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12 March 2010

The Directors
Entellect Solutions Limited
Level 19, Suite 2, Hunter Street
SYDNEY NSW 2000

Dear Sirs

Independent Experts Report and Financial Services Guide

1. Introduction

This Independent Experts Report ("Report") has been prepared by RSM Bird Cameron Corporate Pty Ltd ("RSMBCC") at your request in respect of the following two transactions:

<u>Transaction 1 ("Proposed Transaction 1")</u>

The proposed issue of share capital by Entellect Solutions Limited ("ESN" or the "Company") as consideration to enter into a license arrangement with CSG Education Pty Limited ("CSG Education"), a subsidiary of CSG Limited ("CSG") in relation to Learner Enterprise ("LE") and Learner Analytics ("LA") products.

<u>Transaction 2 ("Proposed Transaction 2")</u>

The proposed acquisition of The Administrative Assistants Limited ("AAL") for a cash consideration of CA$20 million and potential earn out payments from ESN to the Vendor over the three years subsequent to completion. It is proposed that the funds required for the acquisition will be raised via a placement of shares for $25 million.

The agreement between ESN and CSG Education in relation to the LE and LA arrangement contains the following conditions precedent:

- ESN, with the assistance of CSG, raising a minimum of $25 million from interested parties; and
- ESN purchasing AAL.

Accordingly, for the purpose of this Report, we have considered the two transactions together ("the Proposed Transactions").

Further, ESN intends to undertake a share consolidation on a 58.159 shares to 1 share basis ("Proposed Share Consolidation").

Proposed Transaction 1 and Proposed Transaction 2 will occur contemporaneously.

The full details of the Proposed Transactions are included in the Explanatory Memorandum to be sent to shareholders. An overview of the Proposed Transactions is provided in Section 5 of our Report.

2. Purpose of the Report

Whilst an independent expert report is not required under the Corporations Act 2001, our Report has been prepared at the request of the Directors of ESN ("the Directors") in order to assist the shareholders of ESN ("Shareholders") in their decision whether to approve the Proposed Transactions.

The purpose of this Report is to express an opinion as to whether or not the Proposed Transactions are fair and reasonable to Shareholders. The Report is to be included in the Explanatory Memorandum to be sent to all Shareholders.

3. Approach

In order to assess whether the Proposed Transactions are fair and reasonable we have:

- assessed whether the Proposed Transactions are fair by considering the value of a share in ESN before the Proposed Transactions and after the Proposed Transactions;
- assessed whether the Proposed Transactions are reasonable by considering other advantages and disadvantages of the Proposed Transactions to Shareholders; and
- assessed any available alternatives to the Proposed Transactions, including the position of Shareholders should the Proposed Transactions not proceed.

4. Summary and Opinion

4.1 Proposed Transactions

In our opinion, and for reasons set out in Section 17.1 of this report, the Proposed Transactions are fair and reasonable.

Fair

Table 4.1 sets out a summary of our valuation of a share in ESN, before the Proposed Transactions and after the Proposed Transactions, including the impact of the Proposed Share Consolidation.

Table 4.1 Entellect Solutions Limited Summary of market values	$ Low	$ Mid Point	$ High
Value of a ESN share before Proposed Share Consolidation and the Proposed Transactions	0.0016	0.0018	0.0020
Value of a ESN share after Proposed Share Consolidation before the Proposed Transactions	0.0917	0.1042	0.1167
Value of an ESN share after the Proposed Transactions and Proposed Share Consolidation	0.1571	0.1738	0.1905
Increase / (decrease) in value as a result of the Proposed Transactions	0.0654	0.0696	0.0738

We have valued a share in ESN after the Proposed Share Consolidation but before the Proposed Transactions between $0.092 and $0.120, with a preferred value at the mid point of $0.104. We have valued a share in ESN after the Proposed Transactions between $0.157 and $0.191 with a preferred value at the mid point of $0.174.

As the value of a share in ESN is greater after the Proposed Transactions than before (after allowing for the impact of the Proposed Share Consolidation), we consider the Proposed Transactions to be fair to the Shareholders of ESN.

Reasonable

In Section 17.2 we determined that the Proposed Transactions are reasonable for Shareholders of ESN by considering:

- advantages and disadvantages of the Proposed Transactions; and
- alternatives, including the position of Shareholders if the Proposed Transactions do not proceed.

The key advantages are:

- the transaction is fair;
- the LE and LA licenses and the acquisition of AAL will provide a more extensive and complimentary product set than ESN currently enjoys;
- the AAL acquisition provides ESN access to international markets to pursue growth opportunities whereas present growth opportunities, without the Proposed Transactions, are limited; and
- an increase in net assets and share market liquidity after the Proposed Transactions.

The key disadvantage of the Proposed Transactions is the dilution of Shareholder interests from 100% ownership of ESN to 13.75%.

We are unaware of any alternative proposal that might offer the Shareholders of ESN a premium over the value ascribed to that resulting from the Proposed Transactions.

If the Proposed Transactions do no proceed, ESN will continue with its current operations. The Directors have advised that they consider additional equity capital would be required in the future which would dilute Shareholders interests. However, the equity capital required would likely be significantly less than the issue of equity contemplated as part of the Proposed Transactions.

Report Structure

Our Report is set out in the following main sections:

5. Summary of the Proposed Transactions

5.1 Transaction 1

ESN and CSG have announced a proposal for ESN to acquire the international license ("the License") in relation to the LE and LA products ("the Licensed Products") from CSG Education. The terms of the transaction are set out in detail in the Explanatory Memorandum and summarised below:

- ESN will be granted a perpetual, irrevocable, royalty-free license to market, distribute and sell the Licensed Products and provide services in relation to those Licensed Products;
- the License will apply to all the countries of the world, with the exception of Australia and New Zealand ("the Territory");
- the License will be exclusive in the Territory, to the exclusion of all third parties including CSG and CSG Education;
- the consideration payable by ESN to the following parties is as follows:
  - ESN will issue $9,750,000 of shares to CSG Education;
  - ESN will issue $5,250,0000 of shares to Swotsmart Pty Limited ("Swotsmart"), an entity owned by Mr. Greg Tolefe.
- ESN and CSG will nominate the appointment of two and one directors, respectively.

5.2 Transaction 2

The proposed acquisition of AAL by ESN for a cash consideration of CA$20 million. It is proposed that the funds required for the acquisition will be raised via a placement of shares for $25 million.

In addition to the cash consideration of CA$20 million, the sale and purchase agreement between ESN and the vendors of AAL (the "Vendor") includes potential earn out payments from ESN to the Vendor over the three years subsequent to completion. We have considered the impact of the likely earn out payments in Section 15 of the Report.

The agreement between ESN and CSG Education in relation to the LE and LA arrangement contains the following conditions precedent:

- ESN, with the assistance of CSG, raising a minimum of $25 million from interested parties; and
- ESN purchasing AAL.

Proposed Transaction 1 and Proposed Transaction 2 will occur contemporaneously.

Accordingly, for the purpose of this Report, we have considered the Proposed Transactions as one transaction.

6. Basis of evaluation

Whilst an independent expert report is not required under the Corporations Act 2001, our Report has been prepared at the request of the Directors of ESN ("the Directors") in order to assist Shareholders in their decision whether to approve the Proposed Transactions.

The purpose of this Report is to express an opinion as to whether or not the Proposed Transactions are fair and reasonable to Shareholders. The Report is to be included in the Explanatory Memorandum for ESN to be sent to all Shareholders.

In assessing whether or not the Proposed Transactions are fair and reasonable, we have had regard to common market practice and to the RG111 in relation to independent expert's reports.

For the purposes of our report, we have assessed fair and reasonable as two distinct criteria, having regard to RG 111 which states:

- an offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
- an offer is considered "reasonable" if it is fair or, where the offer is "not fair", it may still be "reasonable" if the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

6.1 Fairness

RG111 defines an offer as being "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer.

Accordingly, part of our assessment will be the determination of the fair value of ESN shares prior to the Proposed Transactions and the fair value of ESN shares after the completion of the Proposed Transactions, inclusive of the LE and LA license and AAL. Our assessment of whether the Proposed Transactions are fair will be whether the value of an ESN share, after the Proposed Transactions, is equal to or greater than the value of an ESN share, before the Proposed Transactions.

"Fair value" in this context is considered to be "the amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length".

A comparison of the fair value of an ESN share before the Proposed Transactions, together with the value of an ESN share after the Proposed Transactions, is set out in Section 16.1.

6.2 Reasonableness

RG111 considers an offer, to be reasonable if either:

- the offer is fair; or
- despite not being fair, there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Proposed Transaction, we considered the following factors in addition to determining whether the Proposed Transaction is reasonable:

- whether the Proposed Transactions are fair;
- the relative advantages and disadvantages to Shareholders of the Proposed Transactions; and
- any alternatives to the Proposed Transactions, including the position of Shareholders if the Proposed Transactions do not proceed.

Our assessment of the Proposed Transactions set out in Section 16.2 and is based on economic, market and other conditions prevailing at the date of this report.

7. Summary of the industry

7.1 Overview

ESN operates in the Australian software industry, focusing on the development, customisation, sale and support of student management and other software applications related to the education sector. As part of the Proposed Transactions, ESN will acquire the License to market the Licensed Products outside Australia and New Zealand. Further, the Company will also acquire AAL, a Canadian company engaged in the development, customisation, sale and support of student management software in North America and the Middle East.

The computer software industry consists of systems and application software. Systems software comprises operating systems, network and database management, development tools and programming languages, and other systems software. Application software comprises general business productivity and home use applications, cross-industry and vertical market applications, and utilities and other application software.

7.2 Structure of the industry[1]

7.2.1 Demand

The Australian software market generated total revenues of $4.6 billion in 2009, representing a compound annual growth rate of 4.7% for the period 2005 to 2009. Network and database management sales generated $1.1 billion, representing 24.6% of the Australian market's total revenue.

Datamonitor forecasts a compound annual growth rate of 4.8% for that the Australian software industry revenues for the five years ending 2014.

The United States software market generated total revenues of $147 billion in 2009, representing a negative growth rate of -3% from the previous year, primarily due to adverse economic conditions in the US economy.

The software market has many buyers including individual consumers, businesses and government institutions. These buyers may be reliant on particular software suppliers as software is often industry specific or requires specialised training to use the application. Further, software suppliers often partner with other software suppliers to deliver applications that compliment each others products. Accordingly, the costs to switch software providers may be high.

There are few substitutes for software as such. From the perspective of the major participants, substitutes in this market are open source software products and free web based applications. Rather than fund their business on large license contracts, open source companies receive revenue from service and maintenance while the software itself can be adapted by the end user.

7.2.2 Supply

The software industry requires employees with specific know-how, and also hardware devices. A key success factor in the software market is skilled programmers and industry participants rely on the continued service of highly qualified employees.

Inputs such as hardware components are often purchased from sole suppliers, who are often large companies offering differentiated products, resulting in significant supplier power.

7.2.3 Major players

The key competitors in the Australian and global software industry are:

- Microsoft Corporation;
- Oracle Corporation;
- International Business Machines Corporation ("IBM"); and
- SAP AG.

Software companies may dominate particular areas of the software industry. For example, Oracle focuses on databases and middleware, whereas Microsoft and IBM offer a broad portfolio of products including hardware, while SAP focus on enterprise resource planning systems.

[1] Source: Datamonitor industry profile

7.2.4 Barriers to entry

Software development is labour intensive, since it depends on highly skilled programmers. The capital requirements to enter the software industry are relatively low as skilled employees and computer hardware are the key inputs to develop software applications. However, industry segments are often dominated by very strong incumbents (such as Microsoft in the PC operating system segment) and access to distribution channels is a critical factor in marketing new software products.

In an industry where new products are frequently launched, research and development is considered to be extremely important. Alternatively, software companies can obtain intellectual property through the acquisition of the company that originally generated it or acquisition of a license for the products. However, both approaches often require significant capital.

8. Profile of ESN

8.1 Company history and operations

ESN is an Australian based company engaged in the development, customisation, sale and support of the following products:

- eMinerva - student management systems software;
- vStars - curriculum assessment and reporting software; and
- vPublisher - e-book on-line publishing software.

ESN generates revenue from three primary sources:

- up-front license fees;
- customisation and professional services; and
- an annual royalty per student.

Management estimate that ESN typically generates 30% of revenue from upfront license fees, 36% from services and 34% from royalty fees.

Prior to changing its name in July 2008, ESN traded as MXL Limited ("MXL"). MXL's primary product was eMinerva, a student management systems software that enables departments of education, schools and parents to manage, track and audit student and school administration.

MXL entered a trading halt on the ASX in March 2008 and was reinstated to official quotation on the ASX on 3 July 2008, trading as Entellect Solutions Limited. During the trading halt period the Company raised $3 million of share capital and completed the acquisition of:

- intellectual property in relation to assessment and parent reporting solutions from ARC Research and Development Pty Limited; and
-
- Virtual Communications International Pty Limited, a company engaged delivering e-book solutions to international markets.

Since changing its name to Entellect Solutions Limited, the Company has raised a further $1.3 million of share capital to fund working capital.

8.2 Group structure

ESN has the following subsidiary companies:

- MXL Consolidated Pty Limited;
- MXL Holdings Pty Limited;
- MXL Group Pty Limited;
- 21 AD Network Services Pty Limited;
- Fundamental Golf Co. (Sales) Pty Limited;
- Fundamental Golf Co. (Manufacturing) Pty Limited;
- Schoolmate Net Pty Limited;
- MXL New Zealand Limited; and
- Virtual Communications International Pty Limited.

All subsidiary companies are 100% owned, except for Schoolmate Net Pty Limited which is 60% owned by ESN.

8.3 Customers

ESN's major customers include:

- Department of Education, Tasmania;
- Brisbane Catholic Education; and
- ACAP.

8.4 Directors and management

Table 8.1 sets out the Directors and key management of ESN:

Table 8.1

Name	Title	Date of appointment
Jeffrey Bennett	Non-Executive Chairman	19 March 2008
Paul Devine	Non-Executive Director	1 May 2008
Conrad Crisafulli	Non-Executive Director	6 August 2008
Paul Lowry	Non-Executive Director	14 October 2008
Joseph Younane	Chief Executive Officer	28 July 2008
David Michel	Company Secretary and Chief Financial Officer	15 August 2008

A summary of directors and senior management's qualifications and experience is set out below:

- Jeffrey Bennett serves as Non-Executive Chairman of the Board of ESN. He is Member of the Audit, Remuneration and Nominations Committees. Mr. Bennett has significant experience in corporate finance, capital markets, acquisitions and divestments and risk management to the Company. He has more than 25 years experience the resources, transport, IT and service industries having held senior finance positions at Intermoco, Simcoco Pacific, BHP and Shell. Mr. Bennett is a director of Jameson Resources Limited;
-
- Paul Devine has significant experience in the successful conceptualisation, commercialisation and management of a number of businesses over more than 20 years. He has specialised in assisting companies, through his business illuminate Capital Pty Ltd, by providing business mentoring, planning and management support, market access and strategic relationships, and private equity capital raising services;

- Conrad Crisafulli is Chairman of the Audit Committee and a Member of the Nominations Committee. Mr. Crisafulli has extensive experience in all aspects of technology commercialisation. He is currently Director for IP Commercialisation at Curtin University of Technology and managing director of TechStart Australia and its investee companies. He is the former chairman ASX listed companies Meditech Research Ltd and Cool Energy Ltd and holds a number of information technology and telecommunication company directorships;

- Paul Lowry has nearly thirty years of broad local and international experience in engineering, marketing and general management. He has applied his business and organisational experience to business planning, financial analysis, change management, restructuring, and strategic planning in a variety of CEO and consulting roles including the strategic review conducted by ESN in May and June 2008;

- Joseph Younane has over 30 years experience, his experience has been gained in a variety of businesses including publicly listed companies, start-ups and multinationals. Joe has a strong record as CEO in successfully commercialising technologies; and

- David Michel has a B. Com (Hons) degree and is a Chartered Accountant with extensive experience in senior financial roles in the advertising, media and IT industries. He is currently Chief Financial Officer of ESN.

8.5 Capital structure and shareholders

ESN's largest 10 shareholders as at 1 March 2010 are set out in Table 8.2.

Table 8.2
Top ten shareholders

Shareholder	Number of shares	% of total shares on issue
JOJO Enterprises Pty Limited	139,000,000	7.97%
Dr Leon Eugene Pretorius	97,200,000	5.57%
Morble House Investments Pty Limited	77,637,500	4.45%
MR Mark Kerr & Mrs Linda Kerr	54,000,000	3.09%
Dalny Pty Limited	39,234,803	2.25%
Prals Pty Limited	37,132,247	2.13%
Hawthorn Grove Investments Pty Limited	35,828,900	2.05%
Stronsay Pty Limited	23,002,749	1.32%
Scott & Lee Enterprises Pty Limited	22,991,716	1.32%
Mr Maurice Bertram Pears & Mrs Judith Lorraine Pears	20,030,358	1.15%
Total of top ten shareholders	**546,058,273**	31.30%
Other shareholders	1,198,720,342	68.70%
Total shares on issue	1,744,778,615	100.00%

Table 8.3 sets out ESN share options on issue as at 1 March 2010.

Table 8.3 Options Expiry date	Exercise price	Number under option
1 June 2010	20 cents	650,000
1 December 2010	12 cents	100,000
30 April 2013	8 cents	1,000,000
30 April 2014	8 cents	1,000,000
30 April 2015	8 cents	1,000,000
30 April 2016	8 cents	1,000,000
30 April 2017	8 cents	1,000,000
30 June 2013	8 cents	1,000,000
30 June 2014	8 cents	1,000,000
30 June 2015	8 cents	1,000,000
30 June 2016	8 cents	1,000,000
30 June 2017	8 cents	1,000,000
30 June 2011	10 cents	17,183,334
28 February 2013	8 cent *	93,798,058
18 August 2011	1 cent	10,000,000
21 May 2011	1 cent	20,000,000
31 December 2011	1 cent	20,000,000
21 May 2012	1 cent	10,000,000
21 October 2013	1 cent	32,700,000
21 May 2014	1 cent	3,000,000
30 September 2012	1 cent	164,250,000
		381,681,392

* exercise price is 5 cents if exercised on or prior to 28 February 2011

As at 1 March 2010, ESN had 1,744,779,000 shares on issue. In addition, ESN had 381,681,392 options on issue as set out in Table 8.3.

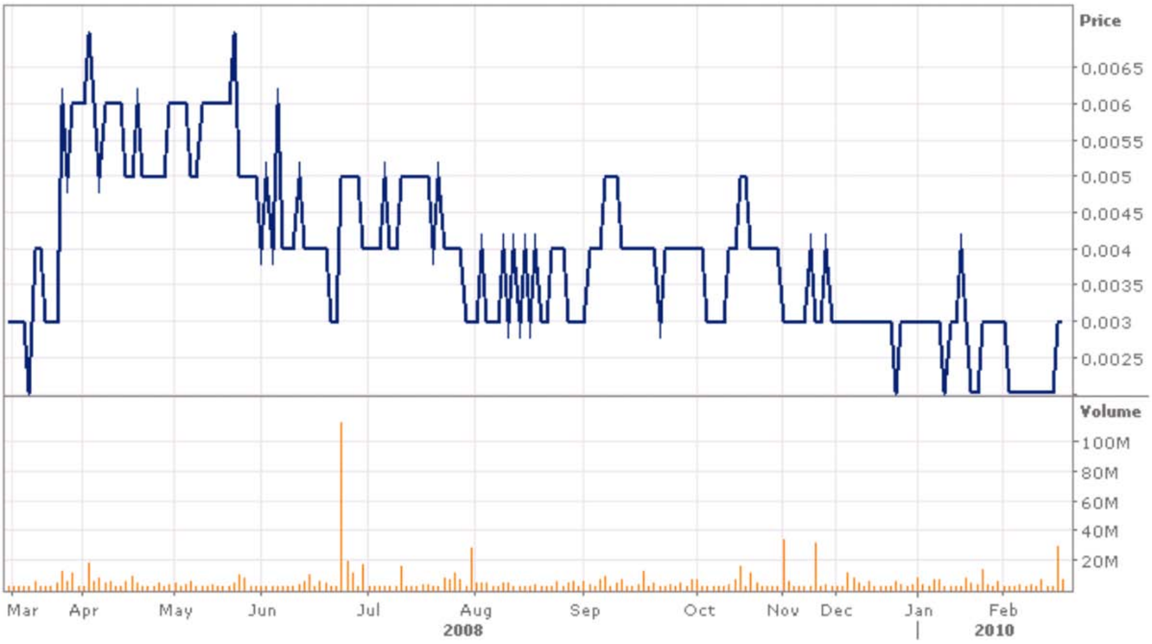
ESN's share price as at 1 March was $0.003. Accordingly, the share options set out above are currently out of the money.

8.6 Share price performance

Table 8.4 and Chart 8.1 set out a summary of ESN's share price performance over the last 12 months.

Table 8.4 Share price history Month end date	High	Low	Last trade	Volume
March 2009	0.006	0.002	0.006	39,825,832
April 2009	0.007	0.005	0.006	61,002,116
May 2009	0.007	0.005	0.005	36,823,914
June 2009	0.006	0.003	0.004	189,638,289
July 2009	0.005	0.003	0.003	85,363,890
August 2009	0.004	0.003	0.003	37,332,808
September 2009	0.005	0.003	0.004	64,281,696
October 2009	0.005	0.003	0.004	50,330,485
November 2009	0.004	0.003	0.003	71,481,287
December 2009	0.003	0.003	0.002	45,309,620
January 2010	0.004	0.002	0.003	52,003,894
February 2010	0.003	0.002	0.003	48,744,138

Chart 8.1



Source: Reuters Knowledge Database

ESN has traded between $0.002 and $0.007 from 1 March 2009 to 28 February 2010 and has a VWAP for the 60 days prior to 2 March 2010 of $0.003.

8.7 Financial performance

Table 8.5 sets out the financial performance of ESN for the financial years ended 30 June 2007, 2008 and 2009, together with the six months to 31 December 2008 and 31 December 2009.

Table 8.5 **Entellect Solutions Limited** **Financial performance**	**12 months ended 30 June 2007 Audited $'000**	**12 months ended 30 June 2008 Audited $'000**	**6 months ended 31 December 2008 Audited $'000**	**12 months ended 30 June 2009 Audited $'000**	**6 months ended 31 December 2009 Audited $'000**
Revenue	**1,630**	**1,665**	**2,973**	**7,616**	**1,553**
Expenses					
Employment benefits	(4,775)	(5,637)	(2,778)	(5,284)	(2,419)
Office expenses	(288)	(366)	(207)	(389)	(266)
Communication	(154)	(95)	(43)	(49)	(31)
Information technology	(177)	(223)	(121)	(280)	(213)
Marketing and travel	(306)	(171)	(77)	(144)	(90)
Professional expenses	(754)	(1,139)	(232)	(290)	(162)
Corporate expenses	(109)	(90)	(114)	(305)	(544)
Other expenses	(101)	(5)	(4)	(33)	(44)
Total operating expenses	**(6,664)**	**(7,726)**	**(3,576)**	**(6,774)**	**(3,769)**
EBITDA	**(5,034)**	**(6,061)**	**(603)**	**842**	**(2,216)**
EBITDA %	*-308.8%*	*-364.0%*	*-20.3%*	*11.1%*	*-142.7%*
Depreciation and amortisation	(657)	(901)	(121)	(251)	(184)
Impairment	-	(519)	-	(456)	-
EBIT	**(5,691)**	**(7,481)**	**(724)**	**135**	**(2,400)**
EBIT %	*-349.1%*	*-449.3%*	*-24.3%*	*1.8%*	*-154.5%*
Interest income	91	34	18	27	9
Interest expense	(13)	(37)	(16)	(41)	(8)
Net profit / (loss) before tax	**(5,613)**	**(7,484)**	**(722)**	**121**	**(2,399)**
Net profit before tax %	-344.4%	-449.5%	-24.3%	1.6%	-154.5%
Tax expense	-	-	-	-	-
Net profit / (loss) after tax	**(5,613)**	**(7,484)**	**(722)**	**121**	**(2,399)**
Net profit after tax %	-344.4%	-449.5%	-24.3%	1.6%	-154.5%

The improved trading result for the 2009 financial year was primarily due to operating revenue of $7.62 million compared to $1.67 million for the 2008 financial year. The substantial increase in revenue resulted primarily from new sales of the eMinerva and vStars products. Further, ESN reduced operating costs by $952,000, from $7.73 million for the 2008 financial year, to $6.77 million of the 2009 financial year, primarily due to lower professional expenses.

ESN generated an EBITDA loss of $2.40 million for the 6 months ended 31 December 2009. The loss was primarily due a decline in revenue from $2.97million for the six months ended 31 December 2008 to $1.55 million for the six months ended 31 December 2009.

8.8 Financial position

Table 8.6 sets out ESN's balance sheets as at 30 June 2007, 2008 and 2009 and 31 December 2009.

Table 8.6 Entellect Solutions Limited Balance sheet	As at 30 June 2007 Audited $'000	As at 30 June 2008 Audited $'000	As at 30 June 2009 Audited $'000	As at 31 December 2009 Audited $'000
Current Assets				
Cash assets	1,063	902	918	713
Trade and other receivables	223	371	496	197
	1,286	1,273	1,414	910
Non-Current Assets				
Property, plant and equipment	255	131	31	21
Intangible assets	1,321	2,455	1,897	1,806
	1,576	2,586	1,928	1,827
Total Assets	**2,862**	**3,859**	**3,342**	**2,737**
Current Liabilities				
Trade and other payables	884	1,332	734	877
Borrowings	167	193	18	12
Provisions	139	144	172	150
Deferred revenue	991	1,295	103	103
	2,181	2,964	1,027	1,142
Non-Current Liabilities				
Borrowings	125	-	-	-
Provisions	2	9	17	21
	127	9	17	21
Total Liabilities	**2,308**	**2,973**	**1,044**	**1,163**
Net Assets	**554**	**886**	**2,298**	**1,574**
Equity				
Issued capital	51,860	59,402	60,574	61,860
Reserves	281	554	675	1,063
Accumlated profits / (losses)	(51,587)	(58,863)	(58,766)	(61,165)
Minority interest	-	(207)	(185)	(184)
Total Equity	**554**	**886**	**2,298**	**1,574**

Whilst the Company generated accumulated trading losses for the three and a half years to 31 December 2009, net assets increased, primarily due to equity raised during the period of $10 million.

9. Profile of CSG Education

CSG Education is a subsidiary of CSG that is engaged in the development and sale of two Oracle based software application products, LE and LA.

LE is an online learning environment for students and teachers to collaborate and learn. It consists of learning spaces for students to utilise web 2.0 technologies (such as blogs and wikis) to reflect on their own learning and is a similar concept to MySpace. Students can invite friends into their space, share what they have learnt and engage collaboratively with other students and friends. LE also has specific spaces designed for teachers to collaborate using web 2.0 technologies.

LA is an enterprise reporting analytics software application that provides graphical and data based diagnostics for children and their learning. LA provides details of a child's progress against the curriculum framework, or diagnostics of schools, schools within districts or across an entire system. LA can be integrated with the LE software application.

10. Profile of AAL

10.1 Company history and operations

AAL is a privately held, Canadian based software company headquartered in Ontario. The company was established in 1986 and is engaged in the development, customisation and sale of enterprise student management systems. AAL services 11,600 institutions with approximately 6 million students including 4.1 million students in North America and 120,000 in Abu Dhabi.

Key target markets for AAL are regional, state or national education systems and authorities.

AAL's primary software product is eSIS, an enterprise wide, web based, education data management solution supporting the K-12 (kindergarten to secondary education) sector. The eSIS product includes:

- single student record and data integrity;
- special education;
- student biographical information;
- home room / class administration;
- general administration;
- course scheduling and timetable building;
- state department of education interface;
- grade history;
- student attendance; and
- standard student testing.

In addition to the core product, various modules can be added, including:

- Teacher Assistant;
- Executive Assistant;
- Parent Assistant;
- Special Education;
- Nurse Assistant; and
- Fees Management.

Each of the modules provide specific additional features and benefits through enhanced functionality.

10.2 Financial performance

Table 10.1 sets out the financial performance of AAL for the financial years ended 30 September 2007, 2008 and 2009. The financial performance is set out in Canadian dollars. As at 30 September 2009, the Canadian to Australian dollar exchange rate was CA$1 = A$1.055 (12 March 2010 CA$1 = A$1.064).

Table 10.1 **The Administrative Assistants Ltd** **Financial performance**	**30 September 2007** **Audited** **CA$'000**	**30 September 2008** **Audited** **CA$'000**	**30 September 2009** **Audited** **CA$'000**
Revenue			
Software licenses	1,706	2,191	2,208
Implementation fees	7,089	3,812	3,985
Annual maintenance fees	5,894	5,649	7,167
	14,689	**11,652**	**13,360**
Expenses			
Fees and subscriptions	(231)	(202)	(271)
Premises costs	(797)	(706)	(718)
Telephone and communication	(184)	(134)	(131)
Travel	(459)	(366)	(588)
Wages, commissions and subcontractors	(10,092)	(7,372)	(8,166)
Office costs and other expenses	(1,010)	(786)	(700)
EBITDA	**1,916**	**2,086**	**2,786**
EBITDA %	*13.0%*	*17.9%*	*20.9%*
Depreciation and amortisation	(310)	(315)	(1,537)
EBIT	**1,606**	**1,771**	**1,249**
EBIT %	*10.9%*	*15.2%*	*9.3%*
Interest expense	(769)	(1,261)	(148)
Net profit / (loss) before tax	**837**	**510**	**1,101**
Net profit before tax %	5.7%	4.4%	8.2%

AAL generated EBITDA results of CA$1.9 million, CA$2.1 million and CA$2.8 million for the years ended 30 September 2007, 2008 and 2009, respectively. The company's EBITDA margin has increased from 13.0% for the year ended 30 September 2007 to 20.9% for the year ended 30 September 2009 primarily due to lower wages, commission and subcontractor costs, partly offset by lower revenues.

AAL generates its revenues from the sale of software licenses, implementation fees and annual maintenance fees. During the year ended 30 September 2009, the company generated 54% of its revenue from annual maintenance fees with 30% and 16% of its revenues generated from implementation fees and software licenses, respectively.

10.3 Financial position

Table 10.2 sets out AAL's balance sheets as at 30 June 2007, 2008 and 2009. The balance sheets are set out in Canadian dollars.

Table 10.2 The Administrative Assistants Ltd Balance sheet	As at 30 September 2007 Audited CA$'000	As at 30 September 2008 Audited CA$'000	As at 30 September 2009 Audited CA$'000
Current Assets			
Cash assets	2,677	2,067	1,512
Trade and other receivables	4,116	3,415	4,080
Inventory - work in progress	71	-	-
	6,864	5,482	5,592
Non-Current Assets			
Property, plant and equipment	938	782	621
Intangible assets	3,192	4,377	4,911
Receivable from shareholder	300	295	295
Other	81	90	72
	4,511	5,544	5,899
Total Assets	**11,375**	**11,026**	**11,491**
Current Liabilities			
Trade and other payables	926	1,741	911
Borrowings	3,400	500	750
Deferred revenue	3,825	5,383	5,426
Payable to director	300	-	-
Other payables	20	323	22
	8,471	7,947	7,109
Non-Current Liabilities			
Payable to shareholder	263	264	264
Payable to director	2,968	2,669	2,894
	3,231	2,933	3,158
Total Liabilities	**11,702**	**10,880**	**10,267**
Net Assets	**(327)**	**146**	**1,224**
Equity			
Issued capital	-	-	-
Accumlated profits / (losses)	(327)	146	1,224
Total Equity	**(327)**	**146**	**1,224**

As at 30 September 2009, AAL had net assets of CA$1.2 million. Assets comprise primarily cash, receivables and intangible assets (development costs). Liabilities comprise primarily deferred revenue (pre-paid annual maintenance fees) and loans payable. The loan payable to a director and a shareholder are unsecured, non-interest bearing, with no specific terms of repayment.

11. Impact of the Proposed Transactions

ESN proposes to undertake a 58.159 to 1 share consolidation. Following the Proposed Share Consolidation, ESN will raise $25 million by way of a placement of shares at $0.20 per share.

The Company will then undertake the following transactions contemporaneously.

- issue 39,000,000 shares to CSG and 21,000,000 shares to Swotsmart at $0.25 as consideration for the international licence for the LE and LA products; and
- acquire AAL for a cash consideration of CA$20 million.

11.1 Financial position

Table 11.1 sets out the pro-forma financial position of ESN immediately after the Proposed Transactions. The pro-forma balance sheet is based on the audited balance sheet of ESN as at 31 December 2009 and the audited balance sheet of AAL as at 30 September 2009 converted to Australian dollars at the prevailing exchange rate on 12 March 2010 CA$1 = A$1.064.

Table 11.1 Entellect Solutions Limited Pro forma Balance sheet	ESN As at 31 December 2009 A$'000	LE / LA A$'000	Capital raising and transaction costs A$'000	Purchase AAL A$'000	AAL As at 30 September 2009 A$'000	Consolidation Eliminations A$'000	Pro forma $'000
Current Assets							
Cash assets	713	-	22,940	(21,280)	1,609	-	3,982
Trade and other receivables	197	-	-	-	4,341	-	4,538
Proceeds of working capital loan	400	-	-	-	-	-	400
	1,310	-	22,940	(21,280)	5,950	-	8,920
Non-Current Assets							
Investment in subsidiaries	-	-	-	21,280	-	(21,280)	-
Property, plant and equipment	21	-	-	-	661	-	682
Intangible assets	1,806	15,000	-		5,225	19,978	42,009
Other		-	-	-	390	-	390
	1,827	15,000	-	21,280	6,277	(1,302)	43,082
Total Assets	**3,137**	**15,000**	**22,940**	**-**	**12,226**	**(1,302)**	**52,001**
Current Liabilities							
Trade and other payables	877	-	-	-	969	-	1,846
Borrowings	12	-	-	-	798	-	810
Provisions	150	-	-	-	-	-	150
Deferred revenue	103	-	-	-	5,773	-	5,876
Other	400	-	(400)	-	23	-	23
	1,542	-	(400)	-	7,564	-	8,706
Non-Current Liabilities							
Provisions	21	-	-	-	-	-	21
Other	-	-	-	-	3,360	-	3,360
	21	-	-	-	3,360	-	3,381
Total Liabilities	**1,563**	**-**	**(400)**	**-**	**10,924**	**-**	**12,087**
Net Assets	**1,574**	**15,000**	**23,340**	**-**	**1,302**	**(1,302)**	**39,914**
Equity							
Issued capital	61,860	15,000	24,650	-	-	-	101,510
Reserves	1,063	-	-	-	-	-	1,063
Accumlated profits / (losses)	(61,165)	-	(1,310)	-	1,302	(1,302)	(62,475)
Minority interest	(184)	-	-	-	-	-	(184)
Total Equity	**1,574**	**15,000**	**23,340**	**-**	**1,302**	**(1,302)**	**39,914**

Subsequent to 31 December 2009, ESN issued 2 million convertible notes at $0.20 each to raise $400,000 to fund working capital. Whilst not a liability as at 31 December 2009, we have included the convertible notes , together with the associated proceeds received, in the pro-forma balance sheet set out above. The convertible notes are mandatorily convertible into 2 million shares on completion of the AAL acquisition and the re-listing of ESN securities for quotation.

ESN has advised that transaction costs in relation to the Proposed Transactions are expected to be approximately $1.31 million and costs in relation to the share placement are expected to be approximately $1 million.

Upon completion of the Proposed Transactions, ESN will have net assets of approximately $39.9 million.

11.2 Capital structure

Table 11.2 sets out the capital structure of ESN immediately after the Proposed Transactions and the share consolidation.

Table 11.2 Entellect Solutions Limited Shareholders	Number of shares	% of total shares on issue
Before Proposed Transactions		
Existing Shareholders	1,744,778,615	100.00%
Total shares	**1,744,778,615**	**100.0%**
After Proposed Share Consolidation		
Existing Shareholders	30,000,000	100.00%
Total shares	**30,000,000**	**100.00%**
After Proposed Transaction 1		
Existing Shareholders	30,000,000	33.33%
CSG Limited	39,000,000	43.33%
Swotsmart Pty Limited	21,000,000	23.33%
Total shares	**90,000,000**	**100.0%**
After Proposed Transaction 2 (including share placement)		
Existing Shareholders	30,000,000	13.75%
CSG Limited	39,000,000	17.87%
Swotsmart Pty Limited	21,000,000	9.62%
Investors - placement	125,000,000	57.27%
Other	3,250,000	1.49%
	218,250,000	**100.00%**

In addition to the 125 million share placement to raise $20 million, ESN will issue a further 1.25 million shares at $0.20 to raise funds for the payment of certain transaction costs and 2.0 million shares in relation to the conversion of the convertible notes.

After the completion of the Proposed Transactions and the Proposed Share Consolidation, existing Shareholders will own approximately 13.75% of ESN.

12. Valuation approach

12.1 Valuation methodologies

In assessing the value of ESN prior to the Proposed Transactions and after the Proposed Transactions, we have considered a range of valuation methods. ASIC Regulatory Guide 111 *Content of Expert Reports* states that in valuing a company the expert should consider the following commonly used valuation methodologies:

- the discounted cash flow method plus the estimated realisable value of any surplus assets;
- the value of trading operations based on the capitalisation of future maintainable earnings, added to the estimated realisable value of any surplus assets;
- the amount that would be available for distribution to security holders on an orderly realisation of assets; and

- any recent genuine offers received by the company for any business units or assets as a basis for valuation of those business units or assets.

We consider each of these valuation methodologies below:

Discounted Cash Flows

The discounted cash flow method ("DCF") has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value of the business remaining at the end of the forecast period.

Management has provided profit and loss forecasts, together with key cash flow assumptions in respect of ESN, after the Proposed Transactions, inclusive of the existing ESN business and Licenses in relation to the LA and LE products. The international operations in relation to the LA and LE products are at an early stage of development. DCF methods are commonly used in to value early stage companies or projects. Accordingly, we consider DCF to be the most appropriate methodology and we have selected this as our primary methodology for valuing the ESN, after Proposed Transaction 1.

Capitalisation of Future Maintainable Earnings

The capitalisation of future maintainable earnings is a commonly used method for valuing companies or businesses with a long operating history and an identifiable earnings trend. A valuation based on this methodology requires the determination of three key features: future maintainable earnings, an appropriate capitalisation rate and the value of surplus assets.

Capitalisation of earnings is an appropriate valuation method where the entity being valued has ongoing trading operations that generate a fair return. This method is not as suitable for start-up businesses or businesses with a volatile earnings pattern or which have lump capital expenditure requirements.

ESN management has advised that they anticipate the Company's future earnings, without the Proposed Transactions, to be relatively stable, with an ability to maintain earnings at consistent level but limited capacity to grow earnings into the future.

We have selected this methodology as our primary valuation methodology in relation to ESN prior to the Proposed Transactions. Further, we have selected this methodology as our primary valuation methodology in relation to AAL as AAL is a mature business with a relatively stable earnings history.

Recent share trading history

Recent share trading history can provide evidence of the market value of the shares in a company when they are publicly traded in a liquid and informed market. As set out in section 8.6, ESN shares are relatively illiquid and, consequently, may not provide the most reliable evidence of the Company's market value. Whilst we have not utilised this methodology as our primarily methodology, we have used the recent share trading history of ESN as a cross check to our primary methodology in respect of ESN prior to the Proposed Transactions.

Realisation of Net Assets

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. The three main asset based methods are:

- orderly realisation of assets method;
- liquidation of assets method; and
- net assets on a going concern method.

The first two methods estimate the fair market value of an entity by determining the amount that would be distributed to shareholders after payment of all liabilities including realisation costs. They are most appropriate in situations where the entity may be wound up or liquidated.

The net assets on a going concern basis is usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this method, with no account taken of realisation costs.

The net assets method of valuation is also appropriate where the business operations incur losses or generates an insufficient return on investment, or when the entity being valued does not carry on any commercial trading activities.

There are no current plans to wind up ESN and the Company generated a trading profit for the 2009 financial year and is forecasting a trading profit for the 2010 financial year. Accordingly, we have not utilised this methodology.

Alternative Acquirer

This valuation method considers the premium which an alternative acquirer (as a result of potential economies of scale, reductions in competition, synergy with existing operations or other factors) would be prepared to pay for an entity.

We are not aware of any alternative offers for the acquisition of the shares in ESN.

Summary of valuation methodology

Table 12.1 sets out a summary of the valuation methodologies we have adopted.

Table 12.1 **Entellect Solutions Limited** **Entity**	**Valuation** **methodology**
ESN before the Proposed Transactions	Capitalisation of FME
ESN after Proposed Transaction 1	DCF
AAL	Capitalisation of FME
ESN after Proposed Transaction 2	Sum of ESN after Proposed Tranaction 1 and AAL.

13. Valuation of ESN before the Proposed Transactions – capitalisation of FME

13.1 Overview

We have estimated the fair market value of an ESN share, prior to the Proposed Share Consolidation, to be in the range of $0.0016 to $0.0020.

For the purpose of our opinion, fair market value is considered to be “the amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm’s length”.

As set out in section 12, in determining the fair market value, we utilised the capitalisation of future maintainable earnings methodology.

13.2 Capitalisation of future maintainable earnings

The capitalisation of maintainable earnings method estimates fair market value by capitalising future earnings using an appropriate multiple, adding any surplus or non-operating assets and deducting net debt. Applying a premium for control is appropriate when valuing a controlling interest. However, our valuation of ESN considers the value of a minority interest shareholding, accordingly, a premium for control is not appropriate.

To value ESN using the capitalisation of future maintainable earnings requires the determination of the following:

- an estimate of future maintainable earnings;
- an estimate of an appropriate earnings multiple;
- the value of any surplus assets; and
- the level of net debt outstanding.

Our considerations on each of these are discussed separately below.

13.3 Future maintainable earnings

Future maintainable earnings represent the future earnings that the existing operations could reasonably be expected to generate. We have selected EBITDA as an appropriate measure of earnings for ESN as earnings multiples based on EBITDA are less sensitive to different capital structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on EBIT or net profit after tax.

We have estimated future maintainable EBITDA to be between $700,000 and $800,000. In estimating the future maintainable earnings for ESN we have had regard to internal management forecasts and a number of additional factors, including the following:

- EBITDA for the year ended 30 June 2009 of $842,000 which represented the Company's maiden profit and a significant turnaround from a loss at the EBITDA level of $6.06 million for the 2008 financial year. The turnaround in the operating results of the Company was primarily due to operating revenue of $7.62 million compared to $1.67 million for the 2008 financial year. The substantial increase in revenue was primarily due to new sales of the eMinerva and vStars products. Further, ESN reduced operating costs by $952,000 from $7.73 million for the 2008 financial year to $6.77 million of the 2009 financial year;

- in an announcement to the ASX on 21 July 2009, the Company forecast a full year operating profit of at least $1 million for the 2010 financial year;

- the actual results for the six months ended 31 December 2009;

- the financial performance of ESN is dependent on the successful sale of software licenses and the timing of those sales. Accordingly, there is an inherent risk that forecast earnings may be materially adversely impacted if forecast sales do not proceed as anticipated or are delayed; and
-
- management has advised that, prior to the contemplation of the Proposed Transactions, they believed it would be difficult to grow revenue beyond $10 million per annum and EBITDA beyond $1.5 million, given the Company's existing product suite and without a substantial injection of capital. Management believed that the key barriers to growth beyond this level were the relatively small part that the Company's current product set plays in the overall customer solution and the high costs of developing the product suite beyond its current capabilities. Furthermore, management believed that the enterprise education sector in Australia is relatively small and international growth, with a broader product suite, would be required to substantial grow the Company's operations.

13.4 Earnings Multiple

In selecting an earnings multiple we have had regard to earnings multiples derived from share market prices of comparable listed companies. The share price of a listed company represents the market value of a minority interest in that company.

In selecting companies that are comparable to ESN we have considered Australian based software application companies and international software companies operating in the education administration sector. These companies, together with their earnings multiples, are set out in Table 13.1

Table 13.1 Company	Country	Currency	Enterprise Value (million)	EBITDA historical (times)	EBITDA current (times)	EBITDA forecast (times)
Application software						
Local						
Adacel Technologies Limited	Australia	AUD	27.4	4.4	N/A	N/A
Hansen Technologies Limited	Australia	AUD	92.6	6.1	5.8	5.3
Integrated Research Limited	Australia	AUD	61.7	4.1	3.9	3.7
Reckon Limited	Australia	AUD	258.5	9.9	8.6	7.9
Technology One Limited	Australia	AUD	199.4	8.3	7.6	6.9
Mean				**6.6**	**6.5**	**5.9**
Median				**6.1**	**6.7**	**6.1**
International						
RM PLC	Great Britain	GBP	156.2	5.8	5.3	4.8
Blackboard Inc	United States	USD	1,386.0	14.4	11.8	9.9
Plato Learning Inc	United States	USD	79.0	5.9	5.1	N/A
Mean				**8.7**	**7.4**	**7.4**
Median				**5.9**	**5.3**	**7.4**
Total Mean				**7.4**	**6.9**	**6.4**
Total Median				**6.0**	**5.8**	**6.1**
Total Mean excluding Blackboard Inc				**6.3**	**6.1**	**5.7**
Total Median excluding Blackboard Inc				**5.9**	**5.6**	**5.3**

Source: Reuters Knowledge database

Enterprise values were calculated by summing the net debt at each company's most recent reporting date and the market capitalisation at 12 March 2010. Enterprise value represents the total value of a company, inclusive of equity value and net debt. Historical earnings have been taken from the last annual report and current and forecast earnings are based on broker consensus estimates at 12 March 2010.

Current year EBITDA multiples ranged between 3.9 and 11.8, with a mean of 6.9 (median 5.8). Multiples for Australia software application companies had a mean of 6.5 (median 6.7) and international education administration software providers had a mean of 7.4 (median 5.3). Blackboard Inc. is a significantly larger company, in terms of enterprise value, and is trading on a significantly higher current year EBITDA multiple than the other comparable companies. If Blackboard Inc. is excluded from the analysis, the mean EBITDA multiple in respect of local and international companies is 6.1 (median 5.6).

Forecast EBITDA multiples ranged between 3.7 and 9.9. Multiples for Australian software application companies had a mean of 5.9 (median 6.1) and international education administration software providers had a mean of 7.4 (median 7.4). If Blackboard Inc. is excluded from the analysis, the mean forecast EBITDA multiple in respect of local and international companies is 5.7 (median 5.3).

13.5 Selected Multiple

In selecting the appropriate multiple to apply to ESN's future maintainable earnings, we have considered the following:

- the current trading multiples observed for the comparable listed companies, excluding Blackboard Inc., range from 3.9 to 8.6, with a mean of 6.1;

- the forecast trading multiples observed for the comparable listed companies, excluding Blackboard Inc., range from 3.7 to 7.9, with a mean of 5.7; and
- ESN is significantly smaller than all of the comparable companies listed above. Generally, larger companies trade on higher multiples than smaller companies.

Taking account of the above factors, we have selected an EBITDA multiple of 3.5 to 4.0 on a minority basis to apply to ESN's earnings.

13.6 Surplus assets

Management has not identified any surplus assets.

13.7 Net debt

Table 13.2 sets out a summary of ESN's net debt position.

Table 13.2 Entellect Solutions Limited Net debt	$'000
Interest bearing liabilities (finance leases)	12
Convertible notes	400
Cash and cash equivalents	(713)
Net debt / (net cash)	**(301)**

As at 31 December 2009, ESN had a net cash position of $701,000. Subsequent to 31 December 2009, ESN issued 2 million convertible notes at $0.20 each to raise $400,000 for working capital purposes.

13.8 Valuation summary

Table 13.3 sets out a summary of our valuation of ESN, before the Proposed Transactions, based on the assumptions and methodology set out above.

Table 13.3 Entellect Solutions Limited Summary of market value	$'000 Low	$'000 High
Assessed future maintainable EBITDA	700	800
Assessed EBITDA multiple	3.50	4.00
Enterprise Value	**2,450**	**3,200**
Add net cash	301	301
Market capitalisation (on a minority basis)	**2,751**	**3,501**
Number of shares on issue (000's)	1,744,779	1,744,779
Market value per share (on a minority interest basis)	**$ 0.0016**	**$ 0.0020**
Number of shares on issue after Proposed Share Consolidation (000's)	30,000	30,000
Market value per share after Proposed Share Consolidation (on a minority interest basis)	**$ 0.092**	**$ 0.117**

We consider that the market value of an ESN share, on a minority interest basis and prior to the Proposed Transactions, is in the range of $0.0016 and $0.0020 per share. After the Proposed Share Consolidation, we consider the market value of an ESN share, on a minority basis, is in the range of $0.092 to $0.120.

We have not included an assessment on a fully diluted basis as the 381.7 million share options on issue as at 12 March 2010 as the options are significantly out of the money at the date of this report and we consider it unlikely that these options would ever be exercised.

13.9 Cross check – recent share trading history

The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is informed and liquid as market prices incorporate all publicly known information relevant to the value of a company's shares.

The 60 day VWAP of an ESN share to 28 February 2010 was $0.003. Whilst ESN shares have a relatively low level of liquidity and are considered to be thinly traded, we consider that our valuation range of $0.0016 to $0.0020 is not unreasonable compared to the recent trading range of ESN shares of $0.002 to $0.003 and the 60 day VWAP of $0.003.

14. Valuation of ESN after the Proposed Transactions

Following the Proposed Transactions, ESN will comprise the following businesses:

- the existing ESN business;
- the LE and LA licensed operations; and
- AAL.

The existing ESN business and the LE and LA licensed operations will operate primarily as an integrated business with a shared overhead structure. We understand that the cash flows of the AAL business are largely independent of the existing ESN operations and the LE and LA licensed operations.

To value ESN after the Proposed Transactions we have selected the DCF methodology to value the existing ESN business together with the LE and LA licensed operations. The DCF methodology is appropriate as the LE and LA licensed operations are essentially a new business that management forecast to grow rapidly over the first two years of operations. The existing ESN business is included within the forecast cash flows of the LE and LA licensed operations as the two businesses will operated as an integrated business and the forecasts for the two businesses are integrated.

We have selected the capitalisation of future maintainable earnings methodology to value the AAL business. This methodology is appropriate to value to the AAL business as it is a mature business that has relatively consistent forecast and historical earnings.

In arriving at our valuation of the ESN business after the Proposed Transaction we have summed the results of our two valuations.

14.1 DCF valuation of the existing ESN business and LE and LA international license business

We have estimated the market capitalisation, on a minority interest basis, of ESN after Proposed Transaction 1 to be in the range of $17.9 million to $20.2 million.

The DCF methodology estimates the fair market value by discounting the future cash flows arising from the business to their Net Present Value ("NPV"). It requires an analysis of future cash flows, the capital structure and cost of capital and an assessment of the residual value of the business remaining at the end of the forecast period. We have considered each of these matters below.

14.1.1 Future cash flows

The management of ESN has prepared a detailed profit and loss forecast for ESN, inclusive of the LE and LA licensed operations, for the two years ended 30 June 2012. Management have also provided the material cash flow assumptions required to estimate the cash flows arising from the business over the forecast period. We have applied the cash flow assumptions to the profit and loss forecast to arrive at a cash flow forecast for the two years ended 30 June 2012. We have reviewed the forecast provided by management and the material assumptions that underpin it. The major profit and loss forecast assumptions were probability weighted by management to take account of the estimated likelihood of major license sales of the LE and LA products proceeding.

We have not undertaken a review of the forecast in accordance with Australian Auditing Standards and do not express an opinion on the reasonableness of the assumptions or their achievability. However, nothing has come to our attention as a result of our procedures to suggest that the assumptions on which the forecast is based have not been prepared on a reasonable basis.

Furthermore, we have reviewed the sensitivity of the forecasts to changes to the material assumptions to assess the impact of these changes to the valuation. The key assumptions included in the forecast are set out below.

14.1.2 Revenue

Revenue comprises the following:

- license sales of the existing ESN products and the LE and LA products;
- implementation fees; and
- contracted annual maintenance fees.

License sales are the primarily driver of revenues for the LE and LA products. The license sales are an upfront fee that entitles the purchaser to use the licensed application for a defined number of students. The value of the license sale revenue is primarily determined by the number of students for which the customer requires the application. The student numbers assumed in the forecast are materially consistent with public records of student numbers.

Implementation fee revenue is derived from implementing the software application at a client's site.
Maintenance fees are paid annually, in advance, with respect to ESN's obligation to maintain the application for the customer.

The revenue forecast provided by management comprises four key licence sales of the LE and LA products to prospective international educational institutions, together with existing ESN revenues and other smaller sales of the LE and LA products.

Management provided a revenue forecast for the two years ended 30 June 2012 that has been risk adjusted to reflect management's estimate of the probability of successfully completing sales of the LE and LA products to customers. The probability factors have regard to a number of considerations including:

- interactions with the potential customers including meetings, discussions and correspondence;
- pilot programs or product demonstrations undertaken with potential customers; and
- the likely level of competition to secure the license sale.

We have reviewed the probability weightings selected by management and discussed the rationale for those weightings with management. Nothing has come to our attention to suggest that the probability weightings are not prepared on a reasonable basis. However, the forecast license sales in relation to the LE and LA products are not yet contracted and the probability of those sales occurring is not capable of verification or substantiation.

14.1.3 Costs

The major expenses in the forecast provided by management include:

- staff costs in relation to license customisation, implementation, maintenance, sales and marketing, management and administration; and
- corporate costs including professional fees, travel, communications, rent and insurance.

14.1.4 Capital expenditure

Management estimate that there would be minimal capital expenditure required for by ESN for the first two to three years after the Proposed Transactions.

14.1.5 Tax

ESN disclosed tax losses of $16.9 million in their financial statements for the year ended 30 June 2009. However, for the existing tax losses of ESN to be available over the forecast period, ESN must satisfy the tax loss recoupment provisions of the Income Tax Assessment Act 1997. Broadly, in order to apply existing tax losses to tax payable on taxable income generated after the Proposed Transactions, ESN must satisfy a continuity of ownership test and / or a same business test. We consider that ESN will not satisfy the continuity of ownership test due to the equity to be issued as part of the Proposed Transactions. Furthermore, we consider there to be significant uncertainty as to whether ESN would satisfy the same business test. On that basis, we have assumed tax payable of 30% in respect of ESN's forecast earnings.

14.1.6 Discount rate

We have selected a discount rate in the range of 16.3% to 18.2% based on the estimated WACC of ESN after Proposed Transaction 1. In selecting this discount rate we have considered:

- the required risk free rate of return;
- the market equity betas of comparable listed companies;
- an appropriate specific company risk premium; and
- the level of gearing of ESN after Proposed Transaction 1 and the level of gearing of comparable listed companies.

The details of the selected discount rate range are set out in Appendix 4.

14.1.7 Terminal value

Management provided forecasts for the two years ended 30 June 2012 and have advised it is not possible to reliably forecast cash flows of the LE and LA licensed business beyond this point. In order to arrive at a terminal value we have made a number of assumptions including:

- no new license sales or implementation fees in relation to the LE or LA products have been assumed for the terminal value cash flows;
- maintenance fee cash inflows and associated cash outflows have been assumed to continue into perpetuity;
- the net cash flows derived from ESN's existing business for the year ended 30 June 2012 are assumed to continue into perpetuity;
- the overhead cost structure of ESN after Proposed Transaction 1 has been reduced to reflect the likely cost structure required to support the maintenance and existing ESN activities;
- a tax rate of 30%; and
- a nominal growth rate of 2.5% per annum to be applied to the cash flows in relation to ESN's existing business and the overhead costs. No growth rate has been applied to the maintenance cash flows for the LE and LA products as these are contracted amounts that are not indexed to inflation.

We have assumed no new license sales of the LE and LA products after 30 June 2012 for the purposes of this Report only due to the fact that reliable forecasts of new license sales are not available. However, management advise that it is their intention to continue to generate new license sales after 30 June 2012. We make no comment on the likelihood of new license sales of the LE and LA products after 30 June 2012.

14.1.8 Sensitivity analysis

We have analysed the key assumptions of the cash flow forecast and have prepared sensitivity analysis on the NPV based on a number of discount rates ranging from 16.3% to 18.2%. Table 14.1 sets out a summary of the changes in NPV that result from a change in key assumptions.

Table 14.1 Entellect Solutions Limited Sensitivity Analysis	16.3% $'000	16.8% $'000	17.3% $'000	17.7% $'000	18.2% $'000
Base case	**25,309**	**24,907**	**24,526**	**24,164**	**23,819**
Delay in timing of license sales					
Delay by 3 months	24,717	24,302	23,907	23,532	23,174
Delay by 6 months	24,146	23,719	23,313	22,925	22,555
Change in probabilities of license sales					
Increase by a factor of 10%	28,183	27,736	27,312	26,909	26,525
Decrease by a factor of 10%	22,435	22,079	21,741	21,419	21,113
Change in fee per student					
Increase by 10%	28,929	28,479	28,052	27,646	27,259
Decrease by 10%	21,689	21,336	21,001	20,682	20,379
Change in overhead costs					
Increase by 10%	24,474	24,076	23,698	23,339	22,997
Decrease by 10%	26,144	25,739	25,354	24,988	24,640

Source:RSM calculations

The DCF valuation of ESN after Proposed Transaction 1 is most sensitive to changes in the probability assumptions in respect of license sales and changes in fees per student. A decrease in probability assumptions by a factor of 10%, in respect of license sales, results in a valuation range of $21.1 million to $22.4 million. A decrease of 10%, in respect of the fees per student assumption, results in a valuation range of $20.4 million to $21.7 million.

14.1.9 Minority Interest Discount

The DCF valuation methodology values a controlling interest in ESN after Proposed Transaction 1. However, Shareholders will have a minority portfolio interest in ESN after the Proposed Transactions. Furthermore, the basis of our assessment of the Proposed Transactions is to compare the value of an ESN share, on a minority interest basis, before the Proposed Transactions with the value of an ESN share, on a minority interest basis, after the Proposed Transactions.

Accordingly, it is appropriate to apply a discount for a minority interest to the value of ESN after Proposed Transaction 1.

Minority interest discounts typically range between 15% to 30% (based on a typical control premium range of 20% to 40%[2]). We have selected a minority discount of 20% to 25%, representing the mid point of the typical discount range, to apply to the value of a 100% interest in ESN after Proposed Transaction.

[2] Mergerstat 2003-2009

We do not consider there to be any specific factors relating to ESN that would suggest a discount outside this mid point range would be appropriate.

14.1.10 Summary of valuation

Table 14.2 sets out a summary of our valuation of ESN after Proposed Transaction 1.

Table 14.2 Entellect Solutions Limited Summary of assessed market capitalisation Proposed Transaction 1	$'000 Low	$'000 High
Value of a controlling interest	23,819	25,309
Discount for minority interest	-25%	-20%
Market capitalisation after Proposed Transaction 1	**17,864**	**20,247**

We consider that the market capitalisation, on a minority interest basis, of ESN after Proposed Transaction 1, is in the range of $17.9 million to $20.2 million, a preferred value at the mid point of 19.1 million

14.2 Valuation of AAL – capitalisation of future maintainable earnings

14.2.1 Overview

We consider the market capitalisation of AAL to be in the range of $16.0 million to $20.8 million.

As set out in section 12, in determining the fair market value, we utilised the capitalisation of future maintainable earnings methodology.

14.2.2 Capitalisation of future maintainable earnings

The capitalisation of maintainable earnings method estimates fair market value by capitalising future earnings using an appropriate multiple, adding any surplus or non-operating assets and deducting net debt. Applying a premium for control is appropriate when valuing a controlling interest. However, our valuation of ESN after the Proposed Transactions considers the value of a minority interest shareholding, accordingly, a premium for control is not appropriate.

To value ESN using the capitalisation of future maintainable earnings requires the determination of the following:

- an estimate of future maintainable earnings;
- an estimate of an appropriate earnings multiple;
- the value of any surplus assets; and
- the level of net debt outstanding..

Our considerations on each of these are discussed separately below.

14.2.3 Future maintainable earnings

Future maintainable earnings represent the future earnings that the existing operations could reasonably be expected to generate. We have selected EBITDA as an appropriate measure of earnings for AAL as earnings multiples based on EBITDA are less sensitive to different capital structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on EBIT or net profit after tax.

We have estimated future maintainable EBITDA to be between $3.8 million and $4.0 million. In estimating the future maintainable earnings for AAL we have had regard to internal management forecasts for the three years ended 30 September 2012 and the fact that AAL has a history of EBITDA growth over the last three financial years. During the years ended 30 September 2008 and 2009 AAL generated EBITDA of A$2.1 million and A$2.9 million, respectively, representing EBITDA growth of 9% and 34% for those respective years.

14.2.4 Earnings Multiple

In selecting an earnings multiple we have had regard to earnings multiples derived from share market prices of comparable listed companies. The share price of a listed company represents the market value of a minority interest in that company.

In selecting companies that are comparable to AAL we have utilised the comparable companies considered in respect of the ESN valuation before the Proposed Transactions (refer section 13.4 comprised of Australian based software application companies and international software companies operating in the education administration sector.

14.2.5 Selected Multiple

In selecting the appropriate multiple to apply to AAL's future maintainable earnings, we have considered the following:

- the current trading multiples observed for the comparable listed companies, excluding Blackboard Inc., range from 3.9 to 8.6, with a mean of 6.1;
- the forecast trading multiples observed for the comparable listed companies, excluding Blackboard Inc., range from 3.7 to 7.9, with a mean of 5.7; and
- AAL is smaller than all of the comparable companies listed above. Generally, larger companies trade on higher multiples than smaller companies.

Taking account of the above factors, we have selected an EBITDA multiple of 4.0 to 5.0, on a minority basis.

14.2.6 Surplus assets

Management has not identified any surplus assets.

14.2.7 Net debt

Table 14.3 sets out a summary of AAL's net debt position as at 30 September 2009.

Table 14.3 AAL Net debt	**As at 30 September 2009 $'000**
Interest bearing liabilities	750
Cash and cash equivalents	(1,512)
Net debt / (net cash)	**(762)**

As at 30 September 2009 AAL had a net cash position of $762,000.

14.2.8 Valuation summary

Table 14.4 sets out a summary of our valuation of AAL, based on the assumptions and methodology set out above.

Table 14.4 AAL Summary of market value	$'000 Low	$'000 High
Assessed future maintainable EBITDA	3,800	4,000
Assessed EBITDA multiple	4.00	5.00
Enterprise Value	**15,200**	**20,000**
Add net cash	762	762
Market capitalisation (on a minority basis)	**15,962**	**20,762**

We consider that the market capitalisation of AAL, on a minority interest basis, is in the range of $16.0 million to $20.8 million.

15. Earn out payments

In addition to the cash consideration of CA$20 million, the sale and purchase agreement between ESN and the vendors of AAL (the "Vendor") includes potential earn out payments from ESN to the Vendor over the three years subsequent to completion.

Based on the profit and loss forecasts provided to us by management, we consider that the likely earn out payments from ESN to the Vendor over the three years subsequent to completion are in the vicinity of $1.7 million. We have discounted this payment stream to reflect the time value of money and the risks associated with the payment stream.

In assessing the appropriate discount rate to apply to the earn out payments, we have used the discount rate implied by the EBITDA multiple utilised in the valuation of AAL, adjusted to reflect a post tax discount rate. We have used the company tax rate of 28% applicable to companies based in Ontario, Canada.

On the basis of the above, we consider that a discount rate of 14.4% to 18% to be appropriate. Accordingly, we consider the net present value of the likely earn out payments is in a range of $1.1 million to $1.2 million.

16. Valuation of ESN after the Proposed Transactions

Table 16.1 sets out a summary of the value of ESN after the Proposed Transactions.

Table 16.1 Entellect Solutions Limited Summary of market value of ESN after the Proposed Transactions	$ Low	$ Mid-Point	$ High
Proceeds from capital raising, less costs	22,940,000	22,940,000	22,940,000
Value of ESN including LE and LA	17,863,990	19,055,572	20,247,154
Value of AAL (Proposed Transaction 2)	15,962,000	18,362,000	20,762,000
Less proceeds to acquire AAL	(21,280,000)	(21,280,000)	(21,280,000)
Less net present value of earn out payments	(1,200,000)	(1,150,000)	(1,100,000)
Value of ESN after the Proposed Transactions	**34,285,990**	**37,927,572**	**41,569,154**
Number of shares on issue after the Proposed Transactions and the Proposed Share Consolidation	218,250,000	218,250,000	218,250,000
Value of an ESN share after the Proposed Transactions (on a minority basis)	**0.1571**	**0.1738**	**0.1905**

We consider that the market value of an ESN share, on a minority interest basis, after the Proposed Transactions and after the Proposed Share Consolidation, is in the range of $0.157 to $0.191. Our preferred value is the mid point of the range at $0.174.

17. Evaluation and conclusion

In order to assess whether the Proposed Transactions, as a whole, are fair and reasonable to Shareholders, we have had regard to the fairness and reasonableness of the Proposed Transactions as follows:

- we have assessed whether the Proposed Transactions are fair by estimating the fair market value of an ESN share after the Proposed Transactions less the fair market value of an ESN share before the Proposed Transactions. we have assessed the reasonableness of the Proposed Transaction by considering the other advantages and disadvantages of the Proposed Transactions.
- assessed whether the Proposed Transactions are reasonable by considering other advantages and disadvantages of the Proposed Transactions to Shareholders; and
- assessed any available alternatives to the Proposed Transactions, including the position of Shareholders should the Proposed Transactions not proceed.

17.1 Fairness

Valuation of an ESN share, Pre Transactions and Post Transactions

Table 17.1 sets out a summary of our valuation of a share in ESN prior to the Proposed Transactions and after the Proposed Transactions, including the impact of the Proposed Share Consolidation.

Table 17.1 Entellect Solutions Limited Summary of market values	$ Low	$ Mid Point	$ High
Value of a ESN share before Proposed Share Consolidation and the Proposed Transactions	0.0016	0.0018	0.0020
Value of a ESN share after Proposed Share Consolidation before the Proposed Transactions	0.0917	0.1042	0.1167
Value of an ESN share after the Proposed Transactions and Proposed Share Consolidation	0.1571	0.1738	0.1905
Increase / (decrease) in value as a result of the Proposed Transactions	0.0654	0.0696	0.0738

We consider the fair value of a share in ESN before the Proposed Transactions, assuming the Proposed Share Consolidation of 58.159 shares to 1 share, to be between $0.092 and $0.120 per share. We consider the fair value of a share in ESN after the Proposed Transactions to be between $0.157 and $0.191 per share.

Costs of the Proposed Transaction

ESN has advised that transaction costs in relation to the Proposed Transactions and the share placement are expected to be in the region of $2.31 million.

Conclusion on fairness

As the value of a share in ESN is greater after the Proposed Transactions than before (after allowing for the impact of the Proposed Share Consolidation), we consider the Proposed Transactions fair to the Shareholders of ESN.

17.2 Reasonableness

In accordance with RG 111, an offer is reasonable if it is fair. An offer might also be reasonable if, despite being not fair, the expert considers that there are sufficient reasons for the shareholders to accept the offer in the absence of a superior alternative offer.

We have formed our opinion on the reasonableness of the Proposed Transaction based on an analysis of the likely advantages and disadvantages to Shareholders of the Proposed Transaction proceeding.

17.2.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of ESN a premium over the value ascribed to that resulting from the Proposed Transactions.

17.2.2 Implications of the Proposal not being approved

If the Proposed Transactions do no proceed, ESN will continue with its current operations, however, the Directors have advised that they consider additional equity capital would be required in the future which would dilute Shareholders interests. However, the equity capital required would likely be significantly less than the issue of equity contemplated as part of the Proposed Transactions.

17.2.3 Advantages of the Proposed Transaction

The likely advantages to Shareholders if the Proposed Transaction is approved include:

The transaction is Fair

As set out in Section 17.1, the Proposed Transactions are fair to Shareholders. RG 111 states that a Transaction is reasonable if it is fair.

ESN Product Set

The Proposed Transactions will significantly expand ESN's product set. The LE and LA applications provide a more diverse, complete and complimentary product set to expand into the international education market. Furthermore, AAL's eSIS enterprise student management product is a complimentary product to ESN's existing product set and the LE and LA applications. CSG currently partner with AAL to implement the eSIS product, together with the LE and LA applications as part of its product offering.

Access to international markets

The education market in Australia is a relatively small segment of the international education market. Given ESN existing product set, scale and lack of capital to fund growth, it is unlikely, in the absence of significant additional capital, that ESN will be able to expand into international markets to the extent that may be possible with the acquisition of the Licensed Products.

Post the acquisition of the Licensed Products, Shareholders will hold shares, albeit significantly diluted, in a significantly larger entity that has prospects for expansion into international growth.

Furthermore, AAL has an existing presence in North America and the Middle East. This presence will likely assist ESN to market the LE and LA products in combination with AAL's existing product set.

Increase in net assets after the Proposed Transactions

The acquisitions of the Licenses and AAL are based entirely on the issue of equity. As a result, ESN's consolidated net asset position will increase after the transaction and the Company may potentially have greater access to capital.

Liquidity

ESN Shareholders currently own shares that are traded in a relatively illiquid market. Consequently, Shareholders ability to exit their investment at the prevailing market share price is limited as it is the sale of a large parcel of shares is likely to materially impact the price of the shares.

17.2.4 Disadvantages of the Proposed Transaction

Dilution of the interest of existing Shareholders

As part of the Proposed Transactions ESN will issue 218,250,000 shares (after the Proposed Share Consolidation) which will dilute the interest of existing Shareholders from 100% of the Company to 13.75%.

17.3 Opinion

In our opinion, in the absence of a superior proposal, the Proposed Transaction is fair and reasonable to Shareholders. An individual shareholder's decision in relation to the Proposed Transactions may be influenced by his or her individual circumstances. If in doubt, Shareholders should consult an independent advisor.

Yours faithfully

J S CROALL
Director

Appendix 1 – Declarations and Disclosure

Qualifications

RSM Bird Cameron Corporate Pty Ltd is beneficially owned by the partners of RSM Bird Cameron (RSMBC) a large national firm of chartered accountants and business advisors. RSM Bird Cameron Corporate Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Mr Jason Croall is a director and authorised representative of RSM Bird Cameron Corporate Pty Ltd. He is a Chartered Accountant with extensive experience in the field of corporate valuations and the provision of Independent Experts' Reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting the Shareholders of ESN in considering the Proposed Transactions. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose, including but not limited to investment or lending decisions in relation to ESN.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by management and directors of ESN and we have no reason to believe that this information was inaccurate, misleading or incomplete. However, we have not endeavoured to seek any independent confirmation in relation to its accuracy, reliability or completeness. RSM Bird Cameron Corporate Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Bird Cameron Corporate Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Independence and Disclosure of Interest

At the date of this report, none of RSM Bird Cameron Corporate Pty Ltd, RSM Bird Cameron, RSM Bird Cameron Partners, nor any other member, director, partner or employee of RSM Bird Cameron Corporate Pty Ltd and RSM Bird Cameron has any interest in the outcome of the Proposed Transactions, except that RSM Bird Cameron Corporate Pty Ltd are expected to receive a fee of approximately $35,000 plus GST based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether ESN receives Shareholder approval for the Proposed Transactions, or otherwise.

Neither the signatory of this report nor RSM Bird Cameron Corporate Pty Ltd holds shares or options in ESN. Neither the signatory of this report nor RSM Bird Cameron Corporate Pty Ltd has had within the past two years any business relationship material to an assessment of RSM Bird Cameron Corporate Pty Ltd's impartiality with ESN or their associates.

Consents

RSM Bird Cameron Corporate Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Bird Cameron Corporate Pty Ltd, RSM Bird Cameron Partners or RSMBC has been involved in the preparation of the Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Explanatory Memorandum as a whole.

Appendix 2– Sources of Information

In preparing this report we have relied upon the following principal sources of information:

- draft Notice of Meeting and Explanatory Memorandum;
- audited financial statements of ESN for the years ended 30 June 2009, 2008 and 2007;
- audited financial statements of ESN for the 6 months ended 31 December 2009;
- unaudited management accounts of ESN as at 30 November 2009;
- audited financial statements of AAL for the years ended 30 September 2009 and 2008;
- profit and loss forecasts in respect of ESN, the LE and LA license operations and AAL;
- ASX announcements;
- Letter of offer from ESN to CSG is relation to the License Agreement;
- draft implementation agreement;
- draft Learner Software Authorised Reseller Agreement;
- draft share sale and purchase agreement between ESN and the Vendor of AAL; and
- information provided to us during discussions and correspondence with the management and directors of ESN and CSG.

Appendix 3 – Financial Services Guide

Overview

RSM Bird Cameron Corporate Pty Ltd, ABN 82 050 508 024 ("RSM Bird Cameron Corporate Pty Ltd" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees. This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- deposit and payment products limited to:

  (a) basic deposit products;
  (b) deposit products other than basic deposit products.

- interests in managed investments schemes (excluding investor directed portfolio services); and

- securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.
You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither RSM Bird Cameron Corporate Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Bird Cameron Corporate Pty Ltd is beneficially owned by the partners of RSM Bird Cameron, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Bird Cameron Partners.

From time to time, RSM Bird Cameron Corporate Pty Ltd, RSM Bird Cameron Partners, RSM Bird Cameron and / or RSM Bird Cameron related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints Resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, RSM Bird Cameron Corporate Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited ("FICS"). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly via the details set out below.

Financial Industry Complaints Service Limited
P O Box 579
Collins Street West
Melbourne VIC 8007

Toll Free: 1300 78 08 08
Facsimile: (03) 9621 2291

Contact Details

You may contact us using the details set out at the top of our letterhead on page 1 of this report.

Appendix 4 – Calculation of WACC and Comparable Company Analysis

The WACC represents the weighted rate of return required by providers of both debt and equity to compensate for the time value of money and the perceived risk of the associated cash flows. The Discount Rates required by providers of both debt and equity are weighted in proportion to the optimal proportions of debt and equity.

The WACC is calculated as follows:

WACC = [Re x (E/V)] + [Rd x (1 – tc) x (D/V)]

Where

WACC = post tax weighted average cost of capital

Re = required rate of return on equity capital

E = market value of equity capital

V = market value of debt and equity capital (D + E)

Rd = required rate of return on debt capital

D = market value of debt capital

tc = corporate tax rate

Required rate of return on equity capital (Re)

The Capital Asset Pricing Model (CAPM) can be used to estimate the required rate of return or cost of equity of a business.

The CAPM determines the cost of equity by the following formula:

Re = Rf + β(Rm–Rf) + ∝

The components of the formula are as follows:

Re Required return on equity;

Rf Risk free rate of return;

Rm The expected return from a market portfolio;

β Beta, a measure of the systematic risk of a stock; and

∝ Specific Company risk premium.

Required rate of return on equity capital (Re) (Continued)

Risk Free Rate (Rf)

The risk free rate of return compensates investors for the time value of money.

In determining Rf we have used the 10 year Commonwealth Government Bond rate as at 12 March 2010 of 5.71% (Source Reuters). The Commonwealth Government bond rate is widely used and is an accepted benchmark for the risk free return. We have used the 10 year bond rate as this best matches against the timeframe of the cash flows being valued.

Market Rate (Rm)

This represents the additional risk in holding the market portfolio of investments. The term (Rm–Rf) represents the additional return required, above the risk free rate, to hold the market portfolio of investments. (Rm–Rf) is known as the Equity Market Risk Premium.

There are a number of studies around the Equity Market Risk Premium with, generally, most estimates falling within a range of 4% to 8%.

Using our professional judgement, RSM Bird Cameron has assessed the Equity Market Risk Premium (Rm–Rf) for the ESN to be 6.0% to 7.0%.

This is consistent with the standard premium applied by most valuation practitioners when assessing the Market Rate in the current economic climate.

Beta (β)

The beta coefficient measures the systematic risk of a company compared to the market as a whole. A beta of 1 indicates that the company's risk is comparable to that of the market. A beta greater than 1 represents higher than market risk and a beta below 1 represents lower than market risk.

In assessing beta we have considered the betas for comparable companies (Column A below). The equity betas are adjusted to remove the effect of company specific debt levels resulting in an ungeared beta (Column B below).

Appendix Table 4.1 sets out an equity beta analysis in relation to the comparable companies.

Appendix Table 4.1 Entellect Solutions Limited Equity beta analysis	**Country**	**Currency**	**Enterprise Value $m**	**Notional Tax Rate**	**Net Debt / Equity**	**A Unadjusted Beta**	**B Ungeared Beta**
Company analysis							
Application software							
Local							
Adacel Technologies Limited	Australia	AUD	27.4	30.0%	0.0%	0.81	0.81
Hansen Technologies Limited	Australia	AUD	92.6	30.0%	0.0%	0.40	0.40
Integrated Research Limited	Australia	AUD	61.7	30.0%	0.0%	0.76	0.76
Reckon Limited	Australia	AUD	258.5	30.0%	0.0%	0.67	0.67
Technology One Limited	Australia	AUD	199.4	30.0%	0.0%	0.89	0.89
Mean					**0.0%**	**0.71**	**0.71**
Median					**0.0%**	**0.76**	**0.76**
International							
RM PLC	Great Britain	GBP	156.2	30.0%	0.0%	0.44	0.44
Blackboard Inc	United States	USD	1386.0	30.0%	8.0%	1.1	1.04
Plato Learning Inc	United States	USD	79.0	30.0%	0.0%	1.14	1.14
Mean					**2.7%**	**0.89**	**0.87**
Median					**0.0%**	**1.10**	**1.04**
Total Mean					**1.0%**	**0.78**	**0.77**
Total Median					**0.0%**	**0.79**	**0.79**

Source: Reuters Knowledge database and RSM calculations

For the purposes of this valuation report we have adopted an equity beta (β) in the range of 0.77 to 0.79.

Having determined an ungeared beta it is necessary to regear the beta to reflect the financial gearing of ESN after Proposed Transaction 1. ESN will not have any net debt after Proposed Transaction 1.

Specific company risk premium (α)

In considering an appropriate WACC for ESN, we have considered the specific risks of ESN after Proposed Transaction 1 which are not experienced by the comparable listed companies and are therefore not reflected in the reported betas derived from publicly available market data.

Specifically, we have taken into consideration the following:

- The Licensed Products are a new business for ESN and the product is yet to be sold successfully in the overseas market. The projected cash flows are contingent on the successful sale of the licence to four key international customers over the forecast period.
- The forecast license sale revenue, together with the associated forecast implementation and maintenance revenues have been risk adjusted to reflect managements estimate of the probability of successfully completing sales to key customers.
- Whilst the forecasts have been risk adjusted to reflect managements estimate of the probability of successfully completing sales to key customers, there remains a number of residual risks including the ability of ESN to achieve the forecast pricing structure of the Licensed Products in overseas markets and the number of students that the Licensed Products will be rolled out to for each key potential customer.

Given that the above and using our professional judgement, we have selected a specific company risk premium of 6.0% to 7.0%.

Capital structure or Gearing Level (D/V)

The capital structure or gearing level adopted for the purposes of undertaking the valuation should generally reflect the level of debt that can be reasonably sustained by any company operating in a particular industry as opposed to the actual capital structure adopted by the business.

The optimal capital structure of a business is driven by two main considerations:

- the tax benefits of debt finance i.e. the deductibility of interest payments for the purposes of assessing corporate tax liabilities; and
- the financial risk to equity holders i.e. the risk of financial distress as a result of over-gearing.

In assessing the optimal capital structure of ESN we have considered the following:

- the gearing levels of comparable companies as set out at Appendix Table 4.1. The table shows that the majority of comparable companies have no or minimal debt.
- the historical and current gearing levels of ESN;
- the level of debt forecast by management after Proposed Transaction 2.

If Proposed Transaction 1 proceeds ESN will have no net debt. For the purposes of this Report, we have assumed no debt in determining an appropriate discount rate.

Required rate of return on debt (Rd)

The rate of return required by providers of debt includes a risk premium over and above the risk free rate that reflects the debt risk that is specific to the business being valued. This risk effectively represents the risk of default on payments. The required rate of return on debt has not been consider as if Proposed Transaction 1 proceeds, ESN will not hold any net debt.

Corporate tax rate (tc)

We have assessed the corporate tax rate as the prevailing statutory corporate tax rate of 30% at the date of this report.

Assessment of the Discount Rate to be used in the valuation of ESN after Proposed Transaction 1

Based on the assumptions set out above, we have assessed the WACC for ESN after Proposed Transaction 1:

Appendix Table 4.2 Entellect Solutions Limited Calculation of WACC	Low	High
Cost of Equity (CAPM)		
Risk free rate	5.71%	5.71%
Beta	0.77	0.79
Risk premium	6.0%	7.0%
Company specific risk factor	6.0%	7.0%
Re	**16.3%**	**18.2%**
Cost of Debt		
Risk free rate	N/A	N/A
Debt premium	N/A	N/A
Rd	**0.0%**	**0.0%**
Capital Structure		
Debt / (Debt + Equity)	**0.0%**	**0.0%**
Equity / (Debt + Equity)	**100.0%**	**100.0%**
Corporate Tax Rate	**30.0%**	**30.0%**
Cost of Equity		
E / V x Re	**16.3%**	**18.2%**
Cost of Debt		
D / V x Rd	**0.0%**	**0.0%**
WACC (Post Tax, Nominal)	**16.3%**	**18.2%**

Source: Reuters Knowledge database and RSM Bird Cameron Calculation

Appendix 5– Comparable companies

Appendix Table 5.1 Comparable Companies	Description
Adacel Technologies Limited	Adacel Technologies Limited is an Australia-based company. The Company is engaged in the development and sale of simulation, and software applications and services. It operates in two business divisions: simulation division, encompassing defense and aviation simulation services and support, and software engineering, encompassing oceanic air traffic management systems, real time software, and systems development. Its subsidiaries include Adacel Inc., Adacel Technologies Holdings Inc, Adacel Technologies Inc and Adacel Systems Inc.
Hansen Technologies	Hansen Technologies Limited (Hansen) is engaged in the development, integration and support of billing systems software for the telecommunications and utilities (gas, electricity and water) industries. Other activities undertaken by the Company include information technology (IT) outsourcing services and the development of other specific software applications. Its segment includes billing, IT outsourcing and other. Billing segment represents the sale of billing applications and the provision of consulting services in regard to billing systems. IT outsourcing represents the provision of various IT outsourced services covering facilities management, systems and operations support, network services, call centre services, telehousing and business continuity support. It operates in Australia, North America, Europe and other countries, including Asia and New Zealand.
Integrated Research Limited	Integrated Research Limited is engaged in the design, development and sale of systems and applications management computer software for business-critical computing and Internet protocol (IP) telephony networks. The Company's PROGNOSIS product range is an integrated suite of monitoring and management software, designed to give an organization's technical personnel operational insight into their HP NonStop, Windows, uniplexed information and computing system (UNIX) and Linux servers, and the business applications that run on these computers. It services customers in more than 50 countries through direct sales offices in the United States, United Kingdom, Germany and Australia, and through a global distribution network. The Company generates the majority of its revenue from upfront license fees, recurring maintenance and recurring license fees.
Reckon Limited	Reckon Limited is engaged in the sale and support of small and enterprise business accounting and personal wealth management software under the QuickBooks and Quicken brands, and professional accounting practice management under the APS brand. The Company's operations are divided into two divisions: a professional division and a business division. Business division develops, localizes, distributes and provides after sales technical support for the accounting software needs of small to medium sized and enterprise businesses and in the personal finance and wealth management sector. In the professional division, the APS business develops, distributes and supports a suite of practice management, tax and client accounting software for professional accounting firms in Australia, New Zealand and the United Kingdom. The Reckon Elite business develops and distributes tax return preparation tools, practice management tools and related solutions for accountants and tax agents.
Technology One Limited	Technology One Limited (TechnologyOne) is engaged in the development, marketing, sales, implementation and support of fully integrated enterprise business software solutions, including TechnologyOne Financials, TechnologyOne HR & Payroll, TechnologyOne Supply Chain, TechnologyOne Business Intelligence, TechnologyOne Budgeting, TechnologyOne Property/Rating and Local Government, TechnologyOne Student Management, TechnologyOne Works & Assets, TechnologyOne Enterprise Content Management, TechnologyOne Performance Planning and TechnologyOne Customer Relationship Management. Its segments include service delivery, which is engaged in the marketing, sale and implementation of core software products, and software engineering, which is engaged in the development of purpose built software to meet the needs of customers, plus the continuing research and development and support of core products.

Source:Reuters and RSM Bird Cameron research

Appendix 5 – Comparable companies (cont.)

Appendix Table 5.1 Comparable Companies	Description
RM PLC	RM plc is a United Kingdom-based company. The Company provides educational products and services to schools, colleges and universities, and to government departments and agencies. The Company operates in three divisions: Learning Technologies, which includes education management systems and the United States operations; Education Resources, and Assessment and Data Services. As of September 30, 2009, its wholly owned subsidiaries included AMI Education Solutions Ltd, Caz Software Pty Ltd, DACTA Ltd, Isis Concepts Limited and RM Asia-Pacific Pty Ltd.
Blackboard Inc.	Blackboard Inc., incorporated in 1998, is a provider of enterprise software applications and related services to the education industry. The Company serves colleges, universities, schools and other education providers, textbook publishers, student-focused merchants, corporate and government clients. The Company's product line consists of various software applications delivered in three suites: Blackboard Learn, Blackboard Transact and Blackboard Connect. The Company's customer base consists primarily of United States postsecondary education clients, which accounted for approximately 55% of its total revenues during the year ended December 31, 2008. The Company also sells to international postsecondary clients, which accounted for approximately 17% of its total revenues for 2008. United States K-12 education clients accounted for approximately 12%of its total revenues during 2008. Others, including primarily education publishers, commercial education providers, United States government organizations and corporations accounted for approximately 16% of its total revenues for 2008.
Plato Learnings Inc.	Plato Learning, Inc., incorporated in 1989, is a provider of online instruction, curriculum management, assessment and related professional development services to K–12 schools, community colleges and other educational institutions across the country. The Company's products are used by customers to provide alternative instruction to students performing below their grade level in order to help those students return to the classroom, recover course credits, pass high school exit exams or prepare for college and other post-secondary studies. The Company also offers online and onsite staff professional development. The Company's research-based courseware library includes thousands of hours of mastery-based instruction covering discrete learning objectives in the subject areas of reading, writing, language arts, mathematics, science and social studies. The Company's Web-based assessment and alignment tools allow instruction to be personalized to each student's needs with curriculum that is aligned to local, state and national standards.

Source:Reuters and RSM Bird Cameron research

Appendix 6 – Glossary of terms

AAL	The Administrative Assistants Limited
Beta	a measure of systematic risk of a stock; the tendency of a stock's price to correlate with changes in a specific index.
Capital Asset Pricing Model (CAPM)	a model in which the cost of capital for any stock or portfolio of stocks equals a risk-free rate plus a risk premium that is proportionate to the systematic risk of the stock or portfolio.
Capitalisation	a conversion of a single period of economic benefits into value.
Capitalisation of Earnings Method	a method within the income approach whereby economic benefits for a representative single period are converted to value through division by a capitalisation rate.
Capital Structure	the composition of the invested capital of a business enterprise, the mix of debt and equity financing.
Cash Flow	cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows.
Control	the power to direct the management and policies of a business enterprise.
Control Premium	an amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the power of control.
Cost of Capital	the expected rate of return that the market requires in order to attract funds to a particular investment.
CSG	CSG Limited.
CSG Education	A subsidiary of CSG Limited.
Discount for minority discount (lack of control)	an amount or percentage deducted from the pro rata share of value of 100% of an equity interest in a business to reflect the absence of some or all of the powers of control.
Discount Rate	a rate of return used to convert a future monetary sum into present value.
Discounted Cash Flow Method	a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate.
ESN	Entellect Solutions Limited.
Equity	the owner’s interest in property after deduction of all liabilities.

Equity Risk Premium	a rate of return added to a risk-free rate to reflect the additional risk of equity instruments over risk free instruments (a component of the cost of equity capital or equity discount rate).
LA	Learner Analytics.
LE	Learner Enterprise.
Minority Discount	a discount for lack of control applicable to a minority interest.
Risk-Free Rate	the rate of return available in the market on an investment free of default risk.
RG111	Australian Securities and Investment Commission Regulatory Guide 111 Content of Expert Reports.
RSMBCC	RSM Bird Cameron Corporate Pty Limited
Swotsmart	Swotsmart Pty Limited
Ungeared (unlevered) Beta	the beta reflecting a capital structure without debt.
Weighted Average Cost of Capital (WACC)	the cost of capital (discount rate) determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure.
Vendor	the owner of 100% of the issued share capital of AAL.