112 'Independence of Experts' (RG 112). In preparing our Report we have given particular consideration to RG111.
17. In considering whether the Proposed Transaction is fair we have considered the substance of the Proposed Transaction:
  - BTC is 'divesting' its 100% equity interest in Biointelect to Windarri Investments and 'forgiving' (loan forgiveness of) up to \$280,000 owed by Biointelect to BTC (**Proposed Divestment**); and
  - BTC is 'receiving' as consideration \$700,000 in cash and BTC Shareholders 'benefit' from the cancellation of 2 million BTC Options that were granted to Jennifer Herz and Karl Herz (**Proposed Consideration**).
18. Consistent with the guidelines in RG111, in determining whether the Proposed Transaction is 'fair and reasonable' to shareholders, the analysis undertaken is as follows:
  - A comparison of the fair values of the Proposed Consideration and the Proposed Divestment; and
  - A review of other significant factors which Shareholders might consider prior to approving the Proposed Transaction in the assessment of 'reasonableness'.

Table 1: Comparison of Fair Market Values of Proposed Consideration and Proposed Divestment

|  | Low              | Mid              | High             |
|--|------------------|------------------|------------------|
| <b>Fair market value of Proposed Consideration</b> |                  |                  |                  |
| Cash consideration                                 | \$700,000        | \$700,000        | \$700,000        |
| Value of cancelled BTC Options                     | \$81,845         | \$179,679        | \$277,512        |
| <b>Fair market value of Proposed Consideration</b> | <b>\$781,845</b> | <b>\$879,679</b> | <b>\$977,512</b> |
| <b>Fair market value of Proposed Divestment</b>    |                  |                  |                  |
| Market value of 100% shares in Biointelect         | \$0              | \$0              | \$70,000         |
| Value of loan forgiveness                          | \$280,000        | \$280,000        | \$280,000        |
| <b>Fair market value of Proposed Divestment</b>    | <b>\$280,000</b> | <b>\$280,000</b> | <b>\$350,000</b> |

19. The fair market value of the Proposed Consideration is higher than the fair market value of the Proposed Divestment:
- We have valued the Proposed Consideration in the \$781,845 to \$977,512 range comprising of:
    - Cash consideration of \$700,000; and
    - Value of cancelled BTC Options in the \$81,845 to \$277,512 range.
  - We have valued the Proposed Divestment in the \$280,000 to \$350,000 range comprising of:
    - Biointelect has been valued in the \$210,000 to \$350,000 range on an Enterprise Value ("EV") basis. After deducting for the \$280,000 loan owed to BTC, this translates to 100% of the shares in Biointelect being valued in the nil<sup>1</sup> to \$70,000 range; and
    - Value of the loan forgiveness of \$280,000.
  - In all of the above cases, the fair value of the Proposed Consideration is higher than the fair value of the Proposed Divestment;
  - The Low case (\$781,845) of the Proposed Consideration is higher than the High case (\$350,000) of the Proposed Divestment; and
  - In all of the above cases, the cash consideration of \$700,000 is considerably higher than the fair market value of the Proposed Divestment (\$280,000 to \$350,000). Including the value of the cancelled BTC Options further improves the comparison in favour of the Proposed Transaction.
20. The earnings multiples for the implied net consideration for Biointelect are favourable:
- The net consideration for Biointelect, which has been calculated as the value of the Proposed Consideration less the value of the loan forgiveness, has been assessed in the \$501,845 to \$697,512 range;
  - The implied EBITDA multiples range based on the value of the net consideration for Biointelect is significantly higher than the multiples range (3.0 to 5.0 times) at which similar sized consulting companies have been acquired for in recent times (refer item 98 for details on comparable transactions); and

Table 2: Consideration for Biointelect - Implied EBITDA Multiples

|  | Low              | Mid              | High             |
|--|------------------|------------------|------------------|
| <b>Net consideration for Biointelect</b> | <b>\$501,845</b> | <b>\$599,679</b> | <b>\$697,512</b> |
| Biointelect EBITDA forecast (FY 2019)    | \$70,000         | \$70,000         | \$70,000         |
| <b>Implied EBITDA multiples (times)</b>  | <b>7.2</b>       | <b>8.6</b>       | <b>10.0</b>      |

- The implied EBITDA multiples range based on the net consideration for Biointelect is also significantly higher than the EBITDA multiple (4.5 times) at which BTC acquired the Biointelect business in 2016.

<sup>1</sup> We have ignored the implied negative equity value in the Low case in the determining the valuation range.

Table 3: Biointelect Acquisition (April 2016) - Implied EBITDA Multiple

|  |                    |
|--|--------------------|
| <b>Biointelect acquisition consideration</b> | <b>\$1,300,000</b> |
| EBITDA (FY 2016)                             | \$288,290          |
| <b>Implied EBITDA multiples (times)</b>      | <b>4.5</b>         |

21. Taking these factors into consideration, in our opinion the Proposed Transaction is fair to BTC Shareholders.
22. The Proposal is reasonable by first considering whether the Proposal is fair. In accordance with RG 111 a proposal is 'reasonable' if it is 'fair'.
23. In addition, we have considered other advantages and disadvantages of the Proposal to BTC Shareholders.

**3.3 Other qualitative factors of the proposal**

24. In assessing if the advantages of the Proposal outweigh the disadvantages we have had regard to the following:

|                                      |   |
|--------------------------------------|---|
| <b>Advantages of the Proposal</b>    | <ul style="list-style-type: none"> <li>• The Proposed Transaction is fair from the perspective of BTC shareholders.</li> <li>• The valuation range for Biointelect based on the Proposed Transaction implies significantly higher EBITDA multiples than the multiple paid by BTC to acquire the Biointelect business in 2016.</li> <li>• The proceeds from the divestment of Biointelect will provide funds which may enable the Company to pursue new value-accretive opportunities.</li> <li>• BTC has been providing funding to support Biointelect. Short-term funding support of Biointelect will be avoided if the Proposed Transaction proceeds. Longer term, there is no certainty that funding support will not continue in the absence of the Proposed Transaction, albeit that a modest operating profit is forecast for FY 2019.</li> <li>• Lower transaction costs than if a formal sale process is undertaken.</li> </ul> |
| <b>Disadvantages of the Proposal</b> | <ul style="list-style-type: none"> <li>• The Company would not benefit from any potential future improvement in the operating performance and market value of Biointelect.</li> <li>• Divestment of the asset may not be consistent with the investment objectives of all Shareholders.</li> <li>• BTC will crystallise a loss on divestment of approximately \$721,000. However this loss has already been accounted for in the Company's financial accounts as a fair value adjustment.</li> </ul>  |

- In the absence of undertaking a formal sale process, BTC health is unable to confirm whether the fair value obtainable in an open market would be higher or lower than that obtained under the Proposal. The non-associated Directors of BTC health note that given the specialised nature of its business, and its heavy reliance on key personnel (in particular Jennifer Herz) there would be a very limited pool of alternative buyers for Biointelect.
- Should the Proposed Transaction proceed, Jennifer Herz will resign as a non-executive director of BTC and may look to sell her Shares in BTC. Windarri Investments is a substantial Shareholder (8.4%) of BTC Shares. Windarri Investments may seek to sell its Shareholding in BTC following the completion of the Proposed Transaction and this may cause a potential Share price overhang. This risk is somewhat mitigated as, via a separate agreement not involving the Company, the Executive Chairman of the Company, Richard Treagus (or through his nominee) has agreed to acquire 5 million BTC Shares from Windarri Investments for \$0.20 per Share, subject to the Proposal proceeding.

25. The announcement of the Proposed Transaction has had a negligible impact on BTC's Share price and trading volumes.
26. After considering the advantages and disadvantages of the Proposal, in our opinion, the Proposal is more advantageous to BTC Shareholders than not and therefore is reasonable to BTC Shareholders.

### 3.4 Summary of opinion

27. On balance of all the matters considered we are of the view that the Proposal is **fair and reasonable** to BTC Shareholders.

## 4. GENERAL DISCLOSURES AND LIMITATIONS

### Changes in market conditions

28. Our analysis and conclusions are based on market conditions existing at the date of this Report. A limitation of our conclusion is that market conditions may change between the date of this Report and when the various aspects of the transaction are concluded.

### Individual shareholder circumstances

29. Acceptance or rejection of the Proposal is a matter for individual shareholders based upon their own views of value, risk, and portfolio strategy. BTC Shareholders who are in doubt as to the action that they should take in relation to the Proposal should consult their professional advisor.

### Entirety of Report

30. This summary opinion should be read in conjunction with and not independent of the remainder of this Report.
31. The Report should also be read in conjunction with the Notice of Meeting to which this Report is attached. Terms in this Report are, unless otherwise noted, consistent with terms and description referred in the Notice of Meeting.

*BTC health Limited*  
*Independent Expert's Report – 5 March 2018*

Yours faithfully

**Moore Stephens (Vic) Pty Ltd**

Holder of Australian Financial Services License No.247362



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## 5. DISCLOSURES AND LIMITATIONS

32. This Report has been prepared at the request of the directors of BTC for the purposes of assisting Shareholders in their evaluation of the Proposal.
33. The Report is not intended to serve any other purpose and should not be relied upon by any other person for any other purpose. In preparing this Report, Moore Stephens has relied upon financial and other information provided by BTC. Furthermore, we have relied upon the representations and opinions of the management of BTC and Biointelect.
34. We believe that (unless stated otherwise) the information provided was reliable, complete and not misleading and there is no reason to believe that any material facts have been withheld. However, we have not conducted any separate due diligence or audit investigations to assess the correctness or completeness of this information. Information, judgements and representations have been evaluated through analysis, enquiry and review to the extent practicable. However, it must be appreciated that such information is not always capable of external verification or validation.
35. Acceptance or rejection of the Proposal is a matter for individual shareholders based upon their own views of value, risk, and liquidity preference and portfolio strategy. BTC Shareholders who are in doubt as to the action that they should take in relation to the Proposal should consult their professional advisor.
36. The opinion of Moore Stephens is based on economic market and other conditions prevailing on the date of this Report. Such conditions can change significantly over a relatively short period of time.

## 6. REGULATORY FRAMEWORK

### 6.1 Basis of evaluation

37. In determining whether the Proposal is fair and reasonable, we have given consideration to the views expressed by ASIC in Regulatory Guide 111 (**RG111**).
38. RG111 provides ASIC's views on how an expert can help shareholders make informed decisions about transactions. Specifically, it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.
39. RG111 states that the expert should focus on:
- The issues facing the security holder for whom the report is being prepared; and
  - The substance of the transaction rather than the legal mechanism used to achieve it.
40. When analysing related party transactions, RG111 states it is important that an expert focus on the substance of the related party transaction, rather than the legal mechanism.
41. RG111 applies the 'fair and reasonable' test to two distinct criteria, stating that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal or less than the value of the consideration being provided to the entity.
42. A related party transaction is reasonable if it is fair. It might also be reasonable if, despite not being fair, the expert believes there are sufficient reasons for members to vote for the transaction.
43. Consistent with the guidelines in RG111, in determining whether the Proposal is 'fair and reasonable' to the shareholders of BTC health, the analysis undertaken is as follows:
- A comparison of the fair values of the Proposed Consideration and the Proposed Divestment, in the assessment of fairness; and

- A review of other significant factors which BTC shareholders might consider prior to approving the Proposal in the assessment of reasonableness.
44. In particular, we have considered the advantages and disadvantages of the Proposal in the event that the Proposal proceeds or does not proceed, including:
- The future operations of BTC if the Proposal does not proceed; and
  - Any other commercial advantages and disadvantages to BTC shareholders as a consequence of the Proposal proceeding. Our assessment of the Proposal is based on economic, market and other conditions prevailing at the date of this Report.

## 6.2 Guidelines issued by ASIC on prospective financial information in expert reports

45. In preparing our Report we have also considered ASIC guidelines on the disclosure of prospective financial information in expert reports and valuations.

46. These guidelines state *inter alia* that:

RG 111.78 *An expert should usually give a range of values. The value of securities is typically subject to uncertainty and volatility. Placing a precise dollar value on them is likely to imply a misleading accuracy to a valuation.*

RG 111.79 *Nevertheless, the range of values should be as narrow as possible. If an expert cannot give a narrow range because of uncertainty (e.g. start-up companies), the expert should prominently explain in its report what factors create this uncertainty and how the expert is able to justify its findings despite the uncertainty. In our view, a broad range of values undermines the usefulness of the report.*

RG 111.95 *An expert should not include prospective financial information (including forecasts and projections) or any other statements or assumptions about future matters (together, 'forward-looking information') in its report unless there is a reasonable basis for the forward-looking information. Otherwise the opinion will be misleading under s670A(2) of the Corporations Act or s12DA of the ASIC Act.*

RG 111.97 *RG 170 gives detailed guidance on what we (ASIC) considers is a reasonable basis for stating prospective financial information. While RG 170 is expressed to apply to fundraising documents under Ch 6D and 7, it provides useful guidance for inclusion of prospective financial information in expert reports.*

RG 111.98 *However, we recognise that using discounted cash flow (DCF) methodology will involve the use of forward-looking information and assumptions over a longer period than the two year period in RG 170: see RG 170.18 and RG 170.29. As long as the focus of the disclosure in the expert report is on the valuation rather than the forward-looking information that supports it, the expert does not need to commission an independent accountant report for the DCF methodology: see RG 170.18(c). However, the expert should undertake a critical analysis of the forward-looking information used in applying the DCF methodology to ensure it is based on reasonable grounds.*

RG 170.18 *We consider that prospective financial information based on hypothetical assumptions (rather than reasonable grounds) is likely to be misleading and provide little information value to investors. In our view, prospective financial information without reasonable grounds is not material to investors, nor would an investor reasonably require it or reasonably expect to find it in a disclosure document or PDS.*

### 6.3 Guidelines on valuation engagements

47. This Report has also been undertaken in accordance with the requirements set out in Accounting Professional and Ethical Standards Board professional standard 225 'Valuation Services' (APES 225).
48. A valuation engagement is defined by APES 225 as '*Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time*'.

## 7. PROFILE OF BTC

### 7.1 Company overview<sup>2</sup>

49. BTC is a Pooled Development Fund registered under the Pooled Development Funds Act 1992.
50. The Company is in the business of providing development capital and management expertise to high-growth Australian biotech, medtech and pharmaceutical companies.
51. The Company is headquartered in Melbourne and its Shares are listed on the Australian Stock Exchange.
52. The Company's strategy is to make active investments in life science businesses and late-stage product development opportunities that will benefit from greater access to development capital.
53. The Company's vision is to build a group of complementary businesses that are entrepreneurial, innovative, globally focussed and provide better health outcomes whilst adding value for its shareholders.
54. In November 2017, the Company changed its name from Biotech Capital Limited to its current name, BTC health Limited.
55. The Company's key assets are its cash holdings and its investments in various businesses.
56. Below is a brief overview of the investments of the fund as per the most recent information:
  - Biointelect is an advisory consulting firm based in Sydney. The business was acquired in April 2016. Further details of Biointelect are set out in **Section 8**.
  - Bio 101 is wholly owned by BTC and provides accounting, tax and company secretarial services to private, public and listed life science companies. Bio101 has steady clients and associated revenues, revenue growth and is profitable. BTC acquired Bio101 in June 2016.
  - BioImpact is a wholly owned subsidiary of the company. BioImpact is in-licensing business which partners with companies seeking to commercialise drugs and medical devices in Australia and Asia Pacific region. BioImpact intends to sub-license the intellectual property rights to BTC Speciality Health Pty Ltd in order that BTC Speciality Health may then sell the respective products in the Asia Pacific region. As at 31 December 2017, BioImpact had in-licensed 3 products, all from RLS Global in Sweden and is presently in active negotiations for further products from a range of companies. Two of the three RLS products have since been registered with the TGA and are expected to be launched by BTC Speciality Health in second quarter of 2018. The third product which is the larger of the three products is expected to be launched in the second half of 2019.

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<sup>2</sup> Source: Company announcements and discussions with management

- BTC Speciality Health which was incorporated in September 2017 is responsible for the commercialisation of the group's speciality products. It is tasked with effectively introducing products to a wide range of customers in Australia and the Asia Pacific region. The company is registered with the TGA and responsible for overseeing all product logistics, compliance, pricing, sales, marketing and customer interactions. As at 31 December 2017, BTC Speciality Health has incurred company setup costs, employed a sales and marketing manager and has started to incur costs to get the above products to market.
- Sensear Pty Ltd – This investment is a legacy investment and carried in the financial statements at a nil carrying value

## 7.2 Share capital

57. BTC currently has 130,296,532 ordinary Shares on issue held by a total of 1,057 registered shareholders. Table 4 below sets out the top 10 shareholders as at 9 February 2018:

Table 4: Top 10 shareholders

| Rank | Name  | Shares             | %             |
|------|---|--------------------|---------------|
| 1    | AET SFS Pty Ltd (NEOC AC)                                 | 19,722,319         | 15.1%         |
| 2    | Mrs Karen Elizabeth Treagus                               | 17,000,000         | 13.0%         |
| 3    | Walker Group Holdings Pty Limited                         | 13,784,910         | 10.6%         |
| 4    | Stuart Andrew Pty Ltd                                     | 13,322,173         | 10.2%         |
| 5    | Windarri Investments Pty Ltd                              | 10,924,327         | 8.4%          |
| 6    | Mrs Susan Maree Whiting                                   | 4,300,000          | 3.3%          |
| 7    | Mr Campbell Dinwoodie Taylor                              | 4,261,305          | 3.3%          |
| 8    | Ms Despina Makris   | 2,890,863          | 2.2%          |
| 9    | Mr Nicholas Dermott McDonald                              | 2,004,313          | 1.5%          |
| 10   | Pritdown Pty Ltd  | 1,685,363          | 1.3%          |
|      | <b>Total Top 10 holders of Ordinary fully paid Shares</b> | <b>89,895,573</b>  | <b>69.0%</b>  |
|      | <b>Other Shareholders</b>                                 | <b>40,400,959</b>  | <b>31.0%</b>  |
|      | <b>Total</b>  | <b>130,296,532</b> | <b>100.00</b> |

Source: Company

58. Table 4 shows the top 10 shareholders of BTC accounting for 69.0% of total issued capital, with the largest shareholder AET SFS Pty Ltd, holding 15.1% of the issued capital. Current directors of BTC hold a relevant interest in approximately 33.8% of total issued capital.
59. The 5<sup>th</sup> largest shareholder, Windarri Investments is an entity associated with Jennifer Herz and Karl Herz and is also the entity that will purchase Biointelect. As a separate agreement not involving the Company the Executive Chairman of BTC (or his nominee) has agreed to acquire from Windarri Investments 5 million Shares in BTC to for \$0.20 per Share subject to the Proposal proceeding..
60. In addition, at the date of this Report, BTC has 5,000,000 unlisted options on issue including 2,000,000 issued to Jennifer Herz and Karl Herz. Table 5 sets out a summary of the unlisted options:

Table 5: Unlisted Options

| Grant Date   | Grantee       | Number of options | Exercise Price |
|--------------|---------------|-------------------|----------------|
| April-2016   | Jennifer Herz | 1,000,000         | \$0.159        |
| April-2016   | Karl Herz     | 1,000,000         | \$0.159        |
| 2017         | Others        | 3,000,000         | various        |
| <b>Total</b> |               | <b>5,000,000</b>  |                |

Source: Company

Financial performance

61. BTC is an investment entity and has applied the exemption to consolidation for its investments. Investments are valued at fair value through profit and loss in accordance with AASB10.
62. Accordingly, the historical financial performance of BTC reflects the changes to the fair value of its investments.
63. A summary of BTC's operating results derived from the financial statements for the years ended 30 June 2017 (audited) and 30 June 2016 (audited) and for the 6 months ended 31 December 2017 (unaudited) are shown in Table 6 below.

Table 6: BTC's Statements of Comprehensive Income

|   | 6 months ended           | 12 months ended        |                        |
|---|--------------------------|------------------------|------------------------|
|   | 31-Dec-17<br>(unaudited) | 30-Jun-17<br>(audited) | 30-Jun-16<br>(audited) |
| Revenue from continuing operations                      | 12,211                   | 28,496                 | 71,184                 |
| Investment fair value adjustment                        | 79,900                   | -                      | -                      |
| <b>Total revenue</b>                                    | <b>92,111</b>            | <b>28,496</b>          | <b>71,184</b>          |
| Accounting and Company Secretarial expenses             | -                        | (50,600)               | (54,207)               |
| Executive Director fees                                 | (60,000)                 | (90,000)               | -                      |
| Non-Executive Director fees                             | (40,000)                 | (65,000)               | (84,276)               |
| Employment expenses                                     | (76,738)                 | (74,168)               | -                      |
| Impairment provision on unlisted investments            | (791,815)                | -                      | (700,000)              |
| Listing and Chess Fees                                  | (30,483)                 | (29,068)               | (25,641)               |
| Share based payments                                    | (98,666)                 | (83,800)               | (5,777)                |
| Provision for doubtful debts                            | (280,000)                | -                      | -                      |
| Other expenses from operations                          | (103,533)                | (152,387)              | (72,063)               |
| <b>Total comprehensive Profit / (Loss) for the year</b> | <b>(1,389,124)</b>       | <b>(516,527)</b>       | <b>(870,780)</b>       |

Source: Company Reports

64. With respect to Table 6 above:

- The Company accounts for finance revenue as ordinary activity and is included in revenue from continuing operations. The operating revenues during the period ending 30 June 2017 were considerably lower than during the period ending 2016 which included a one-off adjustment to bring in interest income on unclaimed dividends in 2016. The operating results during the 6 months ended 31 December 2017 include the impact of the revaluation of the Company's investment in Bio101group to \$180,000 with the increase in valuation being included in the operating revenue during the period;
- The fair value of each unlisted investment is determined by a Directors' valuation and an allowance for impairment loss is recognised when there is objective evidence that the unlisted investment is impaired. The Company recorded impairment losses of \$700,000 and \$300,000 in the years ending 30 June 2016 and 30 June 2015 respectively which related to BTC's legacy minority investment in Sensear Pty Ltd. The carrying value of Sensear was reduced to nil in 2016. During the 6 month period ending 31 December 2017, the Company reported impairment losses of \$791,815 to reduce the carrying value of its investment in Biointelect;
- During the 6 month period ending 31 December 2017, the Company has recorded a provision for a non-recoverable loan of \$280,000 provided to Biointelect;
- The Company, being a Pooled Development Fund, is taxed at 15% on income and gains from investments in small to medium enterprises and taxed at 25% on all other income. The company's effective tax rate was however 0% in each of the three financial periods included in Table 6; and
- The Company has reported losses in each of the financial periods included in Table 6.

### 7.3 Financial position

65. A summary of BTC's Statement of Financial Position derived from the financial statements as at 30 June 2016 (audited), 30 June 2017 (audited), and 31 December 2017 (unaudited) are summarised in Table 7.

Table 7: BTC's Statements of Financial Position

|                                      | 31-Dec-17<br>(unaudited) | 30-Jun-17<br>(audited) | 30-Jun-16<br>(audited) |
|--------------------------------------|--------------------------|------------------------|------------------------|
| Cash and cash equivalents            | 2,367,410                | 3,086,213              | 1,185,208              |
| Other assets                         | 22,193                   | 22,193                 | -                      |
| <b>Total current assets</b>          | <b>2,389,603</b>         | <b>3,108,406</b>       | <b>1,185,208</b>       |
| Financial assets                     | 810,200                  | 1,522,015              | 1,521,915              |
| Loans to investee companies          | 111,090                  | 36,889                 | -                      |
| <b>Total non-current assets</b>      | <b>921,290</b>           | <b>1,558,904</b>       | <b>1,521,915</b>       |
| <b>TOTAL ASSETS</b>                  | <b>3,310,893</b>         | <b>4,667,310</b>       | <b>2,707,123</b>       |
| Trade and other payables             | 22,415                   | 435,521                | 18,185                 |
| Unclaimed monies                     | 252,436                  | 252,916                | 199,803                |
| <b>Total current liabilities</b>     | <b>274,851</b>           | <b>688,437</b>         | <b>217,988</b>         |
| <b>Total non-current liabilities</b> | <b>-</b>                 | <b>-</b>               | <b>-</b>               |

|                          | 31-Dec-17<br>(unaudited) | 30-Jun-17<br>(audited) | 30-Jun-16<br>(audited) |
|--------------------------|--------------------------|------------------------|------------------------|
| <b>TOTAL LIABILITIES</b> | <b>274,851</b>           | <b>688,437</b>         | <b>217,988</b>         |
| <b>NET ASSETS</b>        | <b>3,036,042</b>         | <b>3,978,873</b>       | <b>2,489,135</b>       |

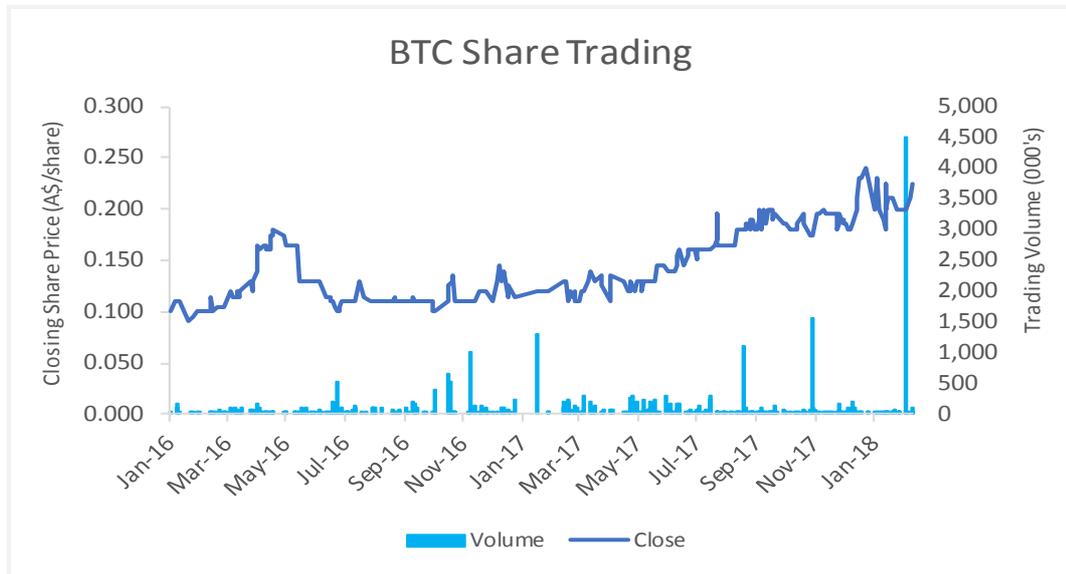
Source: Company Reports

66. With respect to Table 7 above:

- The Company's cash and cash equivalents position has improved due to recent capital raisings:
  - In February-March 2017, the Company raised \$2.4 million through a private placement and share purchase plan. The issue price for the placement and share purchase plan was 11c per Share; and
  - In September 2015, the Company raised \$1.0 million through private placement. The issue price for the placement was 8c per Share.
- Financial assets represent the fair value of the company's investments. Significant investments include:
  - In April 2016, the Company acquired a 100% interest in Biointelect. As consideration for the acquisition, the Company issued 10 million fully paid ordinary Shares at \$0.13 per Share totalling \$1.3 million. BTC also issued options to acquire a further 2 million Shares in BTC to Jennifer Herz and Karl Herz as a long-term incentive. As at 30 June 2017, the reported fair value of the investment was \$1.4 million representing the total consideration paid plus a further \$100,000 that was invested in the business. The Company has subsequently reduced the carrying value of the investment to \$630,000 as at 31 December 2017;
  - In July 2016, the Company announced that it had made an initial investment in Bio101group Pty Ltd. As at 31 December 2017, the reported fair value of the investment was \$180,000, a significant increase from the \$100,100 reported at the time of the acquisition; and
  - During financial year 2016, the Company recognised an impairment loss of \$700,000 reducing the carrying value of its investment in Sensear to nil.
- As at 30 June 2017, the company's Net Tangible Asset (NTA) backing per share was 3.13c. This was considerably higher than its NTA per share of 2.29c at the end of the previous financial year. As at 31 January 2018, the Company's NTA per share had declined to 2.30c due to an impairment provision in the valuation of Biointelect and the provision for the write-off of up to \$280,000 in unsecured debt outstanding from Biointelect.

#### 7.4 Share Price

67. The following chart shows BTC's recent Share price history 1 January 2016 to 15 February 2018:



We observe the following in relation to BTC's Share price history during the above period:

- BTC's Share price has consistently traded at higher than its reported NTA per Share;
- During calendar year 2016, BTC's Share price increased from \$0.13 on the trading day prior to the announcement of the acquisition of Biointelect (1 April 2016) to a high of \$0.18 on 21 April 2016 before declining and ending the year at \$0.115;
- During calendar year 2017, BTC's Share price has trended higher from a low of \$0.11 in late February and reaching a high of \$0.24 on 28 December and ended the year close to its high at \$0.23; and
- During calendar year 2018 and until the date of this Report, the Share price has traded in the range \$0.18-0.23.

68. The following data show recent trading in BTC Shares up until the day prior to the announcement of the Proposed Transaction (21 January 2018) (**Pre-announcement Date**):

Table 8: BTC Shares - Trading Volume

| Period                       | 30 Trading Days prior to 22 January 2018 | 120 Trading Days prior to 22 January 2018 | 22 January 2017 to 21 January 2018 |
|------------------------------|--|---|------------------------------------|
| Total Shares traded          | 1,112,129                                | 9,338,236                                 | 11,540,417                         |
| As % of total issued capital | 0.85%                                    | 7.17%                                     | 8.86%                              |
| Price (cents)                |  |   |                                    |
| High                         | 24c                                      | 24c                                       | 24c                                |
| Low                          | 18c                                      | 12c                                       | 11c                                |
| Total value of trades (\$)   | \$212,509                                | \$1,524,111                               | \$1,796,210                        |
| VWAP                         | 19.11c                                   | 16.32c                                    | 15.56c                             |

69. Average daily trading volume (considering only days during which BTC Shares traded) was approximately 80,000 Shares during the 12 months to the Pre-announcement Date, representing a cumulative trading volume of approximately 9% of issued capital.
70. The above analysis indicates that the market for BTC Shares is relatively illiquid.
71. The announcement of the transaction appears to have had negligible impact on the Share price and trading volumes:
  - There was no change in the Share price on the day of the announcement (22 January 2018) and the Share price closed at \$0.21;
  - The 5-day average daily trading volume following the announcement of the Proposed Transaction of approximately 34,000 Shares was significantly below the average daily trading volume of 80,000 Shares during the 12 months to the Pre-announcement Date; and
  - The Share price traded in a very narrow range (\$0.20-\$0.21) during the 5-day period following the announcement.

**8. PROFILE OF BIOINTELECT**

**8.1 Overview<sup>3</sup>**

72. Biointelect provides a range of services for biopharmaceutical and medical device companies seeking to commercialise new technologies globally.
73. The business works collaboratively with clients in a cost and time-effective partnerships to optimise commercial results using scientific data to drive market penetration and by developing regulatory, reimbursement, scientific and marketing strategies.
74. Biointelect claims to have a proven track record, expertise and extensive network:
  - For early stage companies Biointelect provides commercial and market insights to support product development. Biointelect can also assist with portfolio prioritisation and partnering; and
  - For late stage companies, Biointelect have a proven track record in new product planning, start-up development and identifying the right commercial partners.

<sup>3</sup> Source: BTC management and Biointelect website

75. Biointelect has consulted for over 40 companies, on more than 60 different projects in a diverse range of therapeutic areas over the last five years
76. Below is a brief description of the services provided by Biointelect:
- Commercialisation: for pre-clinical, pre-market or in market products, Biointelect can help evaluate and optimise value through market evaluation, market analysis, forecasting, market research, channel to market, pricing and competition analysis.
  - Partnering: assistance in partnering process through desktop research, initial outreach, due diligence/negotiation and close/ handover
  - Regulatory: assistance with regulatory submissions, compliance and reporting etc.
  - Clinical: manage all phases of clinical trials, study, operational procedures and training, audit etc.
  - Quality: build and implement QMS software, QMS compliance, gap analyses, process mapping and re-engineering and risk assessment
77. BTC acquired a 100% interest in Biointelect in April 2016 for \$1.3 million and invested a further \$100,000 increasing the carrying value of the business to approximately \$1.4 million. At the time of the acquisition, the business was profitable.

**8.2 Financial performance**

78. Below is a summary of Biointelect's financial performance during the financial years ended 30 June 2016 and 30 June 2017. The table also includes high level management (Biointelect) forecasts for the year ended 30 June 2018. The FY2018 forecasts are based on actual performance to end of December 2017.

*Table 9: Biointelect Summary Financial Performance*

| 12 Months Ended                  | 30-Jun-18<br>(forecast) | 30-Jun-17<br>(unaudited) | 30-Jun-16<br>(unaudited) |
|----------------------------------|-------------------------|--------------------------|--------------------------|
| Revenue                          | 1,200,000               | 1,613,523                | 1,060,065                |
| Cost of sales                    |                         | (145,964)                | 33,134                   |
| Wages and salaries               |                         | (1,041,495)              | (564,266)                |
| Consultant fees                  |                         | (159,314)                | (52,227)                 |
| Business development and travel  |                         | (165,124)                | (16,166)                 |
| Office costs and others          |                         | (264,761)                | (183,904)                |
| <b>Operating Profit / (Loss)</b> | <b>(100,000)</b>        | <b>(145,135)</b>         | <b>276,636</b>           |

Source: Company

79. With respect to Table 9 above:
- The business has underperformed compared with the operating targets that were set since its acquisition and has reported modest operating losses under BTC's ownership;
  - The financial year ended 30 June 2017 was the first full year that the Biointelect was owned by BTC. During the financial year, the business reported significantly higher revenues which were however more than offset by higher costs, particularly relating to wages and salaries and

business development and travel expenses. As a result, the business reported an operating loss during the year, a significant deterioration from the operating profit reported during the previous financial year;

- There has been significant change in the operations in FY2018 particularly around the staffing levels and business development activities. As a result, both the revenues and costs have declined. Based on the performance to date, the business is however still forecast to report an operating loss in the current financial year; and
- Biointelect's management is projecting an improved operating performance during FY2019 with higher revenues translating to a modest operating profit (EBITDA) of \$70,000. Whilst this would represent a significant turnaround in the performance of the business, we note that the projected earnings are still considerably lower than the level reported at the time BTC acquired the business.

**8.3 Financial position**

80. Below is a summary of the financial position of Biointelect as at 31 December 2017.

*Table 10: Biointelect Summary Financial Position*

|                                      | 31-Dec-17<br>(unaudited) |
|--------------------------------------|--------------------------|
| Bank accounts                        | 34,150                   |
| Accounts receivable                  | 142,020                  |
| Other current assets                 | 74,515                   |
| <b>Total current assets</b>          | <b>250,685</b>           |
| Office Bond                          | 16,500                   |
| Property, Plant and Equipment        | 22,490                   |
| <b>Total non-current assets</b>      | <b>38,990</b>            |
| <b>TOTAL ASSETS</b>                  | <b>289,675</b>           |
| Trade and other payables             | 51,181                   |
| Loans from BTC                       | 280,000                  |
| Other liabilities                    | 27,966                   |
| <b>Total current liabilities</b>     | <b>359,147</b>           |
| <b>Total non-current liabilities</b> | <b>-</b>                 |
| <b>TOTAL LIABILITIES</b>             | <b>359,147</b>           |
| <b>NET ASSETS</b>                    | <b>(68,685)</b>          |

81. With respect to Table 10 above, as at 31 December 2017:

- Biointelect had cash at bank of \$34,150 and a loan from BTC of \$280,000 resulting in a net debt position of \$245,850; and
- Biointelect had negative equity of \$68,685.

## 9. BASIS OF ASSESSMENT OF THE PROPOSED TRANSACTION

82. In determining whether the Proposed Transaction is fair and reasonable we have given regard to the views expressed by ASIC in Regulatory Guide 111 'Content of Expert's Reports' (**RG 111**) and Regulatory Guide 112 'Independence of Experts' (**RG 112**). In preparing our Report we have given particular consideration to RG111.
83. RG111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically, it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.
84. RG111 states that the expert report should focus on:
- The issues facing the security holders for whom the report is being prepared; and
  - The substance of the transaction rather than the legal mechanism used to achieve it.
85. In considering whether the Proposed Transaction is fair we have considered the substance of the Proposed Transaction:
- BTC is 'divesting' its 100% equity interest in Biointelect to the Herz Family Trust and 'forgiving' (loan forgiveness of) up to \$280,000 owed by Biointelect to BTC (**Proposed Divestment**); and
  - BTC is 'receiving' as consideration \$700,000 in cash and BTC Shareholders 'benefit' from the cancellation of 2 million BTC Options that were granted to Jennifer Herz and Karl Herz (**Proposed Consideration**).
86. Consistent with the guidelines in RG111, in determining whether the Proposed Transaction is fair and reasonable to the BTC shareholders, the analysis undertaken is as follows:
- A comparison of the fair values of the Proposed Consideration and the Proposed Divestment; and
  - A review of other significant factors which BTC shareholders might consider prior to approving the Proposed Transaction in the assessment of reasonableness.
87. We have also considered the advantages and disadvantages of the Proposed Transaction in the event that the Proposed Transaction proceeds including:
- The future prospects of the Company if the Proposed Transaction does not proceed; and
  - Any other commercial advantages and disadvantages to the BTC shareholders as a consequence of the Proposed Transaction proceeding.
  - Our assessment of the Proposed Transaction is based on economic, market and other conditions prevailing at the date of this Report.
88. Section 10 sets out details of our assessment of whether the fair value of the Proposed Consideration is higher than the fair value of the Proposed Divestment as set out in the Proposed Transaction. Section 11 details our assessment of the other matters to be considered, including the overall advantages and disadvantages of the Proposed Transaction.

## 10. FAIRNESS ASSESSMENT OF THE PROPOSED TRANSACTION

### 10.1 Value Definition Overview

89. Moore Stephen's assessment of the Proposed Transaction has been made on the basis of fair market value defined as the price that could be realised in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential

buyers have full information, in a transaction between a willing, but not anxious seller and a willing, but not anxious, buyer acting at arm's length.

## 10.2 Valuation Methodology

90. In selecting an appropriate valuation methodology, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- Capitalisation of Future Maintainable Earnings;
- Discounted cash flow;
- Net Asset Value; and
- Quoted Share Price.

Further details of each methodology are contained in **Appendix B**.

91. RG111.64 states that an expert should use its skill and judgment to select the most appropriate methodology in its report. The expert must have a reasonable (or tenable) basis for choosing the valuation methodology. RG111.65 states that an expert should, when possible, use more than one valuation methodology.

92. The cash consideration of \$700,000 to be received by BTC and the loan forgiveness of up to \$280,000 owed by Biointelect to BTC which form part of the Proposed Transaction have been valued at their respective face values. We note that the Company has made a provision for a non-recoverable loan of \$280,000 provided to Biointelect in the most recent financial accounts. Nevertheless, in assessing the equity value of Biointelect we have included this as a liability and accordingly have included the full loan amount of \$280,000 in the Proposed Divestment in assessing the fairness of the Proposed Transaction.

93. We have applied the capitalisation of future maintainable earnings (**CFME**) method to value Biointelect due to:

- The management of Biointelect has not provided detailed cashflow forecasts to apply the discounted cashflow methodology;
- Biointelect is primarily a medical consulting business with relatively little physical assets and as such, a Net Asset Value or balance sheet approach to valuation will most likely undervalue the business;
- Biointelect is a privately owned subsidiary of BTC and its shares are not separately listed and traded on a stock exchange. Therefore, the quoted share price methodology is not applicable. We have however considered our current valuation of Biointelect in the context of the original purchase price in 2016; and
- Based on our review of historical financial performance, it is our opinion that the applying CFME methodology produces the most reliable valuation outcome.

94. The Proposed Transaction includes the cancellation of 2 million BTC Options that were granted to Jennifer Herz and Karl Herz. We have valued these 2 million BTC Options using the binomial option pricing model.

### 10.3 Valuation of Biointelect

95. Our estimation of the fair value of a 100% equity interest in Biointelect adopting the CFME methodology, is set out below:

Table 11: CFME Methodology applied to management forecasts

|  | Item<br>Ref | Maintainable           | Maintainable     | Maintainable     |
|--|-------------|------------------------|------------------|------------------|
|  |             | EBITDA<br>Low          | EBITDA<br>Mid    | EBITDA<br>High   |
| Forecast Earnings (FY 2019f)                 | 96          | 70,000                 | 70,000           | 70,000           |
| Multiple (times)                             | 100         | 3.0                    | 4.0              | 5.0              |
| <b>Assessed Enterprise Value</b>             |             | <b>\$210,000</b>       | <b>\$280,000</b> | <b>\$350,000</b> |
| Loan outstanding to BTC                      |             | (\$280,000)            | (\$280,000)      | (\$280,000)      |
| <b>Assessed Equity Value (100% interest)</b> |             | <b>nil<sup>4</sup></b> | <b>\$0</b>       | <b>\$70,000</b>  |

96. We have valued 100% of Biointelect in \$210,000 to \$350,000 range on an Enterprise Value basis. After deducting for the \$280,000 loan owed to BTC, this translates to 100% of shares in Biointelect being valued in the nil<sup>4</sup> to \$70,000 range. The following factors were taken into consideration in our analysis:

- Biointelect has been loss making since its acquisition by BTC in 2016. Whilst continuing losses are likely for the current (FY18) year, the management (including Jennifer Herz) is forecasting EBITDA of \$70,000 in FY2019;
- Given Biointelect's modest size and the niche nature of its business, we are not aware of any directly comparable ASX listed companies which would be appropriate for comparison purposes;
- We have however identified recent transactions involving private consulting companies and businesses of broadly comparable size. Such companies have been acquired at EBITDA multiples ranging from 3.0 times to 5.0 times (refer item 100)
- The assessed Enterprise Value is significantly below the \$1.3 million acquisition purchase price. We understand that at the time of acquisition, the value for Biointelect was determined on a fair market basis between parties acting at arms-length. The reduction in value is therefore solely due to the adverse performance of the business compared with what was anticipated at the time of the acquisition. For example at the time of the acquisition, the forecast EBITDA for FY16 was approximately \$288,000 and the implied multiple under the acquisition was 4.5 times.

97. In analysing the available transaction and trading data, we have used information from financial databases, published financial information, ASX and other announcements. Where necessary, certain assumptions have been made.

### 10.4 Transaction Multiples

98. A summary of recent transactions involving consulting companies of broadly comparable size to Biointelect is set out in Table 12 .

<sup>4</sup> We have ignored the implied negative equity value in the Low case in the determining the valuation range.

Table 12: Recent Transactions

| Announced Date | Target                   | Acquirer                            | Interest (%) | Consideration (\$m) | EBITDA x (times) | EBIT x (times) |
|----------------|--------------------------|-------------------------------------|--------------|---------------------|------------------|----------------|
| Jan-18         | Recon Solutions          | People Infrastructure               | 50%          | 2.8                 | 3.8x             | n.a.           |
| Jan-18         | BusinessWorks            | Hal Group                           | 100%         | 1.3                 | 3.8x             | n.a.           |
| Dec-17         | Celemetrix Aus Pty Ltd   | Legend Group Ltd                    | 100%         | 12.0                | n.a.             | 4.1x           |
| Aug-17         | Decipher Works Pty Ltd   | Transaction Solutions International | 100%         | 3.2                 | 3.6x             | n.a.           |
| Aug-16         | Panthercorp CST Pty Ltd  | Easton Investments                  | 100%         | 2.8                 | 5.0x             | n.a.           |
| Jul-16         | Massive Group Pty Ltd    | Jaywing plc                         | 75%          | 2.0                 | 4.5x             | n.a.           |
| Jun-15         | Wild Geese International | Site Group International Ltd        | 100%         | 6.0                 | 3.0x             | n.a.           |
| Sep-14         | DLA Environmental        | Pacific Environment Ltd             | 100%         | 2.8                 | n.a.             | 3.0x           |
| <b>Median</b>  |                          |                                     |              |                     | <b>3.8x</b>      | <b>3.6x</b>    |

Source: Thomson Reuters and company announcements

99. Except for Recon Solutions, the transaction multiples in the above table are based off historical earnings. Insufficient information is available to calculate the forward earnings multiples for most of the above transactions.
100. The EBITDA multiples for the transactions have ranged between 3.0 times to 5.0 times. Whilst EBIT multiples have been reported for only two transactions, they broadly support the EBITDA multiples range reported for the other transactions. We note that in all the above examples, the levels of earnings are higher than that of Biointelect, implying in our view that Biointelect's value is likely to be at the lower end of the scale.
101. For the purposes of valuation, we have adopted the low and high EBITDA multiples to calculate the fair value of Biointelect using the CFME methodology.

### 10.5 Valuation of BTC Options

102. The Proposed Transaction includes the cancellation of 2 million BTC Options that were granted to Jennifer Herz and Karl Herz. We have valued these 2 million BTC Options using the binomial option pricing model.
103. The BTC Options when exercised will result in potential shareholder dilution and represent a cost to the other shareholders. Conversely, the cancellation of the BTC Options reduces potential shareholder dilution and represents a benefit to other shareholders. Therefore, the value of the cancelled BTC Options has been included in the Transaction Consideration.
104. There are no market-based conditions associated with the BTC Options. However certain vesting conditions must be satisfied such as a continuous employment condition.
105. For the purposes of calculating the value of the BTC Options we have considered two scenarios:
  - assumes as if only those option tranches with vesting date less than 3 months from the Valuation Date will vest; and

- assumes as if the continuous employment condition were satisfied and the all the option tranches will vest.

106. The key assumptions used to value the BTC Options are summarised below:

Table 13: BTC Options Valuation

| Item                    | Tranche 1       | Tranche 2       | Tranche 3       | Tranche 1       | Tranche 2       | Tranche 3       | Total            |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Valuation Date          | 22 Jan 18       |                  |
| Share Price             | \$0.21          | \$0.21          | \$0.21          | \$0.21          | \$0.21          | \$0.21          |                  |
| Exercise Price          | \$0.159         | \$0.159         | \$0.159         | \$0.159         | \$0.159         | \$0.159         |                  |
| Volatility              | 93.72%          | 93.72%          | 93.72%          | 93.72%          | 93.72%          | 93.72%          |                  |
| Vesting Date            | 4 Apr 18        | 4 Apr 19        | 4 Apr 20        | 4 Apr 18        | 4 Apr 19        | 4 Apr 20        |                  |
| Expiry Date             | 4 Apr 20        | 4 Apr 21        | 4 Apr 22        | 4 Apr 20        | 4 Apr 21        | 4 Apr 22        |                  |
| Risk free rate          | 2.12%           | 2.25%           | 2.39%           | 2.12%           | 2.25%           | 2.39%           |                  |
| Option value            | \$0.12          | \$0.14          | \$0.15          | \$0.12          | \$0.14          | \$0.15          |                  |
| No of Options           | 330,000         | 330,000         | 340,000         | 330,000         | 330,000         | 340,000         | 2,000,000        |
| <b>Value of Options</b> | <b>\$40,923</b> | <b>\$46,150</b> | <b>\$51,683</b> | <b>\$40,923</b> | <b>\$46,150</b> | <b>\$51,683</b> | <b>\$277,512</b> |

107. Based on the key assumptions summarised in the above table, the 2 million BTC Options that will be cancelled as part of the Proposed Transaction have been valued at:

- \$81,845 which assumes that only those option tranches with vesting date less than 3 months will vest; and
- \$277,512 assumes all option tranches will vest.

#### 10.6 Conclusion of Fairness Assessment

108. In order to assess whether the Proposed Transaction is 'fair and reasonable' to BTC shareholders we evaluate whether the:

- Proposed Transaction is fair by comparing the:
  - Fair market value of the Proposed Consideration; and
  - Fair market value of the Proposed Divestment

Table 14: Comparison of Fair Market Values of Proposed Consideration and Proposed Divestment

|  | Low              | Mid              | High             |
|--|------------------|------------------|------------------|
| <u>Fair market value of Proposed Consideration</u> |                  |                  |                  |
| Cash consideration                                 | \$700,000        | \$700,000        | \$700,000        |
| Value of cancelled BTC Options                     | \$81,845         | \$179,679        | \$277,512        |
| <b>Fair market value of Proposed Consideration</b> | <b>\$781,845</b> | <b>\$879,679</b> | <b>\$977,512</b> |
| <u>Fair market value of Proposed Divestment</u>    |                  |                  |                  |
| Market value of 100% shares in Biointelect         | \$0              | \$0              | \$70,000         |
| Value of loan forgiveness                          | \$280,000        | \$280,000        | \$280,000        |

|   | Low              | Mid              | High             |
|---|------------------|------------------|------------------|
| <b>Fair market value of Proposed Divestment</b> | <b>\$280,000</b> | <b>\$280,000</b> | <b>\$350,000</b> |

109. The fair market value of the Proposed Consideration is higher than the fair market value of the Proposed Divestment:

- We have valued the Proposed Consideration in the \$781,845 to \$977,512 range comprising of:
  - Cash consideration of \$700,000; and
  - Value of cancelled BTC Options in the \$81,845 to \$277,512 range.
- We have valued the Proposed Divestment in the \$280,000 to \$350,000 range comprising of:
  - Biointelect has been valued in \$210,000 to \$350,000 range on an Enterprise Value basis. After deducting for the \$280,000 loan owed to BTC, this translates to 100% of the shares in Biointelect being valued in the nil<sup>5</sup> to \$70,000 range; and
  - Value of the loan forgiveness of \$280,000.
- In all of the above cases, the fair value of the Proposed Consideration is higher than the fair value of the Proposed Divestment;
- The Low case (\$781,845) of the Proposed Consideration is higher than the High case (\$350,000) of the Proposed Divestment; and
- In all of the above cases, the cash consideration of \$700,000 is considerably higher than the fair market value of the Proposed Divestment (\$280,000 to \$350,000). Including the value of the cancelled BTC Options further improves the comparison in favour of the Proposed Transaction.

110. The earnings multiples for the implied net consideration for Biointelect are favourable:

- The net consideration for Biointelect, which has been calculated as the value of Proposed Consideration less value of loan forgiveness, has been assessed in the \$501,845 to \$697,512 range;
- The implied EBITDA multiples range based on the value of the net consideration for Biointelect is significantly higher than the multiples range (3.0 to 5.0 times) at which similar sized consulting companies have been acquired for in recent times; and

<sup>5</sup> We have ignored the implied negative equity value in the Low case in the determining the valuation range.

Table 15: Consideration for Biointelect - Implied EBITDA Multiples

|  | Low              | Mid              | High             |
|--|------------------|------------------|------------------|
| <b>Net consideration for Biointelect</b> | <b>\$501,845</b> | <b>\$599,679</b> | <b>\$697,512</b> |
| Biointelect EBITDA forecast (FY 2019)    | \$70,000         | \$70,000         | \$70,000         |
| <b>Implied EBITDA multiples (times)</b>  | <b>7.2</b>       | <b>8.6</b>       | <b>10.0</b>      |

- The implied EBITDA multiples range based on the net consideration for Biointelect is also significantly higher than the EBITDA multiple (4.5 times) at which BTC acquired the Biointelect business in 2016.

Table 16: Biointelect Acquisition (April 2016) - Implied EBITDA Multiple

|  |                    |
|--|--------------------|
| <b>Biointelect acquisition consideration</b> | <b>\$1,300,000</b> |
| EBITDA (FY 2016)                             | \$288,290          |
| <b>Implied EBITDA multiples (times)</b>      | <b>4.5</b>         |

111. Taking these factors into consideration, in our opinion the Proposed Transaction is fair to the BTC Shareholders.
112. The Proposal is reasonable by first considering whether the Proposal is fair. In accordance with RG 111 a proposal is reasonable if it is fair.
113. In addition, we have considered other advantages and disadvantages of the Proposal to BTC Shareholders.

**11. ASSESSMENT OF THE ADVANTAGES AND DISADVANTAGES OF THE PROPOSED TRANSACTION**

114. In assessing if the advantages of the Proposed Transaction outweigh the disadvantages, we have had regard to the following:

Table 17: Advantages and Disadvantages

| Advantages of the Proposed Transaction |  |
|--|--|
|  | <p><b>a) Fairness Assessment</b></p> <p>The Proposed Transaction is fair from the perspective of BTC Shareholders.</p>   |
|  | <p><b>b) Higher valuation multiples</b></p> <p>The valuation range for Biointelect based on the Proposed Transaction implies significantly higher EBITDA multiples than that paid by BTC to acquire the Biointelect business in 2016.</p>  |
|  | <p><b>c) Improved Financial Position and Flexibility</b></p> <p>Biointelect was unprofitable in FY 2017 and the Company has had to provide financial support to the business by way of unsecured loans. The sale will free up financial resources for the Company and together with the \$700,000 cash proceeds will give BTC greater financial flexibility to</p> |

Disadvantages of the  
Proposed  
Transaction

invest further capital into its existing investee companies and / or to pursue new value-accretive investment opportunities.

**d) No Further Funding Support Required by BTC**

BTC has been providing funding support to the business. There is no guarantee that this will not continue in the absence of the Proposed Transaction, albeit that a modest operating profit is forecast for FY 2019. With the Proposed Transaction, this funding support will immediately cease.

**e) Lower Transaction Costs**

The sale to Windarri Investments will complete in a shorter timeframe and at a lower cost than would be the case under a formal sale process which would involve additional transaction costs including advisory and marketing fees.

**f) Will Not Participate in Improved Performance**

The Company would not benefit from any future improvement in the operating performance and market value of Biointelect.

**g) May not be consistent with Investment Objectives**

The Proposal involves the Company selling a material asset, which may not be consistent with the investment objectives of all Shareholders.

**h) Crystallise loss**

BTC will crystallise a loss on divestment of approximately \$721,000. However this loss has already been accounted for in BTC Heath's financial accounts as a fair value adjustment.

**i) Valuation Uncertainty**

In the absence of a formal sale process, BTC health is unable to confirm whether the fair value obtainable in an open market would be higher or lower than that obtained under the Proposal. The non-associated Directors of BTC health note that given the specialised nature of its business, and its heavy reliance on key personnel (in particular Jennifer Herz) there would be a very limited pool of alternative buyers for Biointelect.

**j) Potential Share Overhang**

Should the Proposed Transaction proceed, Jennifer Herz will resign as a non-executive director of BTC and may look to sell her Shares in BTC. Windarri Investments is a substantial Shareholder (8.4%) of BTC Shares. Windarri Investments may seek to sell its Shareholding in BTC following the completion of the Proposed Transaction and this may cause a potential Share price overhang. This risk is somewhat mitigated as the via a separate transaction not involving BTC health, the Executive Chairman of the Company, Richard Treagus (or through his nominee) has agreed to acquire 5 million BTC Shares from Windarri Investments for \$0.20 per

Share, subject to the Proposal proceeding.

115. After considering the above, we conclude that the advantages of the Proposed Transaction outweigh the disadvantages from the perspective of BTC Shareholders. Therefore, in our opinion, the Proposed Transaction is reasonable to BTC Shareholders.

**12. OPINION ON THE PROPOSED TRANSACTION**

116. On the basis of our analysis, and for the reasons outlined in the preceding sections, we consider that the Proposed Transaction **is fair and reasonable** from the perspective of BTC Shareholders, for the purposes of Section 611(7) and Chapter 2E of the Corporations Act. Accordingly, we consider that the Independent Directors of BTC are justified in recommending BTC Shareholders **vote in favour of the Proposed Transaction.**

## APPENDIX A

### Statement of Qualifications, Independence, Declarations and Consents

#### Qualifications

Moore Stephens (Vic) Pty Ltd (ACN 052 362 348) (Moore Stephens) is a Melbourne based accounting, audit and business advisory practice and is a licensed investment adviser within the terms of the *Corporations Act 2001*. Moore Stephens is an independent practice and a member of Moore Stephens International. Moore Stephens International is a national and international association of separate accountant and advisor entities represented in all capital cities of Australia and with 292 firms operating in 626 offices within 103 countries worldwide.

The AFSL licence (No 247262) allows Moore Stephens to act for clients only in the capacity of providing Reports in relation to certain corporate transactions or to provide general financial product advice on certain classes of financial products. Senior Directors at Moore Stephens specialise in such advice and regularly perform corporate and asset valuations and advice on company restructures, acquisitions and proposals. Moore Stephens, acting through different Directors also performs audits on the accounts of Australian companies.

The primary person responsible for preparing this Report on behalf of Moore Stephens is Gary Graco (Dip. Bus Studies – Accounting, ACA) with the assistance of staff, who has a significant number of years of experience in relevant corporate matters including valuations, independent expert Reports and investigating accountant engagements.

#### Independence

Moore Stephens considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC relating to independence of experts and has developed and issued an opinion and Report on an unbiased basis.

Moore Stephens and its related entities or any of its Directors or Partners have not had within the previous two years, any Shareholding in the Company. During the 2 years period to this Report Moore Stephens and its related entities have not provided any professional services to the Company or any of its subsidiaries.

None of Moore Stephens, Gary Graco, nor any other member, Director, partner or employee of any of Moore Stephens has any interest in the opinion reached by Moore Stephens except that we are entitled to receive professional fees for the completion of this Report based on time incurred at normal professional rates. With the exception of these fees no parties will receive any other benefits, whether directly or indirectly, for or in connection with issuing this Report.

#### Disclaimers

This Report has been prepared at the request of the Directors of the Company and was not prepared for any other purpose than stated in this Report in Section 2. This Report has been prepared for the sole benefit of the Directors and the shareholders of the Company. This Report should not be used or relied upon for any purpose other than as set out in Section 2. Accordingly, Moore Stephens expressly disclaims any liability to any person (other than the Directors or shareholders of the Company) who relies on our Report, or to any person at all who seeks to rely on the Report for any other purpose not set out in Section 2.

**Appendix C** identifies the sources of information upon which this Report has been based. To the extent we have used historical information we are entitled to rely upon the information. Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions that may or may not occur. Accordingly, Moore Stephens cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved. Whilst (unless stated otherwise in the Report) Moore Stephens has no reason to believe that such information is not reliable and accurate, it has not caused such information to

be independently verified or audited in any way. Inquiry, analysis and review have brought nothing to our attention to indicate a material misstatement, omission or lack of reasonable grounds upon which to base our opinion.

The opinions given by Moore Stephens in this Report are given in good faith, based upon our consideration and assessment of information provided to us by the Directors and Executives of the parties to the Proposed Transaction; and in the belief on reasonable grounds that such statements and opinions are correct and not misleading, (unless otherwise stated in the Report). This Report has been prepared with care and diligence.

Advanced drafts of this Report were provided to the Directors of the Company. Minor changes for factual content were made to this Report. There was no alteration to the methodology or conclusions reached as a result of discussions related to drafts of the Report.

Moore Stephens' opinion is based on prevailing conditions at the date of this Report including market, economic and other relevant circumstances. These can change over relatively short time period and any subsequent changes in these conditions in the value either positively or negatively.

#### **Indemnity**

The Company has agreed that it will indemnify Moore Stephens and its employees and officers in respect to any or all losses, claims, damages and liabilities arising as a result of or in connection with the preparation of this Report, except where the claim has arisen as a result of wilful misconduct or negligence by Moore Stephens.

#### **Consent**

This Report has been prepared at the request of the Company and may accompany the Notice of Meeting to be given to Shareholders.

Moore Stephens consents to the issuing of this Report and the form and context to which it is to be included with the Notice of Meeting. Other than the Report, Moore Stephens has not been involved in the preparation of the documents or other aspects of the Proposed Transaction or the Notice of Meeting to which this Report may be attached. Accordingly, we take no responsibility for the content of the Notice of Meeting or the Proposed Transaction as a whole. Neither the whole nor any part of this Report nor any reference thereto may be included in any other document without prior written consent of Moore Stephens as to the form and context to which it appears.

APPENDIX B

Overview of Valuation Methodologies

| Type              | Method   | Description  | When method used   |
|-------------------|--|--|--|
| Income Approaches | <b>Discounted Cash Flow</b>                    | <p>The Discounted Cash Flow (DCF) method derives the value of a business on a controlling basis based on the future cash flows of the business discounted back to a present value at an appropriate discount rate (cost of capital). The discount rate used will reflect the time value of money and the risks associated with the cash flows.</p> <p>The DCF Method requires:</p> <ul style="list-style-type: none"> <li>Forecasting cash flows over a sufficient long period (at least 5 years and usually 10 years)</li> <li>Assessing an appropriate discount rate (typically derived using judgment and aids such as the Capital Asset Pricing Model (CAPM)). The cost of equity (Ke) can be built up from first principles or benchmarked against comparable companies ("Co-Co") or transactions ("Co-Tran"), and</li> <li>Estimation of the terminal value (value of the business into perpetuity) at the end of the period (typically derived using the capitalisation of earnings method).</li> </ul> | <ul style="list-style-type: none"> <li>Reasonably accurate forecast cash flows (minimum 5 years).</li> <li>Earnings or cash flows expected to fluctuate from year to year.</li> <li>Business is in start-up or turn around phase.</li> <li>Specific projects that have a finite or infinite life, for example, mining projects.</li> </ul> |
|                   | <b>Capitalisation of Maintainable Earnings</b> | <p>The Capitalisation of Maintainable Earnings (CME) method is the most commonly used valuation method. It involves the application of a capitalisation multiple to an estimate of the Future Maintainable Earnings (FME) of the business. The FME must be maintainable by the business and must not include one-off gains or losses. The capitalisation multiple will reflect the risk, time value of money and future growth prospects of the business.</p> <p>The appropriate capitalisation multiple is determined with reference to the observed multiples of entities whose businesses are comparable ("Co-Co") to that of the business being considered and/or comparable transactions, ("Co-Tran").</p>  | <ul style="list-style-type: none"> <li>The business has a history of profits with a reasonably consistent trend and that trend is expected to continue.</li> <li>The business has an indefinite life.</li> <li>Cash flow forecasts are not available.</li> </ul>   |
|                   | <b>Capitalisation of Dividends</b>             | <p>This method involves the capitalisation of forecast future maintainable dividends. The maintainable level of dividends is estimated by assessing the expected level of future maintainable earnings and</p>   | <ul style="list-style-type: none"> <li>Valuation is for a minority interest.</li> <li>Stable business.</li> <li>High payout ratios.</li> </ul>   |

| Type                   | Method                | Description  | When method used  |
|------------------------|-----------------------|--|---|
|                        |                       | the dividend policy of the entity. The appropriate capitalisation rate reflects the investor's required rate of return.  |   |
|                        | <b>Yield Based</b>    | This method is primarily used for property assets and involves capitalising forecast distributions by an estimated future maintainable yield. The yield or rate is determined based on analysis of comparable entities.  | <ul style="list-style-type: none"> <li>Commercial or investment properties including retail, industrial and commercial.</li> </ul>  |
| <b>Market Approach</b> | <b>Market</b>         | <p>This method values a company based on the traded prices of its equity on a public market/exchange. The approach can adopt the prevailing spot rate of the company's securities at valuation date or the Volume Weighted Average Price (VWAP over a set trading period i.e. the preceding 30, 60 or 90 trading days to the valuation date).</p> <p>In the absence of market data specific to the company, the market approach can also be used by examining market values for comparable companies ("Co-Co") or comparable transactions ("Co-trans"). Comparable transactions may be observed as being based upon a widely used industry practice such as a multiple of revenue instead of earnings.</p> | <ul style="list-style-type: none"> <li>Company's equity is listed on public market/exchange i.e. ASX.</li> <li>Securities in the company are actively traded on the market/exchange.</li> <li>As above for comparable companies or transactions</li> </ul>  |
|                        | <b>Asset Approach</b> | <b>Asset Based</b>   | <p>Asset based valuation involve separating the business into components that can be readily sold, such as individual business units or items of plant and equipment, and ascribing a value of each component based on the amount that could be obtained if sold.</p> <p>The asset value can be determined on the basis of:</p> <ul style="list-style-type: none"> <li>Orderly realisation</li> <li>Liquidation</li> <li>Going concern</li> </ul> |
| <b>Cost approach</b>   |                       | <p>The value of an asset determined by:</p> <ul style="list-style-type: none"> <li>replacement cost (in basic terms, the cost of replicating functionality).</li> <li>reproduction cost (in basic terms, the cost of recreating the asset).</li> </ul>   | The cost-based approach can be used to derive market value where market or income factors are difficult to obtain or estimate with reliability (for example, for some intangible assets).   |

## APPENDIX C

### Documents and Information Relied Upon

1. BTC health Limited, Management Report 31 January 2018
2. BTC health Limited, Share Sale Agreement, 21 January 2018
3. BTC health Limited, Minutes from Board Meeting of 7 January 2018
4. Biointelect Pty Ltd, Management Report January 2018
5. Biointelect Pty Ltd, Profit and Loss Summary June 2017
6. BTC health Limited, Annual Report 2017
7. BTC health Limited, Annual Report 2016
8. BTC health Limited, Annual Report 2015
9. Email correspondence with Company management during February 2018
10. ASX announcements of the Company

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## Moore Stephens (Vic) Pty Ltd Financial Services Guide

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and forms part of the Independent Limited Assurance Report.**

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